

FLOWSERVE CORP
Form 10-Q
November 01, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ to _____
Commission File No. 1-13179

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

New York 31-0267900
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5215 N. O'Connor Blvd., Suite 2300, Irving, Texas 75039
(Address of principal executive offices) (Zip Code)

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

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 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 definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). "

Yes No

As of October 23, 2017 there were 130,635,017 shares of the issuer's common stock outstanding.

FLOWSERVE CORPORATION
 FORM 10-Q
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

FLOWSERVE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share data)

| | Three Months Ended September 30, | |
|---|-------------------------------------|-------------|
| | 2017 | 2016 |
| Sales | \$883,380 | \$945,939 |
| Cost of sales | (615,848) | (667,960) |
| Gross profit | 267,532 | 277,979 |
| Selling, general and administrative expense | (206,295) | (281,261) |
| Gain on sale of businesses | 9,864 | — |
| Net earnings from affiliates | 2,918 | 3,394 |
| Operating income | 74,019 | 112 |
| Interest expense | (15,043) | (15,141) |
| Interest income | 1,108 | 924 |
| Other income, net | 8,285 | 1,899 |
| Earnings (loss) before income taxes | 68,369 | (12,206) |
| Provision for income taxes | (19,628) | (2,827) |
| Net earnings (loss), including noncontrolling interests | 48,741 | (15,033) |
| Less: Net earnings attributable to noncontrolling interests | (1,136) | (808) |
| Net earnings (loss) attributable to Flowserve Corporation | \$47,605 | \$(15,841) |
| Net earnings per share attributable to Flowserve Corporation common shareholders: | | |
| Basic | \$0.36 | \$(0.12) |
| Diluted | 0.36 | (0.12) |
| Cash dividends declared per share | \$0.19 | \$0.19 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Amounts in thousands)

| | Three Months Ended September 30, | |
|---|--|------------|
| | 2017 | 2016 |
| Net earnings (loss), including noncontrolling interests | \$48,741 | \$(15,033) |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments, net of taxes of \$(10,501) and \$9,285 respectively | 17,674 | (15,587) |
| Pension and other postretirement effects, net of taxes of \$(333) and \$(925), respectively | (444) | 3,719 |
| Cash flow hedging activity, net of taxes of \$(200) in 2016 | 12 | 560 |
| Other comprehensive income (loss) | 17,242 | (11,308) |
| Comprehensive income, including noncontrolling interests | 65,983 | (26,341) |
| Comprehensive loss attributable to noncontrolling interests | (1,090) | (807) |
| Comprehensive income (loss) attributable to Flowserve Corporation | \$64,893 | \$(27,148) |

See accompanying notes to condensed consolidated financial statements.

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FLOWSERVE CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

| (Amounts in thousands, except per share data) | Nine Months Ended September 30, | |
|---|------------------------------------|--------------|
| | 2017 | 2016 |
| Sales | \$2,626,762 | \$2,919,553 |
| Cost of sales | (1,845,796) | (2,015,755) |
| Gross profit | 780,966 | 903,798 |
| Selling, general and administrative expense | (681,181) | (747,513) |
| Gain on sale of businesses | 141,158 | — |
| Net earnings from affiliates | 9,027 | 8,522 |
| Operating income | 249,970 | 164,807 |
| Interest expense | (44,689) | (44,982) |
| Interest income | 2,373 | 2,243 |
| Other (expense) income, net | (11,602) | 1,070 |
| Earnings before income taxes | 196,052 | 123,138 |
| Provision for income taxes | (85,836) | (49,518) |
| Net earnings, including noncontrolling interests | 110,216 | 73,620 |
| Less: Net earnings attributable to noncontrolling interests | (1,682) | (1,222) |
| Net earnings attributable to Flowserve Corporation | \$108,534 | \$72,398 |
| Net earnings per share attributable to Flowserve Corporation common shareholders: | | |
| Basic | \$0.83 | \$0.56 |
| Diluted | 0.83 | 0.55 |
| Cash dividends declared per share | \$0.57 | \$0.57 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

| (Amounts in thousands) | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2017 | 2016 |
| Net earnings, including noncontrolling interests | \$110,216 | \$73,620 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments, net of taxes of \$(50,964) and \$7,492, respectively | 85,777 | (12,577) |
| Pension and other postretirement effects, net of taxes of \$(996) and \$(3,545), respectively | (1,102) | 9,655 |
| Cash flow hedging activity, net of taxes of \$(34) and \$(620), respectively | 96 | 1,763 |
| Other comprehensive income (loss) | 84,771 | (1,159) |
| Comprehensive income, including noncontrolling interests | 194,987 | 72,461 |
| Comprehensive income attributable to noncontrolling interests | (2,169) | (1,983) |
| Comprehensive income attributable to Flowserve Corporation | \$192,818 | \$70,478 |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in thousands, except par value)

| | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 502,143 | \$ 367,162 |
| Accounts receivable, net of allowance for doubtful accounts of \$65,106 and \$51,920, respectively | 851,246 | 882,638 |
| Inventories, net | 951,598 | 897,690 |
| Prepaid expenses and other | 134,023 | 150,199 |
| Total current assets | 2,439,010 | 2,297,689 |
| Property, plant and equipment, net of accumulated depreciation of \$967,458 and \$882,151, respectively | 673,555 | 724,805 |
| Goodwill | 1,211,544 | 1,205,054 |
| Deferred taxes | 93,638 | 83,722 |
| Other intangible assets, net | 212,425 | 214,527 |
| Other assets, net | 203,968 | 183,126 |
| Total assets | \$ 4,834,140 | \$ 4,708,923 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 360,844 | \$ 412,087 |
| Accrued liabilities | 706,838 | 680,986 |
| Debt due within one year | 80,635 | 85,365 |
| Total current liabilities | 1,148,317 | 1,178,438 |
| Long-term debt due after one year | 1,506,057 | 1,485,258 |
| Retirement obligations and other liabilities | 412,137 | 407,839 |
| Shareholders' equity: | | |
| Common shares, \$1.25 par value | 220,991 | 220,991 |
| Shares authorized – 305,000 | | |
| Shares issued – 176,793 | | |
| Capital in excess of par value | 488,249 | 491,848 |
| Retained earnings | 3,634,750 | 3,598,396 |
| Treasury shares, at cost – 46,503 and 46,980 shares, respectively | (2,061,054) | (2,078,527) |
| Deferred compensation obligation | 6,256 | 8,507 |
| Accumulated other comprehensive loss | (540,504) | (624,788) |
| Total Flowserve Corporation shareholders' equity | 1,748,688 | 1,616,427 |
| Noncontrolling interests | 18,941 | 20,961 |
| Total equity | 1,767,629 | 1,637,388 |
| Total liabilities and equity | \$ 4,834,140 | \$ 4,708,923 |

See accompanying notes to condensed consolidated financial statements.

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FLOWSERVE CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

| (Amounts in thousands) | Nine Months Ended | |
|--|-----------------------|------------|
| | September 30, 2017 | 2016 |
| Cash flows – Operating activities: | | |
| Net earnings, including noncontrolling interests | \$ 110,216 | \$ 73,620 |
| Adjustments to reconcile net earnings to net cash provided (used) by operating activities: | | |
| Depreciation | 75,177 | 74,875 |
| Amortization of intangible and other assets | 12,767 | 12,424 |
| (Gain) loss on dispositions of businesses | (141,158) | 7,664 |
| Stock-based compensation | 20,291 | 29,966 |
| Latin America accounts receivable reserve | — | 73,451 |
| Foreign currency, asset impairment and other non-cash adjustments | 24,696 | (1,037) |
| Change in assets and liabilities: | | |
| Accounts receivable, net | 63,835 | 69,818 |
| Inventories, net | (20,355) | (31,462) |
| Prepaid expenses and other | 43,546 | (58,743) |
| Other assets, net | (21,090) | (19,512) |
| Accounts payable | (68,012) | (98,782) |
| Accrued liabilities and income taxes payable | (6,702) | (82,318) |
| Retirement obligations and other | (18,720) | 7,821 |
| Net deferred taxes | (2,131) | 13,155 |
| Net cash flows provided by operating activities | 72,360 | 70,940 |
| Cash flows – Investing activities: | | |
| Capital expenditures | (40,620) | (64,475) |
| Proceeds from disposal of assets | 2,977 | 632 |
| Proceeds from (payments for) dispositions of businesses | 208,775 | (5,064) |
| Net cash flows provided (used) by investing activities | 171,132 | (68,907) |
| Cash flows – Financing activities: | | |
| Payments on long-term debt | (45,000) | (45,000) |
| Proceeds under other financing arrangements | 6,234 | 24,701 |
| Payments under other financing arrangements | (12,560) | (12,060) |
| Payments related to tax withholding for stock-based compensation | (6,287) | (10,267) |
| Payments of dividends | (74,412) | (72,960) |
| Other | (4,189) | 1,325 |
| Net cash flows used by financing activities | (136,214) | (114,261) |
| Effect of exchange rate changes on cash | 27,703 | 6,654 |
| Net change in cash and cash equivalents | 134,981 | (105,574) |
| Cash and cash equivalents at beginning of period | 367,162 | 366,444 |
| Cash and cash equivalents at end of period | \$ 502,143 | \$ 260,870 |

See accompanying notes to condensed consolidated financial statements.

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FLOWSERVE CORPORATION

(Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2017, the related condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2017 and 2016, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016, of Flowserve Corporation are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for fair statement of such condensed consolidated financial statements have been made. Where applicable, prior period information has been updated to conform to current year presentation.

The accompanying condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 ("Quarterly Report") are presented as permitted by Regulation S-X and do not contain certain information included in our annual financial statements and notes thereto. Accordingly, the accompanying condensed consolidated financial information should be read in conjunction with the audited consolidated financial statements presented in our Annual Report on Form 10-K/A for the year ended December 31, 2016 ("2016 Annual Report").

Revision to Previously Reported Financial Information – As previously disclosed in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, we identified accounting errors focused mainly at two of our non-U.S. sites in the inventory, accounts receivable, cost of sales and selling, general and administrative balances for prior periods through the first quarter of 2017. We assessed these errors, individually and in the aggregate, and concluded that they were not material to any prior annual or interim period. However, to facilitate comparisons among periods we revised our previously issued audited consolidated financial information which is included in our 2016 Annual Report and unaudited condensed consolidated financial information for the interim periods included in our Form 10-Q/A and Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, respectively. We also corrected the timing of immaterial previously recorded out-of-period adjustments and reflected them in the revised prior period financial statements, where applicable. See Note 2 for more information.

Brazil Long-Lived Asset Impairment – In the second quarter of 2017, due to continued capital spending declines in the Brazilian oil and gas market and economic and political circumstances, including the indictment of the former president, the decision was made to scale back certain of our operations in Brazil. As a result in the second quarter of 2017, we tested our related long-lived assets, which primarily consist of property, plant and equipment, for recoverability and recorded a \$26.0 million impairment charge to selling, general and administrative expense ("SG&A") within our Engineered Product Division ("EPD") segment.

Venezuela – Our operations in Venezuela primarily consist of a service center that performs service and repair activities. Our Venezuelan subsidiary's sales for the three and nine months ended September 30, 2017 represented less than 0.5% of consolidated sales and its assets at September 30, 2017 represented less than 0.5% of total consolidated assets. Assets primarily consisted of United States ("U.S.") dollar-denominated monetary assets and bolivar-denominated non-monetary assets at September 30, 2017. 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. In the third quarter of 2016 we recorded a charge of \$73.5 million to SG&A to fully reserve for those potentially uncollectible accounts receivable (classified as other assets, net on the condensed consolidated balance sheet) and a charge to cost of sales ("COS") of \$1.9 million to reserve for related net inventory exposures. We continue to pursue payments from our Venezuelan customer.

Valuation of Goodwill, Indefinite-Lived Intangible Assets and Other Long-Lived Assets – As discussed in Note 1 to our consolidated financial statements included in our 2016 Annual Report, the value of our goodwill and indefinite-lived intangible

assets is tested for impairment as of December 31 each year or whenever events or circumstances indicate such assets may be impaired.

We did not record an impairment of goodwill in 2016, 2015 or 2014; however at December 31, 2016 the estimated fair value of our Engineered Product Operations ("EPO") and Industrial Product Division ("IPD") reporting units reduced significantly due to broad-based capital spending declines and heightened pricing pressure experienced in the oil and gas markets which are anticipated to continue in the near to mid-term. Although we concluded that there is no impairment on the goodwill associated with our EPO and IPD reporting units as of December 31, 2016, we will continue to closely monitor their performance and related market conditions for future indicators of potential impairment and reassess accordingly.

Accounting Policies

Significant accounting policies, for which no significant changes have occurred in the nine months ended September 30, 2017, are detailed in Note 1 to our consolidated financial statements included in our 2016 Annual Report.

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Accounting Developments

Pronouncements Implemented

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." The ASU updates represent changes to simplify the subsequent measurement of inventory. Previous to the issuance of this ASU, ASC 330 required that an entity measure inventory at the lower of cost or market. The amendments of ASU 2015-11 updates that "market" requirement to "net realizable value," which is defined by the ASU as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Our adoption of ASU No. 2015-11 effective January 1, 2017 did not have an impact on our consolidated financial condition and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting." The ASU affects the accounting for employee share-based payment transactions as it relates to accounting for income taxes, accounting for forfeitures, and statutory tax withholding requirements. We adopted the provisions of ASU 2016-09 as of January 1, 2017 using the modified retrospective approach. The adoption resulted in the recognition of approximately \$1 million of tax expense in our provision of income taxes and an approximately \$3 million one-time, cumulative adjustment to beginning retained earnings related to the change in our accounting policy for estimated forfeitures and share cancellations. In addition, in our statements of cash flows we reclassified cash outflows for employee taxes paid from operating to financing and elected to reclassify cash impacts due to excess tax deficiencies and benefits from financing to operating, which resulted in a net reclassification of approximately \$10 million of cash flows used from operating to financing for the nine months ended September 30, 2016.

Pronouncements Not Yet Implemented

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" which supersedes most of the revenue recognition requirements in "Revenue Recognition (Topic 605)." The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when (or as) it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Companies are permitted to adopt the new standard using one of two transition methods. Under the full retrospective method, the requirements of the new standard are applied to contracts for each prior reporting period presented and the cumulative effect of applying the standard is recognized in the earliest period presented. Under the modified retrospective method, the requirements of the new standard are applied to contracts that are open as of January 1, 2018, the required date of adoption, and the cumulative effect of applying the standard is recognized as an adjustment to beginning retained earnings in that same year. The standard also includes significantly expanded disclosure requirements for revenue. Since 2014, the FASB has issued several updates to Topic 606.

We are currently evaluating the impact of ASU No. 2014-09 and all related ASU's on our consolidated financial condition and results of operations. We plan to adopt the new revenue guidance effective January 1, 2018 using the modified retrospective method for transition, applying the guidance to those contracts which were not completed as of that date. In 2015, we established a cross-functional implementation team consisting of representatives from across all of our reportable segments to begin the process of analyzing the impact of the new standard on our contracts. We have determined the applicability of the key factors of the five step model and developed a framework of accounting policies and practices to meet the requirements of the of the new standard. The results of our evaluation indicate that one of the changes upon adoption may be potentially increased "over-time" ("percentage of completion") revenue recognition. Historically, revenue recognized under the percentage of completion method has been less than 5% to 7% of our consolidated sales. The adoption of the new standard could substantially increase this range depending on the terms and conditions of the contracts in our backlog at January 1, 2018 and future contracts. We also anticipate changes to the consolidated balance sheet related to accounts receivable, inventory, contract assets and contract liabilities. We expect to further our assessment on the financial impact on our consolidated financial condition and results of operations and to align our business processes, systems and controls to support compliance with the standard during the remainder of 2017. We will continue our evaluation of ASU 2014-09 as well as new or emerging

interpretations of the standard through the date of adoption.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value with changes in fair value recognized in net income. The ASU also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet has been eliminated by this ASU. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact of ASU No. 2016-01 on our consolidated financial condition and results of operations.

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In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". The ASU requires that organizations that lease assets recognize assets and liabilities on the balance sheet for the rights and obligations created by those leases. The ASU will affect the presentation of lease related expenses on the income statement and statement of cash flows and will increase the required disclosures related to leases. This ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted. We are currently evaluating the impact of ASU No. 2016-02 on our consolidated financial condition and results of operations.

Although we are continuing to evaluate, upon initial qualitative evaluation, we believe a key change upon adoption will be the balance sheet recognition of leased assets and liabilities. Based on our qualitative evaluation to date, we believe that any changes in income statement recognition will not be material.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." The amendments in this ASU replace the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact of ASU No. 2016-13 on our consolidated financial condition and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - A consensus of the FASB Emerging Issues Task Force." The update was issued with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230 and other topics. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU No. 2016-15 is not expected to have a material impact on our consolidated financial condition and results of operations.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory." The ASU guidance requires the recognition of the income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact of ASU No. 2016-16 on our consolidated financial condition and results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for reporting periods beginning after December 15, 2017, including interim periods with those fiscal years. The adoption of ASU No. 2016-18 is not expected to have a material impact on our consolidated financial condition and results of operations.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The ASU clarifies the definition of a business and provides guidance on evaluating as to whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition clarification as outlined in this ASU affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments of the ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The adoption of ASU No. 2017-01 is not expected to have a material impact on our consolidated financial condition and results of operations.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this ASU allow companies to apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The amendments of the ASU are effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are

currently evaluating the impact of ASU No. 2017-04 on our consolidated financial condition and results of operations. In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The FASB issued this ASU to clarify the scope of subtopic 610-20, which the FASB had failed to define in its issuance of ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2017-05 will be effective concurrently with ASU No. 2014-09. Similarly to ASU 2014-09, we are continuing our evaluation of ASU No. 2017-05 to determine the impact on our consolidated financial condition and results of operations.

On March 10, 2017, the FASB issued ASU No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments of this ASU provide additional guidance intended to improve the presentation of net benefit costs, pension costs and net periodic postretirement costs.

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The amendments in this ASU must be applied to annual reporting periods beginning after December 15, 2017, and to interim periods in 2018. Early adoption of the standard is permitted. We are currently evaluating the impact of ASU No. 2017-07 on our consolidated financial condition and results of operations.

On May 10, 2017, the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments of the ASU must be applied to annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption of the standard is permitted. We are currently evaluating the impact of ASU No. 2017-09 on our consolidated financial condition and results of operations.

On July 13, 2017, the FASB issued ASU No. 2017-11, "Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatory Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatory Redeemable Noncontrolling Interests with a Scope Exception." The ASU amends guidance in FASB Accounting Standards Codification ("ASC") 260, Earnings Per Share, FASB ASC 480, Distinguishing Liabilities from Equity, and FASB ASC 815, Derivatives and Hedging. The amendments in Part I of this ASU change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. The amendments in Part II of the ASU re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the codification, to a scope exception. The amendments in this ASU must be applied to annual reporting periods beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of ASU No. 2017-11 on our consolidated financial condition and results of operations.

On August 28, 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted improvements of Accounting For Hedging Activities." The purpose of this ASU is to better align a company's risk management activities and financial reporting for hedging relationships. Additionally, the ASU simplifies the hedge accounting requirements and improve the disclosures of hedging arrangements. The effective date is fiscal year 2020, with early adoption permitted. We are currently evaluating the impact of ASU No. 2017-12 on our consolidated financial condition and results of operations.

2. Revision to Previously Reported Financial Information

As described in Note 1, we revised the annual and quarterly periods prior to June 30, 2017. The following table presents the effect of the prior period revisions on the affected line items of our condensed consolidated statements of income for the three and nine months ended September 30, 2016:

| (Amounts in thousands, except per share data) | Three Months Ended September 30, 2016 | | |
|---|---------------------------------------|-------------|-------------|
| | As Reported | Adjustments | As Revised |
| Sales | \$943,334 | \$ 2,605 | \$945,939 |
| Cost of sales (1) | (677,891) | 9,931 | (667,960) |
| Gross profit | 265,443 | 12,536 | 277,979 |
| Selling, general and administrative expense (2) | (271,643) | (9,618) | (281,261) |
| Operating (loss) income | (2,806) | 2,918 | 112 |
| Loss before income taxes | (15,124) | 2,918 | (12,206) |
| Provision for income taxes (3) | (4,996) | 2,169 | (2,827) |
| Net loss, including noncontrolling interests | (20,120) | 5,087 | (15,033) |
| Net loss attributable to Flowserve Corporation | \$(20,928) | \$ 5,087 | \$(15,841) |
| Net loss per share attributable to Flowserve Corporation common shareholders: | | | |
| Basic | \$(0.16) | \$ 0.04 | \$(0.12) |
| Diluted | (0.16) | 0.04 | (0.12) |

- (1) The cost of sales adjustments primarily relate to corrections of previously recorded out of period including an aggregate \$8.7 million associated with our EPD reporting segment to write down inventory in Brazil.
- (2) The selling, general and administrative expense adjustments primarily relate to receivables from our primary Venezuelan customer at one non-U.S. manufacturing site in our EPD segment of \$(10.3) million. These receivables should have been included in the charge that we recorded in the third quarter of 2016 to fully reserve all the potentially uncollectible receivables.
- (3) The provision for income taxes adjustment primarily relates to the tax effect of the adjustment described in footnote (2) above.

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| (Amounts in thousands, except per share data) | Nine Months Ended September 30, 2016 | | |
|---|---|-------------|--------------|
| | As Reported | Adjustments | As Revised |
| Sales | \$2,916,814 | \$ 2,739 | \$2,919,553 |
| Cost of sales (1) | (2,018,646) | 2,891 | (2,015,755) |
| Gross profit | 898,168 | 5,630 | 903,798 |
| Selling, general and administrative expense (2) | (737,083) | (10,430) | (747,513) |
| Operating income | 169,607 | (4,800) | 164,807 |
| Other income (expense), net | 2,091 | (1,021) | 1,070 |
| Earnings before income taxes | 128,959 | (5,821) | 123,138 |
| Provision for income taxes (3) | (47,809) | (1,709) | (49,518) |
| Net earnings, including noncontrolling interests | 81,150 | (7,530) | 73,620 |
| Net earnings attributable to Flowserve Corporation | \$79,928 | \$ (7,530) | \$72,398 |
| Net earnings per share attributable to Flowserve Corporation common shareholders: | | | |
| Basic | \$0.61 | \$ (0.05) | \$0.56 |
| Diluted | 0.61 | (0.06) | 0.55 |

(1) The cost of sales adjustments primarily relate to corrections of previously recorded out of period including an aggregate \$4.6 million associated with our EPD reporting segment to write down inventory in Brazil.

(2) The selling, general and administrative expense adjustments primarily relate to the matter described in footnote (2) above.

(3) The provision for income taxes adjustments include the impact of recording a valuation allowance of \$(5.0) million related to deferred tax assets that subsequently were determined to not be realizable, partially offset by the tax effect of the matter described in footnote (2) above.

The effect of the prior period revisions on the condensed consolidated statement of cash flows for the nine months ended September 30, 2016 related to net earnings, including noncontrolling interests, for the change in net earnings in the table above, offset primarily by impacts to changes in assets and liabilities. The revisions to individual line items were below \$3 million except for the classification change within operating activity cash flows of \$15.9 million from Latin America inventory write downs to inventories, net and an increase of \$10.3 million to Latin America accounts receivables reserve. Additionally, we adopted ASU 2016-09 on January 1, 2017, see Note 1 for further discussion of the impact of that adoption on our statements of cash flows.

The impacts of the revisions have been reflected throughout the financial statements, including the applicable footnotes, as appropriate.

3. Dispositions

On July 6, 2017, we sold our Flow Control Division's ("FCD") Vogt product line and related assets and liabilities to a privately held company for \$28.0 million of cash received at closing. The sale resulted in a pre-tax gain of \$10.9 million recorded in gain on sale of business in the condensed consolidated statements of income. In 2016, net sales related to the Vogt business totaled approximately \$17 million, with earnings before interest and taxes of approximately \$4 million.

Effective May 2, 2017, we sold our FCD's Gestra AG ("Gestra") business to a leading provider of steam system solutions for \$203.6 million (€178.3 million), which included \$180.8 million (€158.3 million) of cash received at closing (net of divested cash and subsequent working capital adjustments). Additionally, we expect to receive \$23.6 million (€20.0 million) of cash currently held in escrow before the end of 2017, which we have classified as an other current asset in prepaid expenses and other. The sale resulted in a pre-tax gain of \$130.2 million (\$79.4 million after-tax) recorded in gain on sale of business in the condensed consolidated statements of income. The sale included

Gestra's manufacturing facility in Germany as well as related operations in the U.S., the United Kingdom ("U.K."), Spain, Poland, Italy, Singapore and Portugal. In 2016, Gestra recorded revenues of approximately \$101 million (€92 million) with earnings before interest and taxes of approximately \$17 million (€15 million).

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4. Stock-Based Compensation Plans

We maintain the Flowserve Corporation Equity and Incentive Compensation Plan (the "2010 Plan"), which is a shareholder-approved plan authorizing the issuance of up to 8,700,000 shares of our common stock in the form of restricted shares, restricted share units and performance-based units (collectively referred to as "Restricted Shares"), incentive stock options, non-statutory stock options, stock appreciation rights and bonus stock. Of the 8,700,000 shares of common stock authorized under the 2010 Plan, 2,634,908 were available for issuance as of September 30, 2017. In 2016 the long-term incentive program was amended to allow Restricted Shares granted after January 1, 2016 to employees who retire and have achieved at least 55 years of age and 10 years of service to continue to vest over the original vesting period ("55/10 Provision"). Until the second quarter of 2017, no previous stock options were outstanding. On May 4, 2017, 114,943 stock options were granted with a grant date fair value of \$2.0 million, which is expected to be recognized over a weighted-average period of approximately three years. No stock options vested during the nine months ended September 30, 2017.

Restricted Shares – Awards of Restricted Shares are valued at the closing market price of our common stock on the date of grant. The unearned compensation is amortized to compensation expense over the vesting period of the restricted shares, except for awards related to the 55/10 Provision which are expensed in the period granted. We had unearned compensation of \$20.6 million and \$15.2 million at September 30, 2017 and December 31, 2016, respectively, which is expected to be recognized over a weighted-average period of approximately one years. These amounts will be recognized into net earnings in prospective periods as the awards vest. The total fair value of Restricted Shares vested during the three months ended September 30, 2017 and 2016 was \$0.2 million and \$0.6 million, respectively. The total fair value of Restricted Shares vested during the nine months ended September 30, 2017 and 2016 was \$28.1 million and \$38.7 million, respectively.

We recorded stock-based compensation expense of \$3.0 million (\$4.6 million pre-tax) and \$3.9 million (\$6.0 million pre-tax) for the three months ended September 30, 2017 and 2016, respectively. We recorded stock-based compensation expense of \$13.4 million (\$20.3 million pre-tax) and \$19.6 million (\$30.0 million pre-tax) for the nine months ended September 30, 2017 and 2016, respectively.

The following table summarizes information regarding Restricted Shares:

| | Nine Months Ended September 30, 2017 | |
|--------------------------------------|---|--|
| | Shares | Weighted Average Grant-Date Fair Value |
| Number of unvested shares: | | |
| Outstanding - January 1, 2017 | 1,259,275 | \$ 50.77 |
| Granted | 697,832 | 49.81 |
| Vested | (473,426) | 59.38 |
| Canceled | (207,618) | 48.00 |
| Outstanding as of September 30, 2017 | 1,276,063 | \$ 47.50 |

Unvested Restricted Shares outstanding as of September 30, 2017, includes approximately 888,000 units with performance-based vesting provisions. Performance-based units are issuable in common stock and vest upon the achievement of pre-defined performance targets. Performance-based units granted prior to 2017 have performance targets based on our average annual return on net assets over a three-year period as compared with the same measure for a defined peer group for the same period. Performance-based units granted in 2017 have performance targets based on our average return on invested capital and our total shareholder return ("TSR") over a three-year period as compared with the same measures for a defined peer group for the same period. Most units were granted in three annual grants since January 1, 2015 and have a vesting percentage between 0% and 200% depending on the achievement of the specific performance targets. Except for shares granted under the 55/10 Provision, compensation

expense is recognized ratably over a cliff-vesting period of 36 months, based on the fair value of our common stock on the date of grant, as adjusted for actual forfeitures. During the performance period, earned and unearned compensation expense is adjusted based on changes in the expected achievement of the performance targets for all performance-based units granted except for the TSR-based units. Vesting provisions range from 0 to approximately 1,701,000 shares based on performance targets. As of September 30, 2017, we estimate vesting of approximately 663,000 shares based on expected achievement of performance targets.

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5. Derivative Instruments and Hedges

Our risk management and foreign currency derivatives and hedging policy specifies the conditions under which we may enter into derivative contracts. See Notes 1 and 6 to our consolidated financial statements included in our 2016 Annual Report and Note 7 of this Quarterly Report for additional information on our derivatives. We enter into foreign exchange forward contracts to hedge our cash flow risks associated with transactions denominated in currencies other than the local currency of the operation engaging in the transaction.

During the second quarter of 2017, we discontinued our program to designate forward exchange contracts. The discontinuance of this program had no impact on our financial position as of September 30, 2017. Foreign exchange contracts with third parties not designated as hedging instruments had a notional value of \$237.6 million and \$393.2 million at September 30, 2017 and December 31, 2016, respectively. At September 30, 2017, the length of foreign exchange contracts currently in place ranged from 2 days to 20 months.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under foreign exchange contracts agreements and expect all counterparties to meet their obligations. We have not experienced credit losses from our counterparties.

The fair values of foreign exchange contracts are summarized below:

| | September 30, December 31, | |
|-----------------------------------|----------------------------|--------|
| (Amounts in thousands) | 2017 | 2016 |
| Current derivative assets | \$ 2,526 | \$ 682 |
| Noncurrent derivative assets | 173 | — |
| Current derivative liabilities | 1,172 | 6,878 |
| Noncurrent derivative liabilities | 42 | 355 |

Current and noncurrent derivative assets are reported in our condensed consolidated balance sheets in prepaid expenses and other assets, net, respectively. Current and noncurrent derivative liabilities are reported in our condensed consolidated balance sheets in accrued liabilities and retirement obligations and other liabilities, respectively.

The impact of net changes in the fair values of foreign exchange contracts are summarized below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|----------------------------------|---------|---------------------------------|---------|
| (Amounts in thousands) | 2017 | 2016 | 2017 | 2016 |
| Gain (loss) recognized in income | \$548 | \$(774) | \$219 | \$5,587 |

Gains and losses recognized in our condensed consolidated statements of income for foreign exchange contracts are classified as other (expense) income, net.

In March 2015, we designated €255.7 million of our €500.0 million Euro senior notes discussed in Note 6 as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency. We used the spot method to measure the effectiveness of our net investment hedge. Under this method, for each reporting period, the change in the carrying value of the Euro senior notes due to remeasurement of the effective portion is reported in accumulated other comprehensive loss on our condensed consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, is recognized in other expense, net in our condensed consolidated statement of income. We evaluate the effectiveness of our net investment hedge on a prospective basis at the beginning of each quarter. We did not record any ineffectiveness for the nine months ended September 30, 2017 and 2016.

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6. Debt

Debt, including capital lease obligations, consisted of:

| | September 30, | December 31, |
|--|---------------|--------------|
| (Amounts in thousands, except percentages) | 2017 | 2016 |
| 1.25% EUR Senior Notes due March 17, 2022, net of unamortized discount and debt issuance costs of \$5,558 and \$5,748 | \$ 585,042 | \$ 519,902 |
| 4.00% USD Senior Notes due November 15, 2023, net of unamortized discount and debt issuance costs of \$2,687 and \$2,972 | 297,313 | 297,028 |
| 3.50% USD Senior Notes due September 15, 2022, net of unamortized discount and debt issuance costs of \$3,386 and \$3,848 | 496,614 | 496,152 |
| Term Loan Facility, interest rate of 2.58% at September 30, 2017 and 2.25% at December 31, 2016, net of debt issuance costs of \$694 and \$745 | 179,306 | 224,255 |
| Capital lease obligations and other borrowings | 28,417 | 33,286 |
| Debt and capital lease obligations | 1,586,692 | 1,570,623 |
| Less amounts due within one year | 80,635 | 85,365 |
| Total debt due after one year | \$ 1,506,057 | \$ 1,485,258 |
| Senior Credit Facility | | |

As discussed in Note 10 to our consolidated financial statements included in our 2016 Annual Report, our credit agreement provides for an initial \$400.0 million term loan (“Term Loan Facility”) and a \$1.0 billion revolving credit facility (“Revolving Credit Facility”) and, together with the Term Loan Facility, the “Senior Credit Facility”) with a maturity date of October 14, 2020. On June 30, 2017, we amended our existing Senior Credit Facility. The amendment, among other changes, includes the following: (i) a decrease of the Revolving Credit Facility commitment from \$1.0 billion to \$800 million, (ii) an increase of the leverage ratio from 3.50 to 4.00 times debt to total Consolidated EBITDA, through June 30, 2019, with a step-down to 3.75 for any fiscal quarter ending after July 1, 2019, (iii) the addition of a new pricing level on our senior unsecured long-term debt ratings for Ba2/BB, with an increase in interest rate margin for LIBOR loans to 2.00% and for base rate loans to 1.00% and (iv) a revision to the restrictions on the ability to incur debt by decreasing the maximum principal amount of priority debt allowed from 15% to 7.5% of the consolidated tangible assets and a decrease on the maximum amount of receivables that could be securitized from \$200 million to \$100 million. All other material terms and conditions of the Senior Credit Facility remained unchanged as discussed in Note 10 to our consolidated financial statements included in our 2016 Annual Report.

As of September 30, 2017 and December 31, 2016, we had no amounts outstanding under the Revolving Credit Facility. We had outstanding letters of credit of \$91.8 million and \$102.6 million at September 30, 2017 and December 31, 2016, respectively, which reduced our borrowing capacity to \$708.2 million and \$553.5 million, respectively. Our compliance with applicable financial covenants under the Senior Credit Facility is tested quarterly, and we complied with all applicable covenants as of September 30, 2017.

We may prepay loans under our Senior Credit Facility in whole or in part, without premium or penalty, at any time. A commitment fee, which is payable quarterly on the daily unused portions of the Senior Credit Facility, was 0.150% (per annum) during the period ended September 30, 2017. During the nine months ended September 30, 2017, we made scheduled repayments of \$45.0 million under our Term Loan Facility. We have scheduled repayments of \$15.0 million due in each of the next four quarters on our Term Loan Facility.

7. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable

market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied. Assets and liabilities recorded at fair value in our condensed consolidated balance sheets are categorized by hierarchical levels based upon the level of judgment associated with the inputs used to measure their fair values. Recurring fair value measurements are limited to investments in derivative instruments. The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. The fair values of our derivatives are included in Note 5.

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Our financial instruments are presented at fair value in our condensed consolidated balance sheets, with the exception of our long-term debt. The estimated fair value of our long-term debt, excluding the Senior Notes, approximates the carrying value and is classified as Level II under the fair value hierarchy. The carrying value of our debt is included in Note 6. The estimated fair value of our Senior Notes at September 30, 2017 was \$1,400.1 million compared to the carrying value of \$1,379.0 million. The estimated fair value of the Senior Notes is based on Level I quoted market rates. The carrying amounts of our other financial instruments (e.g., cash and cash equivalents, accounts receivable, net, accounts payable and short-term debt) approximated fair value due to their short-term nature at September 30, 2017 and December 31, 2016.

8. Inventories

Inventories, net consisted of the following:

| | September 30, | December 31, |
|-----------------------------------|---------------|-----------------|
| (Amounts in thousands) | 2017 | 2016 |
| Raw materials | \$ 374,154 | \$348,012 |
| Work in process | 682,522 | 629,766 |
| Finished goods | 208,465 | 206,086 |
| Less: Progress billings | (233,040) | (216,783) |
| Less: Excess and obsolete reserve | (80,503) | (69,391) |
| Inventories, net | \$ 951,598 | \$897,690 |

In the second quarter of 2017 we recorded a \$16.9 million inventory charge for costs incurred related to a contract to supply oil and gas platform equipment to an end user in Latin America. This charge was primarily related to our IPD reporting segment and resulted in a decrease to finished goods.

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9. Earnings Per Share

The following is a reconciliation of net earnings of Flowserve Corporation and weighted average shares for calculating net earnings per common share. Earnings per weighted average common share outstanding was calculated as follows:

| | Three Months Ended September 30, | |
|---|--|------------|
| (Amounts in thousands, except per share data) | 2017 | 2016 |
| Net earnings (loss) of Flowserve Corporation | \$47,605 | \$(15,841) |
| Dividends on restricted shares not expected to vest | — | — |
| Earnings (loss) attributable to common and participating shareholders | \$47,605 | \$(15,841) |
| Weighted average shares: | | |
| Common stock | 130,681 | 130,299 |
| Participating securities | 79 | — |
| Denominator for basic earnings per common share | 130,760 | 130,299 |
| Effect of potentially dilutive securities | 636 | — |
| Denominator for diluted earnings per common share | 131,396 | 130,299 |
| Earnings (loss) per common share: | | |
| Basic | \$0.36 | \$(0.12) |
| Diluted | 0.36 | (0.12) |

| | Nine Months Ended September 30, | |
|--|---------------------------------------|----------|
| (Amounts in thousands, except per share data) | 2017 | 2016 |
| Net earnings of Flowserve Corporation | \$108,534 | \$72,398 |
| Dividends on restricted shares not expected to vest | — | 5 |
| Earnings attributable to common and participating shareholders | \$108,534 | \$72,403 |
| Weighted average shares: | | |
| Common stock | 130,574 | 130,087 |
| Participating securities | 111 | 298 |
| Denominator for basic earnings per common share | 130,685 | 130,385 |
| Effect of potentially dilutive securities | 653 | 522 |
| Denominator for diluted earnings per common share | 131,338 | 130,907 |
| Earnings per common share: | | |
| Basic | \$0.83 | \$0.56 |
| Diluted | 0.83 | 0.55 |

Diluted earnings per share above is based upon the weighted average number of shares as determined for basic earnings per share plus shares potentially issuable in conjunction with stock options and Restricted Shares. As a result of the net loss for the three months ended September 30, 2016, we excluded 803,251 of unvested Restricted Shares from the calculation of diluted EPS due to their anti-dilutive effect.

10. Legal Matters and Contingencies

Asbestos-Related Claims

We are a defendant in a substantial number of lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and/or distributed by our heritage companies in the past. While the overall number of asbestos-related claims has generally declined in recent years, there can be no assurance that this trend will continue, or that the average cost per claim will not further increase. Asbestos-containing materials incorporated into any such products were encapsulated and used as internal components of process equipment, and we do not believe that any significant emission of asbestos fibers occurred during the use of this

equipment.

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Our practice is to vigorously contest and resolve these claims, and we have been successful in resolving a majority of claims with little or no payment. Historically, a high percentage of resolved claims have been covered by applicable insurance or indemnities from other companies, and we believe that a substantial majority of existing claims should continue to be covered by insurance or indemnities. Accordingly, we have recorded a liability for our estimate of the most likely settlement of asserted claims and a related receivable from insurers or other companies for our estimated recovery, to the extent we believe that the amounts of recovery are probable and not otherwise in dispute. While unfavorable rulings, judgments or settlement terms regarding these claims could have a material adverse impact on our business, financial condition, results of operations and cash flows, we currently believe the likelihood is remote. Additionally, we have claims pending against certain insurers that, if resolved more favorably than reflected in the recorded receivables, 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 then existing indemnities and insurance coverage.

United Nations Oil-for-Food Program

In mid-2006, the French authorities began an investigation of over 170 French companies, of which one of our French subsidiaries was included, concerning suspected inappropriate activities conducted in connection with the United Nations Oil for Food Program. As previously disclosed, the French investigation of our French subsidiary was formally opened in the first quarter of 2010, and our French subsidiary filed a formal response with the French court. In July 2012, the French court ruled against our procedural motions to challenge the constitutionality of the charges and quash the indictment. Hearings occurred on April 1-2, 2015, and the Company presented its defense and closing arguments. On June 18, 2015, the French court issued its ruling dismissing the case against the Company and the other defendants. However, on July 1, 2015, the French prosecutor lodged an appeal and we anticipate that the hearing for the appeal will be held in 2018. We currently do not expect to incur additional case resolution costs of a material amount in this matter. However, if the French authorities ultimately take enforcement action against our French subsidiary regarding its investigation, we may be subject to monetary and non-monetary penalties, which we currently do not believe will have a material adverse financial impact on our company.

Other

We are currently involved as a potentially responsible party at five former public waste disposal sites in various stages of evaluation or remediation. The projected cost of remediation at these sites, as well as our alleged "fair share" allocation, will remain uncertain until all studies have been completed and the parties have either negotiated an amicable resolution or the matter has been judicially resolved. At each site, there are many other parties who have similarly been identified. Many of the other parties identified are financially strong and solvent companies that appear able to pay their share of the remediation costs. Based on our information about the waste disposal practices at these sites and the environmental regulatory process in general, we believe that it is likely that ultimate remediation liability costs for each site will be apportioned among all liable parties, including site owners and waste transporters, according to the volumes and/or toxicity of the wastes shown to have been disposed of at the sites. We believe that our financial exposure for existing disposal sites will not be materially in excess of accrued reserves.

As previously disclosed in our 2016 Annual Report, we terminated an employee of an overseas subsidiary after uncovering actions that violated our Code of Business Conduct and may have violated the Foreign Corrupt Practices Act. We completed our internal investigation into the matter, self-reported the potential violation to the United States Department of Justice (the "DOJ") and the SEC, and continue to cooperate with the DOJ and SEC. We previously received a subpoena from the SEC requesting additional information and documentation related to the matter and have completed our response to the subpoena. We currently believe that this matter will not have a material adverse financial impact on the Company, but there can be no assurance that the Company will not be subjected to monetary penalties and additional costs.

We are also a defendant in a number of other lawsuits, including product liability claims, that are insured, subject to the applicable deductibles, arising in the ordinary course of business, and we are also involved in other uninsured routine litigation incidental to our business. We currently believe none of such litigation, either individually or in the aggregate, is material to our business, operations or overall financial condition. However, litigation is inherently unpredictable, and resolutions or dispositions of claims or lawsuits by settlement or otherwise could have an adverse

impact on our financial position, results of operations or cash flows for the reporting period in which any such resolution or disposition occurs.

Although none of the aforementioned potential liabilities can be quantified with absolute certainty except as otherwise indicated above, 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. While additional exposures beyond these reserves could exist, they currently cannot be estimated. We will continue to evaluate and update the reserves as necessary and appropriate.

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11. Retirement and Postretirement Benefits

Components of the net periodic cost for retirement and postretirement benefits for the three months ended September 30, 2017 and 2016 were as follows:

| | U.S. Defined Benefit Plans | | Non-U.S. Defined Benefit Plans | | Postretirement Medical Benefits | |
|--|-------------------------------------|--------|---|--------|---------------------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| (Amounts in millions) | | | | | | |
| Service cost | \$5.6 | \$5.6 | \$1.7 | \$1.8 | \$— | \$— |
| Interest cost | 4.3 | 4.8 | 2.2 | 2.9 | 0.3 | 0.3 |
| Expected return on plan assets | (6.2) | (6.0) | (2.1) | (2.7) | — | — |
| Amortization of prior service cost | — | 0.2 | — | — | — | — |
| Amortization of unrecognized net loss (gain) | 1.5 | 1.2 | 0.9 | 1.3 | (0.1) | (0.1) |
| Net periodic cost recognized | \$5.2 | \$5.8 | \$2.7 | \$3.3 | \$0.2 | \$0.2 |

Components of the net periodic cost for retirement and postretirement benefits for the nine months months ended September 30, 2017 and 2016 were as follows:

| | U.S. Defined Benefit Plans | | Non-U.S. Defined Benefit Plans | | Postretirement Medical Benefits | |
|--|----------------------------------|---------|---|--------|---------------------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| (Amounts in millions) | | | | | | |
| Service cost | \$16.7 | \$16.9 | \$5.1 | \$5.3 | \$— | \$— |
| Interest cost | 12.7 | 14.3 | 6.6 | 8.8 | 0.7 | 0.9 |
| Expected return on plan assets | (18.4) | (18.0) | (6.3) | (8.0) | — | — |
| Amortization of prior service cost | 0.1 | 0.4 | — | — | 0.1 | 0.1 |
| Amortization of unrecognized net loss (gain) | 4.5 | 3.7 | 2.6 | 3.7 | (0.2) | (0.3) |
| Net periodic cost recognized | \$15.6 | \$17.3 | \$8.0 | \$9.8 | \$0.6 | \$0.7 |

12. Shareholders' Equity

Dividends – Generally, our dividend date-of-record is in the last month of the quarter, and the dividend is paid the following month. Any subsequent dividends will be reviewed by our Board of Directors and declared in its discretion dependent on its assessment of our financial situation and business outlook at the applicable time.

Share Repurchase Program – On November 13, 2014, our Board of Directors approved a \$500.0 million share repurchase authorization. Our share repurchase program does not have an expiration date, and we reserve the right to limit or terminate the repurchase program at anytime without notice. We had no repurchases of shares of our outstanding common stock for the three and nine months ended September 30, 2017 and 2016. As of September 30, 2017 we had \$160.7 million of remaining capacity under our current share repurchase program.

13. Income Taxes

For the three months ended September 30, 2017, we earned \$68.4 million before taxes and provided for income taxes of \$19.6 million resulting in an effective tax rate of 28.7%. For the nine months ended September 30, 2017, we earned \$196.1 million before taxes and provided for income taxes of \$85.8 million resulting in an effective tax rate of 43.8%. The effective tax rate varied from the U.S. federal statutory rate for the three and nine months ended September 30, 2017 primarily due to the net impact of foreign operations, losses in certain foreign jurisdictions for which no tax benefit was provided and taxes related to the sale of the Gestra and Vogt businesses.

For the three months ended September 30, 2016, we incurred a pre-tax loss of \$12.2 million and provided for income taxes of \$2.8 million resulting in an effective tax rate of negative 23.2%. For the nine months ended September 30, 2016, we earned \$123.1 million before taxes and provided for income taxes of \$49.5 million resulting in an effective tax rate of 40.2%. The effective tax rate varied from the U.S. federal statutory rate for the three and nine months ended

September 30, 2016 primarily due to the net impact of foreign operations, tax impacts from our Realignment Programs and losses in certain foreign jurisdictions for which no tax benefit was provided.

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As of September 30, 2017, the amount of unrecognized tax benefits increased by \$3.1 million from December 31, 2016. With limited exception, we are no longer subject to U.S. federal income tax audits for years through 2015, state and local income tax audits for years through 2011 or non-U.S. income tax audits for years through 2010. We are currently under examination for various years in Austria, France, Germany, India, Italy, Singapore, the U.S. and Venezuela.

It is reasonably possible that within the next 12 months the effective tax rate will be impacted by the resolution of some or all of the matters audited by various taxing authorities. It is also reasonably possible that we will have the statute of limitations close in various taxing jurisdictions within the next 12 months. As such, we estimate we could record a reduction in our tax expense of approximately \$8 million within the next 12 months.

14. Segment Information

The following is a summary of the financial information of the reportable segments reconciled to the amounts reported in the condensed consolidated financial statements:

Three Months Ended September 30, 2017

| (Amounts in thousands) | Engineered Product Division | Industrial Product Division | Flow Control Division | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------|---------------------------------|----------------------------------|-----------------------|
| Sales to external customers | \$ 416,031 | \$ 180,347 | \$ 287,002 | \$ 883,380 | \$ — | \$ 883,380 |
| Intersegment sales | 8,157 | 9,388 | 686 | 18,231 | (18,231) | — |
| Segment operating income (loss) | 51,782 | (3,551) | 48,497 | 96,728 | (22,709) | 74,019 |

Three Months Ended September 30, 2016

| (Amounts in thousands) | Engineered Product Division | Industrial Product Division | Flow Control Division | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------|---------------------------------|----------------------------------|-----------------------|
| Sales to external customers | \$ 451,354 | \$ 196,172 | \$ 298,413 | \$ 945,939 | \$ — | \$ 945,939 |
| Intersegment sales | 7,098 | 7,126 | 937 | 15,161 | (15,161) | — |
| Segment operating (loss) income (1) | (21,982) | (17,062) | 53,717 | 14,673 | (14,561) | 112 |

(1) Prior period amounts have been revised to reflect the correction of certain immaterial errors. See Note 2 for more information. Of the \$2.9 million adjustment to consolidated operating (loss) income, \$3.2 million related to the EPD segment, \$(1.4) million related to the IPD segment, \$0.9 million related to the FCD segment and \$0.2 million related to Eliminations and All Other.

Nine Months Ended September 30, 2017

| (Amounts in thousands) | Engineered Product Division | Industrial Product Division | Flow Control Division | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------|---------------------------------|----------------------------------|-----------------------|
| Sales to external customers | \$ 1,252,541 | \$ 533,302 | \$ 840,919 | \$ 2,626,762 | \$ — | \$ 2,626,762 |
| Intersegment sales | 24,022 | 26,640 | 2,608 | 53,270 | (53,270) | — |
| Segment operating income (loss) | 106,902 | (46,016) | 254,120 | 315,006 | (65,036) | 249,970 |

Nine Months Ended September 30, 2016

| (Amounts in thousands) | Engineered Product Division | Industrial Product Division | Flow Control Division | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
|-----------------------------|-----------------------------------|-----------------------------------|-----------------------------|---------------------------------|----------------------------------|-----------------------|
| Sales to external customers | \$ 1,418,434 | \$ 591,008 | \$ 910,111 | \$ 2,919,553 | \$ — | \$ 2,919,553 |
| Intersegment sales | 25,763 | 24,772 | 5,410 | 55,945 | (55,945) | — |

| | | | | | | |
|------------------------------------|--------|-----------|---------|---------|----------|---------|
| Segment operating income (loss)(1) | 97,402 | (10,434) | 140,541 | 227,509 | (62,702) | 164,807 |
|------------------------------------|--------|-----------|---------|---------|----------|---------|

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(1) Prior period amounts have been revised to reflect the correction of certain immaterial errors. See Note 2 for more information. Of the \$(4.8) million adjustment to consolidated operating income (loss), \$(1.1) million related to the EPD segment, \$(4.3) million related to the IPD segment, \$0.4 million related to the FCD segment and \$0.2 million related to Eliminations and All Other.

15. Accumulated Other Comprehensive Loss

The following table presents the changes in accumulated other comprehensive loss ("AOCL"), net of tax for the three months ended September 30, 2017 and 2016:

| (Amounts in thousands) | 2017 | | | | 2016 | | | |
|--|---------------------------------------|---|----------------------------|--------------|---------------------------------------|---|----------------------------|--------------|
| | Foreign currency translation items(1) | Pension and other post-retirement effects | Cash flow hedging activity | Total(1) | Foreign currency translation items(1) | Pension and other post-retirement effects | Cash flow hedging activity | Total(1) |
| Balance - July 1 | \$ (415,506) | \$ (137,188) | \$ (1,154) | \$ (553,848) | \$ (408,605) | \$ (114,525) | \$ (2,255) | \$ (525,385) |
| Other comprehensive income (loss) before reclassifications | 17,674 | (2,004) | 12 | 15,682 | (15,587) | 1,952 | 39 | (13,596) |
| Amounts reclassified from AOCL | — | 1,560 | — | 1,560 | — | 1,767 | 521 | 2,288 |
| Net current-period other comprehensive income (loss) | 17,674 | (444) | 12 | 17,242 | (15,587) | 3,719 | 560 | (11,308) |
| Balance - September 30 | \$ (397,832) | \$ (137,632) | \$ (1,142) | \$ (536,606) | \$ (424,192) | \$ (110,806) | \$ (1,695) | \$ (536,693) |

(1) Includes foreign currency translation adjustments attributable to noncontrolling interests of \$3.9 million and \$3.5 million at July 1, 2017 and 2016, respectively, and \$3.9 million and \$3.5 million for September 30, 2017 and 2016, respectively. Includes net investment hedge losses of \$6.3 million and \$2.2 million, net of deferred taxes, for the three months ended September 30, 2017 and 2016, respectively. Amounts in parentheses indicate debits.

The following table presents the reclassifications out of AOCL:

| (Amounts in thousands) | Affected line item in the statement of income | Three Months Ended September 30, | |
|--|---|----------------------------------|------------|
| | | 2017(1) | 2016 (1) |
| Cash flow hedging activity | | | |
| Foreign exchange contracts | | | |
| | Sales | \$— | \$ (717) |
| | Tax benefit | — | 196 |
| | Net of tax | \$— | \$ (521) |
| Pension and other postretirement effects | | | |
| Amortization of actuarial losses(2) | | \$ (2,284) | \$ (2,395) |
| Prior service costs(2) | | (57) | (153) |
| | Tax benefit | 781 | 781 |

Net of tax

\$(1,560) \$(1,767)

(1) Amounts in parentheses indicate decreases to income. None of the reclass amounts have a noncontrolling interest component.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 11 for additional details.

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The following table presents the changes in AOCL, net of tax for the nine months ended September 30, 2017 and 2016:

| (Amounts in thousands) | 2017 | | | | 2016 | | | |
|--|---------------------------------------|---|----------------------------|-------------|---------------------------------------|---|----------------------------|-------------|
| | Foreign currency translation items(1) | Pension and other post-retirement effects | Cash flow hedging activity | Total(1) | Foreign currency translation items(1) | Pension and other post-retirement effects | Cash flow hedging activity | Total(1) |
| Balance - January 1 | \$(483,609) | \$(136,530) | \$(1,238) | \$(621,377) | \$(411,615) | \$(120,461) | \$(3,458) | \$(535,534) |
| Other comprehensive income (loss) before reclassifications | 85,225 | (5,818) | 73 | 79,480 | (12,577) | 4,330 | 633 | (7,614) |
| Amounts reclassified from AOCL | 552 | 4,716 | 23 | 5,291 | — | 5,325 | 1,130 | 6,455 |
| Net current-period other comprehensive income (loss) | 85,777 | (1,102) | 96 | 84,771 | (12,577) | 9,655 | 1,763 | (1,159) |
| Balance - September 30 | \$(397,832) | \$(137,632) | \$(1,142) | \$(536,606) | \$(424,192) | \$(110,806) | \$(1,695) | \$(536,693) |

(1) Includes foreign currency translation adjustments attributable to noncontrolling interests of \$3.4 million and \$2.7 million at January 1, 2017 and 2016 and \$3.9 million and \$3.5 million for September 30, 2017 and 2016, respectively. Includes net investment hedge losses of \$19.6 million and \$10.3 million,⁽²⁾ net of deferred taxes, for the nine months ended September 30, 2017 and 2016, respectively. Amounts in parentheses indicate debits.

(2) Previously disclosed as a loss of \$6.1 million in 2016. No incremental impact on our consolidated financial condition or result of operations.

The following table presents the reclassifications out of AOCL:

| (Amounts in thousands) | Affected line item in the statement of income | Nine Months Ended September 30, | |
|--|---|---------------------------------|-----------|
| | | 2017(1) | 2016 (1) |
| Foreign currency translation items | | | |
| Release of cumulative translation adjustments due to sale of business(2) | Gain on sale of business | \$(552) | \$— |
| | Tax benefit | — | — |
| | Net of tax | \$(552) | \$— |
| Cash flow hedging activity | | | |
| Foreign exchange contracts | Sales | \$(30) | \$(1,531) |
| | Tax benefit | 7 | 401 |
| | Net of tax | \$(23) | \$(1,130) |
| Pension and other postretirement effects | | | |

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| | | | |
|-------------------------------------|-------------|-----------|-----------|
| Amortization of actuarial losses(2) | | \$(6,885) | \$(7,184) |
| Prior service costs(2) | | (172) | (458) |
| | Tax benefit | 2,341 | 2,317 |
| | Net of tax | \$(4,716) | \$(5,325) |

(1) Amounts in parentheses indicate decreases to income. None of the reclass amounts have a noncontrolling interest component.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 11 for additional details.

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16. Realignment Programs

In the first quarter of 2015, we initiated a realignment program ("R1 Realignment Program") to reduce and optimize certain non-strategic QRCs and manufacturing facilities. In the second quarter of 2015, we initiated a second realignment program ("R2 Realignment Program") to better align costs and improve long-term efficiency, including further manufacturing optimization through the consolidation of facilities, a reduction in our workforce, the transfer of activities from high-cost regions to lower-cost facilities and the divestiture of certain non-strategic assets.

The R1 Realignment Program and the R2 Realignment Program (collectively the "Realignment Programs") consist of both restructuring and non-restructuring charges. Restructuring charges represent costs associated with the relocation or reorganization of certain business activities and facility closures and include related severance costs.

Non-restructuring charges are primarily employee severance associated with workforce reductions to reduce redundancies. Expenses are primarily reported in COS or SG&A, as applicable, in our condensed consolidated statements of income. We anticipate a total investment in these programs of approximately \$360 million, including projects in process or under final evaluation. We anticipate to incur the remaining charges throughout the remainder of 2017 and into 2018.

Generally, the aforementioned charges will be paid in cash, except for asset write-downs, which are non-cash charges.

The following is a summary of total charges, net of adjustments, related to the Realignment Programs:

| (Amounts in thousands) | Three Months Ended September 30, 2017 | | | Subtotal-Reportable Segments | Eliminations and All Other | Consolidated Total |
|----------------------------------|---------------------------------------|-----------------------------|-----------------------|------------------------------|----------------------------|--------------------|
| | Engineering Product Division | Industrial Product Division | Flow Control Division | | | |
| Restructuring Charges | | | | | | |
| COS | \$5,252 | \$19 | \$5,396 | \$ 10,667 | \$ — | \$ 10,667 |
| SG&A | 831 | 28 | 364 | 1,223 | (8) | 1,215 |
| Income tax expense | 1,000 | — | — | 1,000 | — | 1,000 |
| | \$7,083 | \$47 | \$5,760 | \$ 12,890 | \$ (8) | \$ 12,882 |
| Non-Restructuring Charges | | | | | | |
| COS | \$1,793 | \$2,002 | \$(242) | \$ 3,553 | \$ — | \$ 3,553 |
| SG&A | (113) | (407) | 658 | 138 | 1,218 | 1,356 |
| | \$1,680 | \$1,595 | \$416 | \$ 3,691 | \$ 1,218 | \$ 4,909 |
| Total Realignment Charges | | | | | | |
| COS | \$7,045 | \$2,021 | \$5,154 | \$ 14,220 | \$ — | \$ 14,220 |
| SG&A | 718 | (379) | 1,022 | 1,361 | 1,210 | \$ 2,571 |
| Income tax expense | 1,000 | — | — | 1,000 | — | \$ 1,000 |
| Total | \$8,763 | \$1,642 | \$6,176 | \$ 16,581 | \$ 1,210 | \$ 17,791 |

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| (Amounts in thousands) | Three Months Ended September 30, 2016 | | | | | |
|----------------------------------|---------------------------------------|-----------------------------------|-----------------------------|-------------------------------------|----------------------------------|-----------------------|
| | Engineer- Product Division | Industrial Product Division | Flow Control Division | Subtotal- Reportable Segments | Eliminations and All Other | Consolidated Total |
| Restructuring Charges | | | | | | |
| COS | \$5,711 | \$15,599 | \$796 | \$22,106 | \$— | \$22,106 |
| SG&A | 393 | 3,928 | 20 | 4,341 | (32) | 4,309 |
| Income tax expense | 2,000 | 2,800 | 600 | 5,400 | — | 5,400 |
| | \$8,104 | \$22,327 | \$1,416 | \$31,847 | \$(32) | \$31,815 |
| Non-Restructuring Charges | | | | | | |
| COS | \$2,707 | \$445 | \$(749) | \$2,403 | \$(6) | \$2,397 |
| SG&A | 1,010 | (344) | 623 | 1,289 | 1,385 | 2,674 |
| | \$3,717 | \$101 | \$(126) | \$3,692 | \$1,379 | \$5,071 |
| Total Realignment Charges | | | | | | |
| COS | \$8,418 | \$16,044 | \$47 | \$24,509 | \$(6) | \$24,503 |
| SG&A | 1,403 | 3,584 | 643 | 5,630 | 1,353 | \$6,983 |
| Income tax expense | 2,000 | 2,800 | 600 | 5,400 | — | \$5,400 |
| Total | \$11,821 | \$22,428 | \$1,290 | \$35,539 | \$1,347 | \$36,886 |

| (Amounts in thousands) | Nine Months Ended September 30, 2017 | | | | | |
|----------------------------------|--------------------------------------|-----------------------------------|-----------------------------|-------------------------------------|----------------------------------|-----------------------|
| | Engineer- Product Division | Industrial Product Division | Flow Control Division | Subtotal- Reportable Segments | Eliminations and All Other | Consolidated Total |
| Restructuring Charges | | | | | | |
| COS | \$5,444 | \$6,111 | \$6,575 | \$18,130 | \$— | \$18,130 |
| SG&A | 637 | 213 | (289) | 561 | 67 | 628 |
| Income tax expense | 1,000 | — | — | 1,000 | — | 1,000 |
| | \$7,081 | \$6,324 | \$6,286 | \$19,691 | \$67 | \$19,758 |
| Non-Restructuring Charges | | | | | | |
| COS | \$6,965 | \$5,818 | \$2,459 | \$15,242 | \$— | \$15,242 |
| SG&A | 7,311 | 9,968 | 3,957 | 21,236 | 3,772 | 25,008 |
| | \$14,276 | \$15,786 | \$6,416 | \$36,478 | \$3,772 | \$40,250 |
| Total Realignment Charges | | | | | | |
| COS | \$12,409 | \$11,929 | \$9,034 | \$33,372 | \$— | \$33,372 |
| SG&A | 7,948 | 10,181 | 3,668 | 21,797 | 3,839 | 25,636 |
| Income tax expense | 1,000 | — | — | 1,000 | — | 1,000 |
| Total | \$21,357 | \$22,110 | \$12,702 | \$56,169 | \$3,839 | \$60,008 |

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| Nine Months Ended September 30, 2016 | | | | | | |
|--------------------------------------|-----------------------------------|-----------------------------------|-----------------------------|---------------------------------|----------------------------------|-----------------------|
| (Amounts in thousands) | Engineered Product Division | Industrial Product Division | Flow Control Division | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
| Restructuring Charges | | | | | | |
| COS | \$10,566 | \$17,709 | \$3,083 | \$31,358 | \$— | \$31,358 |
| SG&A | 9,211 | 5,717 | 356 | 15,284 | — | 15,284 |
| Income tax expense | 2,000 | 2,800 | 600 | 5,400 | — | 5,400 |
| | \$21,777 | \$26,226 | \$4,039 | \$52,042 | \$— | \$52,042 |
| Non-Restructuring Charges | | | | | | |
| COS | \$3,844 | \$4,729 | \$2,970 | \$11,543 | \$8 | \$11,551 |
| SG&A | 1,989 | 56 | 2,212 | 4,257 | 2,644 | 6,901 |
| | \$5,833 | \$4,785 | \$5,182 | \$15,800 | \$2,652 | \$18,452 |
| Total Realignment Charges | | | | | | |
| COS | \$14,410 | \$22,438 | \$6,053 | \$42,901 | \$8 | \$42,909 |
| SG&A | 11,200 | 5,773 | 2,568 | 19,541 | 2,644 | 22,185 |
| Income tax expense | 2,000 | 2,800 | 600 | 5,400 | — | 5,400 |
| Total | \$27,610 | \$31,011 | \$9,221 | \$67,842 | \$2,652 | \$70,494 |

The following is a summary of total inception to date charges, net of adjustments, related to the Realignment Programs:

| Inception to Date | | | | | | |
|----------------------------------|-----------------------------------|--|-----------------------------|---------------------------------|----------------------------------|-----------------------|
| (Amounts in thousands) | Engineered Product Division | Industrial Product Division (1) | Flow Control Division | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
| Restructuring Charges | | | | | | |
| COS | \$40,155 | \$46,759 | \$20,564 | \$107,478 | \$— | \$107,478 |
| SG&A | 18,454 | 15,811 | 9,262 | 43,527 | 85 | 43,612 |
| Income tax expense(2) | 10,400 | 9,300 | 1,800 | 21,500 | — | 21,500 |
| | \$69,009 | \$71,870 | \$31,626 | \$172,505 | \$85 | \$172,590 |
| Non-Restructuring Charges | | | | | | |
| COS | \$23,125 | \$20,000 | \$14,392 | \$57,517 | \$8 | \$57,525 |
| SG&A | 17,304 | 18,177 | 8,796 | 44,277 | 8,205 | 52,482 |
| | \$40,429 | \$38,177 | \$23,188 | \$101,794 | \$8,213 | \$110,007 |
| Total Realignment Charges | | | | | | |
| COS | \$63,280 | \$66,759 | \$34,956 | \$164,995 | \$8 | \$165,003 |
| SG&A | 35,758 | 33,988 | 18,058 | 87,804 | 8,290 | 96,094 |
| Income tax expense(2) | 10,400 | 9,300 | 1,800 | 21,500 | — | 21,500 |
| Total | \$109,438 | \$110,047 | \$54,814 | \$274,299 | \$8,298 | \$282,597 |

(1) Includes \$48.2 million of restructuring charges, primarily COS, related to the R1 Realignment Program.

(2) Income tax expense includes exit taxes as well as non-deductible costs.

Restructuring charges represent costs associated with the relocation or reorganization of certain business activities and facility closures and include costs related to employee severance at closed facilities, contract termination costs, asset write-downs and other costs. Severance costs primarily include costs associated with involuntary termination benefits. Contract termination costs include costs related to termination of operating leases or other contract termination costs. Asset write-downs include accelerated depreciation of fixed assets, accelerated amortization of intangible assets, divestiture of certain non-strategic assets and inventory write-downs. Other costs generally include costs related to

employee relocation, asset relocation, vacant facility costs (i.e., taxes and insurance) and other charges.

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The following is a summary of restructuring charges, net of adjustments, for the Realignment Programs:

Three Months Ended September 30, 2017

| (Amounts in thousands) | Severance | Contract Termination | Asset Write-Downs | Other | Total |
|------------------------|-----------|----------------------|-------------------|---------|----------|
| COS | \$9,197 | \$ — | \$ 59 | \$1,411 | \$10,667 |
| SG&A | 440 | — | 52 | 723 | 1,215 |
| Income tax expense | — | — | — | 1,000 | 1,000 |
| Total | \$9,637 | \$ — | \$ 111 | \$3,134 | \$12,882 |

Three Months Ended September 30, 2016

| (Amounts in thousands) | Severance | Contract Termination | Asset Write-Downs | Other | Total |
|------------------------|-----------|----------------------|-------------------|---------|----------|
| COS | \$19,674 | \$ — | \$ 1,309 | \$1,123 | \$22,106 |
| SG&A | 2,948 | — | 66 | 1,295 | 4,309 |
| Income tax expense | — | — | — | 5,400 | 5,400 |
| Total | \$22,622 | \$ — | \$ 1,375 | \$7,818 | \$31,815 |

Nine Months Ended September 30, 2017

| (Amounts in thousands) | Severance | Contract Termination | Asset Write-Downs | Other | Total |
|------------------------|-----------|----------------------|-------------------|----------|----------|
| COS | \$4,978 | \$ 226 | \$ 5,210 | \$7,716 | \$18,130 |
| SG&A | (1,377) | — | 242 | 1,763 | 628 |
| Income tax expense | — | — | — | 1,000 | 1,000 |
| Total | \$3,601 | \$ 226 | \$ 5,452 | \$10,479 | \$19,758 |

Nine Months Ended September 30, 2016

| (Amounts in thousands) | Severance | Contract Termination | Asset Write-Downs | Other | Total |
|------------------------|-----------|----------------------|-------------------|----------|----------|
| COS | \$22,975 | \$ — | \$ 3,853 | \$4,530 | \$31,358 |
| SG&A | 5,036 | — | 103 | 10,145 | 15,284 |
| Income tax expense | — | — | — | 5,400 | 5,400 |
| Total | \$28,011 | \$ — | \$ 3,956 | \$20,075 | \$52,042 |

The following is a summary of total inception to date restructuring charges, net of adjustments, related to the Realignment Programs:

Inception to Date

| (Amounts in thousands) | Severance | Contract Termination | Asset Write-Downs | Other | Total (1) |
|------------------------|-----------|----------------------|-------------------|----------|-----------|
| COS(1) | \$76,922 | \$ 834 | \$ 14,127 | \$15,595 | \$107,478 |
| SG&A | 29,390 | 43 | 1,671 | 12,508 | 43,612 |
| Income tax expense(2) | — | — | — | 21,500 | 21,500 |
| Total | \$106,312 | \$ 877 | \$ 15,798 | \$49,603 | \$172,590 |

(1) Includes \$48.2 million of restructuring charges, primarily COS, related to the R1 Realignment Program.

(2) Income tax expense includes exit taxes as well as non-deductible costs.

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The following represents the activity, primarily severance, related to the restructuring reserve for the Realignment Programs for the nine months ended September 30, 2017 and 2016:

| (Amounts in thousands) | 2017 | | | 2016 | | |
|--|------------------------------|------------------------------|-----------|------------------------------|------------------------------|-----------|
| | R1 Realignment Program | R2 Realignment Program | Total | R1 Realignment Program | R2 Realignment Program | Total |
| Balance at December 31 | \$12,594 | \$ 47,733 | \$60,327 | \$25,156 | \$ 33,147 | \$58,303 |
| Charges, net of adjustments | (3,425) | 16,501 | 13,076 | 7,919 | 28,316 | 36,235 |
| Cash expenditures | (10,542) | (15,946) | (26,488) | (5,131) | (22,886) | (28,017) |
| Other non-cash adjustments, including currency | 3,378 | (7,940) | (4,562) | (7,695) | (864) | (8,559) |
| Balance at September 30 | \$2,005 | \$ 40,348 | \$42,353 | \$20,249 | \$ 37,713 | \$57,962 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements, and notes thereto, and the other financial data included elsewhere in this Quarterly Report. The following discussion should also be read in conjunction with our audited consolidated financial statements, and notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") included in our 2016 Annual Report.

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 17,000 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 177 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 MD&A:

- EPD for long lead-time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;

- IPD for engineered and pre-configured industrial pumps and pump systems and related products and services; and

- 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 segments share leadership for operational support functions, such as research and development, marketing and supply chain.

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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, SIHI, Halberg and Durametallik, 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 leverage our QRC network 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. Additionally, 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. During the first nine months of 2017, our financial results continued to be challenged by capital spending declines, primarily in the oil and gas industry and pricing pressures. Although there has been stability in oil prices over recent quarters, we anticipate that the current environment will persist throughout 2017.

To better align costs and improve long-term efficiency, we initiated Realignment Programs to accelerate both short- and long-term strategic plans, including targeted manufacturing optimization through the consolidation of facilities, SG&A efficiency initiatives, transfer of activities from high-cost regions to lower-cost facilities and the divestiture of certain non-strategic assets. At the completion of the programs, we expect an approximately 20% reduction in our global workforce, relative to early 2015 workforce levels. With an expected near-term investment of approximately \$360 million, including projects in process or under final evaluation, we expect the results of our Realignment Programs will deliver annualized run-rate savings of approximately \$230 million. In addition, we are focusing on our ongoing low-cost sourcing, including greater use of third-party suppliers and increasing our lower-cost, emerging market capabilities.

RESULTS OF OPERATIONS — Three and nine months ended September 30, 2017 and 2016

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

As previously disclosed in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, we identified accounting errors focused mainly at two of our non-U.S. sites in the inventory, accounts receivable, cost of sales and selling, general and administrative balances for prior periods through the first quarter of 2017. We assessed these errors, individually and in the aggregate, and concluded that they were not material to any prior annual or interim period. However, to facilitate comparisons among periods we revised our previously issued audited consolidated financial information which is included in our 2016 Annual Report and unaudited condensed consolidated financial information for the interim periods included in our Form 10-Q/A and Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017, respectively. We also corrected the timing of immaterial previously recorded out-of-period adjustments and reflected them in the revised prior period financial statements, where applicable. Refer to Note 2 to our condensed consolidated financial statements included in this Quarterly Report for more information.

As discussed in Note 3 to our condensed consolidated financial statements included in this Quarterly Report, effective July 6, 2017, we sold our Flow Control Division's ("FCD") Vogt product line and related assets and liabilities to a privately held company. In 2016, net sales related to the Vogt business totaled approximately \$17 million, with earnings before interest and taxes of approximately \$4 million.

As discussed in Note 3 to our condensed consolidated financial statements included in this Quarterly Report, effective May 2, 2017 we sold our FCD Gestra AG business to a leading provider of steam system solutions. In 2016, Gestra

recorded revenues of approximately \$101 million (€92 million) with earnings before interest and taxes of approximately \$17 million (€15 million).

In 2015, we initiated Realignment Programs that consist of both restructuring and non-restructuring charges that are further discussed in Note 16 to our condensed consolidated financial statements included in this Quarterly Report. The Realignment Programs will continue throughout 2017 and the total charges for Realignment Programs by segment are detailed below for the three months ended September 30, 2017 and 2016:

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| (Amounts in thousands) | Three Months Ended September 30, 2017 | | | | | |
|-----------------------------------|---------------------------------------|-----------------------------------|-----------------------------|-------------------------------------|----------------------------------|-----------------------|
| | Engineering Product Division | Industrial Product Division | Flow Control Division | Subtotal— Reportable Segments | Eliminations and All Other | Consolidated Total |
| Total Realignment Program Charges | | | | | | |
| COS | \$7,045 | \$2,021 | \$5,154 | \$14,220 | \$— | \$14,220 |
| SG&A | 718 | (379) | 1,022 | 1,361 | 1,210 | 2,571 |
| Income tax expense | 1,000 | — | — | 1,000 | — | 1,000 |
| Total | \$8,763 | \$1,642 | \$6,176 | \$16,581 | \$1,210 | \$17,791 |
| (Amounts in thousands) | Three Months Ended September 30, 2016 | | | | | |
| | Engineering Product Division | Industrial Product Division | Flow Control Division | Subtotal— Reportable Segments | Eliminations and All Other | Consolidated Total |
| Total Realignment Program Charges | | | | | | |
| COS | \$8,418 | \$16,044 | \$47 | \$24,509 | \$(6) | \$24,503 |
| SG&A | 1,403 | 3,584 | 643 | 5,630 | 1,353 | 6,983 |
| Income tax expense | 2,000 | 2,800 | 600 | 5,400 | — | 5,400 |
| Total | \$11,821 | \$22,428 | \$1,290 | \$35,539 | \$1,347 | \$36,886 |

The total charges for Realignment Programs by segment are detailed below for the nine months ended September 30, 2017 and 2016:

| (Amounts in thousands) | Nine Months Ended September 30, 2017 | | | | | |
|-----------------------------------|--------------------------------------|-----------------------------------|-----------------------------|-------------------------------------|----------------------------------|-----------------------|
| | Engineering Product Division | Industrial Product Division | Flow Control Division | Subtotal— Reportable Segments | Eliminations and All Other | Consolidated Total |
| Total Realignment Program Charges | | | | | | |
| COS | \$12,409 | \$11,929 | \$9,034 | \$33,372 | \$— | \$33,372 |
| SG&A | 7,948 | 10,181 | 3,668 | 21,797 | 3,839 | 25,636 |
| Income tax expense | 1,000 | — | — | 1,000 | — | 1,000 |
| Total | \$21,357 | \$22,110 | \$12,702 | \$56,169 | \$3,839 | \$60,008 |
| (Amounts in thousands) | Nine Months Ended September 30, 2016 | | | | | |
| | Engineering Product Division | Industrial Product Division | Flow Control Division | Subtotal— Reportable Segments | Eliminations and All Other | Consolidated Total |
| Total Realignment Program Charges | | | | | | |
| COS | \$14,410 | \$22,438 | \$6,053 | \$42,901 | \$8 | \$42,909 |
| SG&A | 11,200 | 5,773 | 2,568 | 19,541 | 2,644 | 22,185 |
| Income tax expense | 2,000 | 2,800 | 600 | 5,400 | — | 5,400 |
| Total | \$27,610 | \$31,011 | \$9,221 | \$67,842 | \$2,652 | \$70,494 |

We anticipate a total investment in these Realignment Programs of approximately \$360 million, including projects in process or under final evaluation. Since inception of the Realignment Programs in 2015, we have incurred charges of \$282.6 million and we expect to incur the remaining charges throughout the remainder of 2017 and into 2018.

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Based on actions under our Realignment Programs, we estimate that we have achieved cost savings of approximately \$150 million for the nine months ended September 30, 2017, as compared with \$80 million in the same period of 2016. Approximately \$95 million of those savings are in COS with the remainder in SG&A. Upon completion of the Realignment Programs, we expect run-rate cost savings of approximately \$230 million, of which approximately \$214 million would be achieved in 2017. Actual savings could vary from expected savings, which represent management's best estimate to date.

Consolidated Results

Bookings, Sales and Backlog

| | Three Months Ended September 30, | |
|-----------------------|--|-----------|
| (Amounts in millions) | 2017 | 2016 |
| Bookings | \$892.9 | \$959.5 |
| Sales | 883.4 | 945.9 |
| | Nine Months Ended September 30, | |
| (Amounts in millions) | 2017 | 2016 |
| Bookings | \$2,820.1 | \$2,855.0 |
| Sales | 2,626.8 | 2,919.6 |

We define a booking as the receipt of a customer order that contractually engages us to perform activities on behalf of our customer with regard to manufacturing, service or support. Bookings recorded and subsequently canceled within the year-to-date period are excluded from year-to-date bookings. Bookings for the three months ended September 30, 2017 decreased by \$66.6 million, or 6.9%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$16 million. The decrease was driven by decreases in the oil and gas, chemical, general and power generation industries. The decrease was due to original equipment bookings.

Bookings for the nine months ended September 30, 2017 decreased by \$34.9 million, or 1.2%, as compared with the same period in 2016 and included an order for approximately \$80 million to provide pumps and related equipment for the Hengli Integrated Refining Complex Project in China. The decrease included negative currency effects of approximately \$7 million. The decrease was primarily driven by the general, power generation and chemical industries, partially offset by an increase in the oil and gas industry. The decrease was more heavily weighted towards customer original equipment bookings.

Sales for the three months ended September 30, 2017 decreased by \$62.5 million, or 6.6%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$15 million. The decrease was due to decreased original equipment sales with decreased sales into every region except for the Middle East. Net sales to international customers, including export sales from the U.S., were approximately 66% and 62% of total sales for the three months ended September 30, 2017 and 2016, respectively.

Sales for the nine months ended September 30, 2017 decreased by \$292.8 million, or 10.0%, as compared with the same period in 2016. The decrease included negative currency effects of approximately \$5 million. The decrease was primarily due to decreased original equipment sales with decreased sales into every region. Net sales to international customers, including export sales from the U.S., were approximately 64% and 63% of total sales for the nine months ended September 30, 2017 and 2016.

Backlog represents the aggregate value of booked but uncompleted customer orders and is influenced primarily by bookings, sales, cancellations and currency effects. Backlog of \$2,135.2 million at September 30, 2017 increased by \$237.5 million, or 12.5%, as compared with December 31, 2016. Currency effects provided an increase of approximately \$106 million. Approximately 31% of the backlog at September 30, 2017 was related to aftermarket orders.

Gross Profit and Gross Profit Margin

| | Three Months Ended September 30, | |
|---|--|---------|
| (Amounts in millions, except percentages) | 2017 | 2016 |
| Gross profit | \$267.5 | \$278.0 |
| Gross profit margin | 30.3 % | 29.4 % |

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| | Nine Months Ended September 30, | | | |
|---|---------------------------------------|---------|---|--|
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| Gross profit | \$781.0 | \$903.8 | | |
| Gross profit margin | 29.7 | % 31.0 | % | |

Gross profit for the three months ended September 30, 2017 decreased by \$10.5 million, or 3.8%, as compared with the same period in 2016. Gross profit margin for the three months ended September 30, 2017 of 30.3% increased from 29.4% for the same period in 2016. The increase in gross profit margin was primarily attributed to a \$6.3 million charge to write down inventory in Brazil in the third quarter of 2016 that did not recur, lower charges and increased savings related to our Realignment Programs and a mix shift to higher margin aftermarket sales, partially offset by the negative impact of decreased sales on our absorption of fixed manufacturing costs, increased accrued broad-based annual incentive compensation and lower margin projects that shipped from backlog. Aftermarket sales increased to approximately 50% of total sales, as compared with approximately 44% of total sales for the same period in 2016. Gross profit for the nine months ended September 30, 2017 decreased by \$122.8 million, or 13.6%, as compared with the same period in 2016. Gross profit margin for the nine months ended September 30, 2017 of 29.7% decreased from 31.0% for the same period in 2016. The decrease in gross profit margin was primarily attributed to the negative impact of decreased sales on our absorption of fixed manufacturing costs, lower margin projects that shipped from backlog and a \$16.9 million charge for costs incurred related to a contract to supply oil and gas platform equipment to an end user in Latin America, partially offset by \$10.9 million of charges to write down inventory in Brazil in 2016 that did not recur, a mix shift to higher margin aftermarket sales and lower charges and increased savings related to our Realignment Programs compared to the same period in 2016. Aftermarket sales increased to approximately 49% of total sales, as compared with approximately 44% of total sales for the same period in 2016.

Selling, General and Administrative Expense

| | Three Months Ended September 30, | | | |
|---|--|---------|---|--|
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| SG&A | \$206.3 | \$281.3 | | |
| SG&A as a percentage of sales | 23.4 | % 29.7 | % | |

| | Nine Months Ended September 30, | | | |
|---|---------------------------------------|---------|---|--|
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| SG&A | \$681.2 | \$747.5 | | |
| SG&A as a percentage of sales | 25.9 | % 25.6 | % | |

SG&A for the three months ended September 30, 2017 decreased by \$75.0 million, or 26.7%, as compared with the same period in 2016. Currency effects yielded an increase of approximately \$3 million. SG&A as a percentage of sales for the three months ended September 30, 2017 decreased 630 basis points as compared with the same period in 2016 due to the \$73.5 million reserve established for our primary Venezuelan customer in the third quarter of 2016 that did not recur and increased savings related to our Realignment Programs compared to the same period in 2016, partially offset by increased accrued broad-based annual incentive compensation and lower sales leverage. SG&A for the nine months ended September 30, 2017 decreased by \$66.3 million, or 8.9%, as compared with the same period in 2016. Currency effects yielded a decrease of approximately \$1 million. SG&A as a percentage of sales for the nine months ended September 30, 2017 increased 30 basis points as compared with the same period in 2016.

due to a \$26.0 million impairment charge related to our manufacturing facility in Brazil and lower sales leverage, substantially offset by the \$73.5 million reserve established for our primary Venezuelan customer in the third quarter of 2016 that did not recur and increased savings related to our Realignment Programs compared to the same period in 2016.

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Net Earnings from Affiliates

| | Three Months Ended September 30, | |
|------------------------------|--|--------|
| (Amounts in millions) | 2017 | 2016 |
| Net earnings from affiliates | \$ 2.9 | \$ 3.4 |

| | Nine Months Ended September 30, | |
|------------------------------|---|--------|
| (Amounts in millions) | 2017 | 2016 |
| Net earnings from affiliates | \$ 9.0 | \$ 8.5 |

Net earnings from affiliates for the three months ended September 30, 2017 decreased \$0.5 million, or 14.7%, as compared with the same period in 2016.

Net earnings from affiliates for the nine months ended September 30, 2017 increased \$0.5 million, or 5.9%, as compared with the same period in 2016.

Operating Income and Operating Margin

| | Three Months Ended September 30, | |
|---|--|-------|
| (Amounts in millions, except percentages) | 2017 | 2016 |
| Operating income | \$74.0 | \$0.1 |
| Operating income as a percentage of sales | 8.4 % | — % |

| | Nine Months Ended September 30, | |
|---|---------------------------------------|---------|
| (Amounts in millions, except percentages) | 2017 | 2016 |
| Operating income | \$250.0 | \$164.8 |
| Operating income as a percentage of sales | 9.5 % | 5.6 % |

Operating income for the three months ended September 30, 2017 increased by \$73.9 million as compared with the same period in 2016. The increase included currency benefits of approximately \$1 million. The increase was primarily a result of the \$75.0 million decrease in SG&A and the \$10.9 million pre-tax gain on the sale of the Vogt business, partially offset by the \$10.5 million decrease in gross profit.

Operating income for the nine months ended September 30, 2017 increased by \$85.2 million, or 51.7%, as compared with the same period in 2016. The increase included negative currency effects of approximately \$6 million. The increase was primarily a result of a \$141.2 million pre-tax gain from the sale of the Gestra and Vogt businesses and the \$66.3 million decrease in SG&A, partially offset by the \$122.8 million decrease in gross profit.

Interest Expense and Interest Income

| | Three Months Ended September 30, | |
|-----------------------|--|------|
| (Amounts in millions) | 2017 | 2016 |

| | | |
|-----------------------|---------------|----------|
| Interest expense | \$(15.0) | \$(15.1) |
| Interest income | 1.1 | 0.9 |
| | Nine Months | |
| | Ended | |
| | September 30, | |
| (Amounts in millions) | 2017 | 2016 |
| Interest expense | \$(44.7) | \$(45.0) |
| Interest income | 2.4 | 2.2 |

Interest expense for the three and nine months ended September 30, 2017 decreased \$0.1 million and \$0.3 million, respectively as compared with the same periods in 2016. The decreases for the three and nine month periods were primarily attributable to decreased commitments and borrowings under Revolving Credit Facility in 2017, as compared to the same periods in 2016.

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Other Income (Expense), Net

Three
Months
Ended
September
30,

(Amounts in millions) 2017 2016

Other income, net \$ 8.3 \$ 1.9

Nine Months
Ended
September
30,

(Amounts in millions) 2017 2016

Other (expense) income, net \$(11.6) \$ 1.1

Other income, net for the three months ended September 30, 2017 increased \$6.4 million due primarily to a \$1.3 million increase in gains arising from transactions on foreign exchange contracts and a \$5.8 million increase in gains from transactions in currencies other than our sites' functional currencies. The net change was primarily due to the foreign currency exchange rate movements in the Euro, Mexican peso, British pound and Brazilian real in relation to the U.S. dollar during the three months ended September 30, 2017, as compared with the same period in 2016.

Other expense, net for the nine months ended September 30, 2017 increased \$12.7 million from an income of \$1.1 million in 2016, due primarily to a \$6.8 million increase in losses from transactions in currencies other than our sites' functional currencies and a \$5.4 million increase in losses arising from transactions on foreign exchange contracts. The net change was primarily due to the foreign currency exchange rate movements in the Mexican peso, Brazilian real, Euro and British pound in relation to the U.S. dollar during the nine months ended September 30, 2017, as compared with the same period in 2016.

Tax Expense and Tax Rate

Three Months
Ended
September 30,

(Amounts in millions, except percentages) 2017 2016

Provision for income taxes \$19.6 \$ 2.8

Effective tax rate 28.7 % (23.2)%

Nine Months
Ended
September 30,

(Amounts in millions, except percentages) 2017 2016

Provision for income taxes \$85.8 \$49.5

Effective tax rate 43.8 % 40.2 %

The effective tax rate of 28.7% for the three months ended September 30, 2017 increased from (23.2)% for the same period in 2016. The effective tax rate varied from the U.S. federal statutory rate for the three months ended September 30, 2017 primarily due to the net impact of foreign operations, losses in certain foreign jurisdictions for which no tax benefit was provided and taxes related to the sale of the Vogt business.

The effective tax rate of 43.8% for the nine months ended September 30, 2017 increased from 40.2% for the same period in 2016. The effective tax rate varied from the U.S. federal statutory rate for the nine months ended September 30, 2017 primarily due to the net impact of foreign operations, losses in certain foreign jurisdictions for which no tax benefit was provided and taxes related to the sale of the Gestra and Vogt businesses.

Other Comprehensive Income (Loss)

| | Three Months Ended September 30, | |
|-----------------------------------|--|----------|
| (Amounts in millions) | 2017 | 2016 |
| Other comprehensive income (loss) | \$17.2 | \$(11.3) |

| | Nine Months Ended September 30, | |
|-----------------------------------|--|---------|
| (Amounts in millions) | 2017 | 2016 |
| Other comprehensive income (loss) | \$84.8 | \$(1.2) |

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Other comprehensive income for the three months ended September 30, 2017 increased \$28.6 million from a loss of \$11.3 million in 2016. The increased income was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Euro, British pound and Argentine peso versus the U.S. dollar during the three months ended September 30, 2017, as compared with the same period in 2016.

Other comprehensive income for the nine months ended September 30, 2017 increased \$85.9 million from a loss of \$1.2 million in 2016. The increased income was primarily due to foreign currency translation adjustments resulting primarily from exchange rate movements of the Euro, British pound and Mexican peso versus the U.S. dollar during the nine months ended September 30, 2017, as compared with the same period in 2016.

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. 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, auxiliary systems and spare parts (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 more quickly. 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 and general industries. EPD operates in 47 countries with 30 manufacturing facilities worldwide, nine of which are located in Europe, nine in North America, seven in Asia and five in Latin America, and it operates 123 QRCs, including those co-located in manufacturing facilities and/or shared with FCD.

| | Three Months Ended September 30, | | | |
|--|--|-----------|----|--|
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| Bookings | \$432.5 | \$497.5 | | |
| Sales | 424.2 | 458.5 | | |
| Gross profit | 136.5 | 140.2 | | |
| Gross profit margin | 32.2 | % 30.6 | % | |
| Segment operating income (loss) | 51.8 | (22.0) |) | |
| Segment operating income (loss) as a percentage of sales | 12.2 | % (4.8 |)% | |
| | Nine Months Ended September 30, | | | |
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| Bookings | \$1,357.2 | \$1,387.5 | | |
| Sales | 1,276.6 | 1,444.2 | | |
| Gross profit | 403.8 | 459.5 | | |
| Gross profit margin | 31.6 | % 31.8 | % | |
| Segment operating income | 106.9 | 97.4 | | |
| Segment operating income as a percentage of sales | 8.4 | % 6.7 | % | |

Bookings for the three months ended September 30, 2017 decreased by \$65.0 million, or 13.1%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$7 million. The decrease in customer bookings was primarily driven by the oil and gas, general and chemical industries. Decreased customer bookings of \$31.2 million into Europe, \$24.8 million into the Middle East, \$23.1 million into Latin America and \$16.6 million into North America were partially offset by increased customer bookings of \$29.9 million into Africa. The decrease was more heavily weighted towards customer original equipment bookings. Interdivision bookings (which are eliminated

and are not included in consolidated bookings as disclosed above) were flat when compared to the same period in 2016.

Bookings for the nine months ended September 30, 2017 decreased by \$30.3 million or 2.2%, as compared with the same period in 2016 and included an order for approximately \$80 million to provide pumps and related equipment for the Hengli Integrated Refining Complex Project in China. The decrease included negative currency effects of approximately \$4 million. The decrease in customer bookings was primarily driven by the power generation and general industries, partially offset by an increase

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in the oil and gas and chemical industries. Decreased customer bookings of \$62.0 million into Europe, \$61.0 million into the Middle East, \$32.5 million into North America and \$26.0 million into Latin America, were partially offset by increased customer bookings of \$89.3 million into Asia Pacific and \$43.7 million into Africa. The decrease was driven by customer aftermarket bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) increased \$5.0 million.

Sales for the three months ended September 30, 2017 decreased \$34.3 million, or 7.5%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$5 million. The decrease was driven by customer original equipment sales, resulting from decreased sales of \$32.5 million into North America and \$4.4 million into Latin America, partially offset by increased sales of \$5.2 million into the Middle East. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) increased \$1.1 million.

Sales for the nine months ended September 30, 2017 decreased \$167.6 million, or 11.6%, as compared with the same period in 2016. The decrease included negative currency effects of approximately \$5 million. The decrease was more heavily weighted towards customer original equipment sales, resulting from decreased sales of \$108.3 million into North America, \$37.5 million into Latin America, \$14.8 million into Europe, \$14.1 million into the Middle East and \$11.5 million into Africa, partially offset by increased sales of \$20.1 million into Asia Pacific. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$1.7 million.

Gross profit for the three months ended September 30, 2017 decreased by \$3.7 million, or 2.6%, as compared with the same period in 2016. Gross profit margin for the three months ended September 30, 2017 of 32.2% increased from 30.6% for the same period in 2016. The increase in gross profit margin was primarily attributable to increased savings related to our Realignment Programs, a mix shift to higher margin aftermarket sales and a \$6.3 million charge to write down inventory in Brazil in the third quarter of 2016 that did not recur, partially offset by the negative impact of decreased sales on our absorption of fixed manufacturing costs and lower margin projects that shipped from backlog.

Gross profit for the nine months ended September 30, 2017 decreased by \$55.7 million, or 12.1%, as compared with the same period in 2016. Gross profit margin for the nine months ended September 30, 2017 of 31.6% decreased from 31.8% for the same period in 2016. The decrease in gross profit margin was primarily attributable to the negative impact of decreased sales on our absorption of fixed manufacturing costs and lower margin projects that shipped from backlog, substantially offset by increased savings related to our Realignment Programs, a mix shift to higher margin aftermarket sales and \$10.9 million of charges to write down inventory in Brazil in 2016 that did not recur.

Operating income for the three months ended September 30, 2017 increased by \$73.8 million, or 335.5%, as compared with the same period in 2016. The increase included currency benefits of approximately \$1 million. The increase was due to a \$77.9 million decrease in SG&A (including a increase due to currency effects of approximately \$1 million), partially offset by the \$3.7 million decrease in gross profit. The decrease in SG&A is primarily due to EPD's \$71.2 million portion of the \$73.5 million reserve established for our primary Venezuelan customer in the third quarter of 2016 that did not recur.

Operating income for the nine months ended September 30, 2017 increased by \$9.5 million, or 9.8%, as compared with the same period in 2016. The increase included negative currency effects of approximately \$2 million. The increase was due to a \$64.5 million decrease in SG&A (including a decrease due to currency effects of approximately \$1 million), partially offset by the \$55.7 million decrease in gross profit. The decrease in SG&A is primarily due to EPD's \$71.2 million portion of the \$73.5 million reserve established for our primary Venezuelan customer in the third quarter of 2016 that did not recur and decreased charges and increased savings related to our Realignment Programs, partially offset by a \$26.0 million impairment charge in the second quarter of 2017 related to our manufacturing facility in Brazil.

Backlog of \$1,079.7 million at September 30, 2017 increased by \$112.9 million, or 11.7%, as compared with December 31, 2016. Currency effects provided an increase of approximately \$54 million. Backlog at September 30, 2017 and December 31, 2016 included \$19.7 million and \$11.7 million, respectively, 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 (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, power generation and general industries. IPD operates 17 manufacturing facilities, five of which are located in the U.S, eight in Europe and four in Asia and it operates 30 QRCs worldwide, including 19 sites in Europe, six in the U.S., three in Asia and two in Latin America, including those co-located in manufacturing facilities.

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| | Three Months Ended | | | |
|---|--------------------|---------|-------|----|
| | September 30, | | | |
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| Bookings | \$196.9 | \$189.6 | | |
| Sales | 189.7 | 203.3 | | |
| Gross profit | 39.3 | 30.5 | | |
| Gross profit margin | 20.7 | % | 15.0 | % |
| Segment operating loss | (3.6 |) | (17.1 |) |
| Segment operating loss as a percentage of sales | (1.9 |)% | (8.4 |)% |
| | Nine Months Ended | | | |
| | September 30, | | | |
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| Bookings | \$616.6 | \$609.5 | | |
| Sales | 559.9 | 615.8 | | |
| Gross profit | 98.1 | 128.5 | | |
| Gross profit margin | 17.5 | % | 20.9 | % |
| Segment operating loss | (46.0 |) | (10.4 |) |
| Segment operating loss as a percentage of sales | (8.2 |)% | (1.7 |)% |

Bookings for the three months ended September 30, 2017 increased by \$7.3 million, or 3.9%, as compared with the same period in 2016. The increase included currency benefits of approximately \$4 million. The increase in customer bookings was primarily driven by the oil and gas and water industries, partially offset by a decrease in the general industries. Increased customer bookings of \$8.9 million into Africa and \$1.4 million into Latin America were partially offset by decreased customer bookings of \$3.3 million into the Middle East and \$1.1 million into Asia Pacific. The increase was more heavily weighted towards customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) increased \$1.5 million.

Bookings for the nine months ended September 30, 2017 increased by \$7.1 million, or 1.2%, as compared with the same period in 2016 and included negative currency effects of approximately \$1 million. Customer bookings increases in the oil and gas and general industries were partially offset by decreases in the chemical and water industries. Increased customer bookings of \$13.4 million into Europe, \$7.6 million into Africa and \$4.6 million into Latin America were partially offset by decreased customer bookings of \$21.7 million into the Middle East and \$4.9 million into Asia Pacific. The increase was due to customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) increased \$3.3 million.

Sales for the three months ended September 30, 2017 decreased \$13.6 million, or 6.7%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$4 million and was driven by decreased customer original equipment sales. The decrease resulted from decreased sales of \$13.0 million into Asia Pacific, \$8.7 million into North America and \$4.3 million into Africa, partially offset by increased sales of \$5.9 million into Europe. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) increased \$2.3 million when compared to the same period in 2016.

Sales for the nine months ended September 30, 2017 decreased \$55.9 million, or 9.1%, as compared with the same period in 2016. The decrease included negative currency effects of approximately \$1 million and was driven by decreased customer original equipment sales. The decrease resulted from decreased sales of \$30.5 million into North America, \$22.0 million into Asia Pacific and \$7.3 million into Africa, partially offset by increased sales of \$2.6 million into the Middle East. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) increased \$1.9 million when compared to the same period in 2016.

Gross profit for the three months ended September 30, 2017 increased by \$8.8 million, or 28.9%, as compared with the same period in 2016. Gross profit margin for the three months ended September 30, 2017 of 20.7% increased from 15.0% for the same period in 2016. The increase in gross profit margin was primarily attributable to lower charges and increased savings related to our Realignment Programs, partially offset by the negative impact of decreased sales on

our absorption of fixed manufacturing costs.

Gross profit for the nine months ended September 30, 2017 decreased by \$30.4 million, or 23.7%, as compared with the same period in 2016. Gross profit margin for the nine months ended September 30, 2017 of 17.5% decreased from 20.9% for the same period in 2016. The decrease in gross profit margin was primarily attributable to a \$16.9 million charge in the second quarter of 2017 for costs incurred related to a contract to supply oil and gas platform equipment to an end user in Latin America and the

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negative impact of decreased sales on our absorption of fixed manufacturing costs, partially offset by lower charges and increased savings related to our Realignment Programs.

Operating loss for the three months ended September 30, 2017 decreased by \$13.5 million, or 78.9%, as compared with the same period in 2016. The decrease included negative currency effects of approximately \$1 million. The decreased loss was primarily due to the \$8.8 million increase in gross profit and a \$4.7 million decrease in SG&A (including a increase due to currency effects of approximately \$1 million). The decrease in SG&A is primarily due to decreased charges and increased savings related to our Realignment Programs.

Operating loss for the nine months ended September 30, 2017 increased by \$35.6 million, or 342.3%, as compared with the same period in 2016. The increase included negative currency effects of less than one million. The increased loss was primarily due to the \$30.4 million decrease in gross profit and a \$4.9 million increase in SG&A (including a decrease due to currency effects of less than one million). The increase in SG&A is primarily due to increased charges related to our Realignment Programs which were partially offset by an increase in related savings.

Backlog of \$437.0 million at September 30, 2017 increased by \$63.5 million, or 17.0%, as compared with December 31, 2016. Currency effects provided an increase of approximately \$36 million. Backlog at September 30, 2017 and December 31, 2016 included \$17.7 million and \$14.2 million, respectively, 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 50 manufacturing facilities and QRCs in 25 countries around the world, with five of its 22 manufacturing operations located in the U.S., nine located in Europe, seven located in Asia Pacific and one located in Latin America. Based on independent industry sources, we believe that FCD is the third largest industrial valve supplier on a global basis.

| | Three Months Ended September 30, | | | |
|---|--|---------|---|--|
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| Bookings | \$285.9 | \$291.9 | | |
| Sales | 287.7 | 299.3 | | |
| Gross profit | 91.7 | 108.0 | | |
| Gross profit margin | 31.9 | % 36.1 | % | |
| Segment operating income | 48.5 | 53.7 | | |
| Segment operating income as a percentage of sales | 16.9 | % 17.9 | % | |

| | Nine Months Ended September 30, | | | |
|---|---------------------------------------|---------|---|--|
| (Amounts in millions, except percentages) | 2017 | 2016 | | |
| Bookings | \$911.2 | \$913.8 | | |
| Sales | 843.5 | 915.5 | | |
| Gross profit | 277.4 | 315.0 | | |
| Gross profit margin | 32.9 | % 34.4 | % | |
| Segment operating income | 254.1 | 140.5 | | |
| Segment operating income as a percentage of sales | 30.1 | % 15.3 | % | |

Bookings for the three months ended September 30, 2017 decreased by \$6.0 million, or 2.1%, as compared with the same period in 2016. Bookings included currency benefits of approximately \$5 million. Decreased customer bookings in the chemical and power generation industries were partially offset by increases in the general and oil and gas industries. Decreased customer bookings of \$19.6 million into Europe and \$2.4 million into Latin America were

partially offset by increased customer bookings of \$15.5 million into North America. The decrease was driven by customer original equipment bookings.

Bookings for the nine months ended September 30, 2017 decreased by \$2.6 million, or 0.3%, as compared with the same period in 2016. Bookings included negative currency effects of approximately \$2 million. Decreased customer bookings in the general and chemical industries were substantially offset by increases in the power generation and oil and gas industries. Decreased

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customer bookings of \$58.2 million into Europe and \$20.9 million into Latin America were substantially offset by increased customer bookings of \$39.4 million into Asia Pacific, \$13.3 million into the Middle East, \$11.9 million into North America and \$9.0 million into Africa. The decrease was driven by customer original equipment bookings.

Sales for the three months ended September 30, 2017 decreased \$11.6 million, or 3.9%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$5 million and was driven by decreased customer original equipment sales. The decrease was primarily driven by decreased customer sales of \$7.2 million into Europe, \$6.8 million into North America and \$4.7 million into Latin America, partially offset by increased customer sales of \$5.1 million into Asia Pacific and \$4.1 million into Africa.

Sales for the nine months ended September 30, 2017 decreased \$72.0 million, or 7.9%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$1 million and was driven by decreased customer original equipment sales. The decrease was primarily driven by decreased customer sales of \$26.8 million into the Middle East, \$18.6 million into Europe, \$11.2 million into North America and \$8.7 million into Asia Pacific, partially offset by increased customer sales of \$2.7 million into Africa.

Gross profit for the three months ended September 30, 2017 decreased by \$16.3 million, or 15.1%, as compared with the same period in 2016. Gross profit margin for the three months ended September 30, 2017 of 31.9% decreased from 36.1% for the same period in 2016. The decrease in gross profit margin was primarily attributable to increased charges related to our Realignment Programs and the negative impact of decreased sales on our absorption of fixed manufacturing costs, partially offset by increased savings achieved related to our Realignment Programs compared to the same period in 2016.

Gross profit for the nine months ended September 30, 2017 decreased by \$37.6 million, or 11.9%, as compared with the same period in 2016. Gross profit margin for the nine months ended September 30, 2017 of 32.9% decreased from 34.4% for the same period in 2016. The decrease in gross profit margin was primarily attributable to the negative impact of decreased sales on our absorption of fixed manufacturing costs and lower margin projects shipped from backlog, partially offset by increased savings achieved related to our Realignment Programs compared to the same period in 2016.

Operating income for the three months ended September 30, 2017 decreased by \$5.2 million, or 9.7%, as compared with the same period in 2016. The decrease included currency benefits of approximately \$1 million. The decrease was due to the \$16.3 million decrease in gross profit, partially offset by the \$9.9 million pre-tax gain from the sale of the Vogt business and a decrease in SG&A of \$1.0 million (including an increase due to currency effects of approximately \$1 million). The decrease in SG&A was primarily due to savings achieved related to our Realignment Programs compared to the same period in 2016.

Operating income for the nine months ended September 30, 2017 increased by \$113.6 million, or 80.9%, as compared with the same period in 2016. The increase included negative currency effects of approximately \$3 million. The increase was primarily attributable to the \$141.2 million of pre-tax gain from the sales of the Gestra and Vogt businesses and a decrease in SG&A of \$9.4 million (including a decrease due to currency effects of less than one million), partially offset by the \$37.6 million decrease in gross profit. The decrease in SG&A was primarily due to savings achieved related to our Realignment Programs compared to the same period in 2016.

Backlog of \$659.8 million at September 30, 2017 increased by \$75.3 million, or 12.9%, as compared with December 31, 2016. Currency effects provided an increase of approximately \$16 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow and Liquidity Analysis

| (Amounts in millions) | Nine Months Ended | |
|--|-----------------------|---------|
| | September 30, 2017 | 2016 |
| Net cash flows provided by operating activities | \$72.4 | \$70.9 |
| Net cash flows provided (used) by investing activities | 171.1 | (68.9) |
| Net cash flows used by financing activities | (136.2) | (114.3) |

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 cash balance at September 30, 2017 was \$502.1 million, as compared with \$367.2 million at December 31, 2016.

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Our cash balance increased by \$134.9 million to \$502.1 million at September 30, 2017 as compared with December 31, 2016. The cash provided during the first nine months of 2017 included \$208.8 million in net cash proceeds from the sale of our Gestra and Vogt businesses, partially offset by cash used of \$74.4 million in dividend payments, \$45.0 million of payments on long-term debt and \$40.6 million in capital expenditures. See Note 3 to our condensed consolidated financial statements included in this Quarterly Report for more information on the sale of our Gestra and Vogt businesses.

For the nine months ended September 30, 2017, our cash provided by operating activities was \$72.4 million, as compared with \$70.9 million for the same period in 2016. Cash flow used by working capital decreased for the nine months ended September 30, 2017, due primarily to decreased uses of cash related to accrued liabilities and income taxes payable, inventory and accounts payable, partially offset by a decreased source of cash related to accounts receivable as compared to the same period in 2016.

Decreases in accounts receivable provided \$63.8 million of cash flow for the nine months ended September 30, 2017, as compared with \$69.8 million for the same period in 2016. As of September 30, 2017, our days' sales outstanding ("DSO") was 87 days as compared with 84 days as of September 30, 2016.

Decreases in prepaid expenses and other provided \$43.5 million of cash flow for the nine months ended September 30, 2017, as compared with a use of \$58.7 million for the same period in 2016, due primarily to a decrease in prepaid income taxes in 2017 compared to an increase in 2016.

Increases in inventory used \$20.4 million and \$31.5 million of cash flow for the nine months ended September 30, 2017 and September 30, 2016, respectively. Inventory turns were 2.6 times at both September 30, 2017 and 2016. Our calculation of inventory turns does not reflect the impact of advanced cash received from our customers. Decreases in accounts payable used \$68.0 million of cash flow for the nine months ended September 30, 2017 as compared with \$98.8 million for the same period in 2016. Decreases in accrued liabilities and income taxes payable used \$6.7 million of cash flow for the nine months ended September 30, 2017 as compared with \$82.3 million for the same period in 2016.

Cash flows provided by investing activities during the nine months ended September 30, 2017 were \$171.1 million as compared with a use of \$68.9 million for the same period in 2016, primarily due to \$208.8 million in net proceeds from the sale of our Gestra and Vogt businesses. Capital expenditures during the nine months ended September 30, 2017 were \$40.6 million, a decrease of \$23.9 million as compared with the same period in 2016. Our capital expenditures are generally focused on strategic initiatives to pursue new markets, geographic expansion, information technology infrastructure, ongoing scheduled replacements and upgrades and cost reduction opportunities. In 2017, total capital expenditures are expected to be between \$70 million and \$80 million.

Cash flows used by financing activities during the nine months ended September 30, 2017 were \$136.2 million as compared with \$114.3 million for the same period in 2016. Cash outflows during the nine months ended September 30, 2017 resulted primarily from \$74.4 million of dividend payments and \$45.0 million of payments on long-term debt.

Our Senior Credit Facility matures in October 2020. Approximately 8.3% of our outstanding Term Loan Facility is due to mature in the remainder of 2017 and approximately 33.3% in 2018. As of September 30, 2017, we had available capacity of \$708.2 million on our \$800.0 million Revolving Credit Facility. Our Revolving Credit Facility is committed and held by a diversified group of financial institutions.

During the nine months ended September 30, 2017 and 2016 we contributed \$20 million to our U.S. pension plan. At December 31, 2016 our U.S. pension plan was fully funded as defined by applicable law. After consideration of our funded status, we do not anticipate making any additional contributions to our U.S. pension plan in 2017, excluding direct benefits paid. We continue to maintain an asset allocation consistent with our strategy to maximize total return, while reducing portfolio risks through asset class diversification.

At September 30, 2017, \$489.4 million of our total cash balance of \$502.1 million was held by foreign subsidiaries, \$375.8 million of which we consider permanently reinvested outside the U.S. Based on the expected near-term liquidity needs of our various geographies and our currently available sources of domestic short-term liquidity, 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 full \$375.8 million could be repatriated resulting in a U.S. cash tax liability between \$5.0 million and \$15.0 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.

Considering our current debt structure and cash needs, we currently believe cash flows generated from operating activities combined with availability under our Revolving Credit Facility and our existing cash balance will be sufficient to meet our cash needs for the next 12 months. Cash flows from operations could be adversely affected by economic, political and other risks associated with sales of our products, operational factors, competition, fluctuations in foreign exchange rates and fluctuations in interest rates, among other factors. See "Cautionary Note Regarding Forward-Looking Statements" below.

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On November 13, 2014, our Board of Directors approved a \$500.0 million share repurchase authorization, of which as of September 30, 2017, we have \$160.7 million of remaining capacity. While we intend to continue to return cash through dividends and/or share repurchases 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.

Financing

Credit Facilities

See Note 10 to our consolidated financial statements included in our 2016 Annual Report and Note 6 to our condensed consolidated financial statements included in this Quarterly Report for a discussion of our Senior Credit Facility and covenants related to our Senior Credit Facility. We complied with all covenants through September 30, 2017.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements and related footnotes contained within this Quarterly Report. Our critical accounting policies used in the preparation of our condensed consolidated financial statements were discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2016 Annual Report. These critical policies, for which no significant changes have occurred in the nine months ended September 30, 2017, include:

Revenue Recognition;

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.

The process of preparing condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon what we believe is the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from those estimates. The significant estimates are reviewed quarterly with the Audit Committee of our Board of Directors.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our condensed consolidated financial statements provide a meaningful and fair perspective of our consolidated financial condition and results of operations. This is not to suggest that other general risk factors, such as changes in worldwide demand, changes in material costs, performance of acquired businesses and others, could not adversely impact our consolidated financial condition, results of operations and cash flows in future periods. See "Cautionary Note Regarding Forward-Looking Statements" below.

ACCOUNTING DEVELOPMENTS

We have presented the information about pronouncements not yet implemented in Note 1 to our condensed consolidated financial statements included in this Quarterly Report.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as, "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, statements concerning our future

financial performance, future debt and financing levels, investment objectives, implications of litigation and regulatory investigations and other management plans for future operations and performance.

The forward-looking statements included in this Quarterly Report are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements, and include, without limitation, the following:

- a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins;

- changes in the global financial markets and the availability of capital and the potential for unexpected cancellations or delays of customer orders in our reported backlog;

- our dependence on our customers' ability to make required capital investment and maintenance expenditures;

- risks associated with cost overruns on fixed fee projects and in accepting customer orders for large complex custom engineered products;

- the substantial dependence of our sales on the success of the oil and gas, chemical, power generation and water management industries;

- the adverse impact of volatile raw materials prices on our products and operating margins;

- economic, political and other risks associated with our international operations, including military actions or trade embargoes that could affect customer markets, particularly North African, Russian and Middle Eastern markets and global oil and gas producers, and non-compliance with U.S. export/reexport control, foreign corrupt practice laws, economic sanctions and import laws and regulations;

- increased aging and slower collection of receivables, particularly in Latin America and other emerging markets;

- our exposure to fluctuations in foreign currency exchange rates, particularly the Euro and British pound and in hyperinflationary countries such as Venezuela;

- our furnishing of products and services to nuclear power plant facilities and other critical applications;

- potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims;

- a foreign government investigation regarding our participation in the United Nations Oil-For-Food Program;

- expectations regarding acquisitions and the integration of acquired businesses;

- our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits;

- the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets;

- our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations;

- the highly competitive nature of the markets in which we operate;
- environmental compliance costs and liabilities;
- potential work stoppages and other labor matters;
- access to public and private sources of debt financing;
- our inability to protect our intellectual property in the U.S., as well as in foreign countries;
- obligations under our defined benefit pension plans;
- risks and potential liabilities associated with cyber security threats; and
- our inability to execute and realize the expected financial benefits of our strategic manufacturing optimization and other cost-saving initiatives.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. These and other risks and uncertainties are more fully discussed in the risk factors identified in "Item 1A. Risk Factors" in Part I of our 2016 Annual Report and Part II of this 10-Q, and may be identified in our Quarterly Reports on Form 10-Q and our other filings with the SEC and/or press releases from time to time. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We have market risk exposure arising from changes in interest rates and foreign currency exchange rate movements in foreign exchange contracts. We are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but we currently expect our 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 September 30, 2017, we had \$180.0 million of variable rate debt obligations outstanding under our Senior Credit Facility with a weighted average interest rate of 2.58%. 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 \$1.4 million for the nine months ended September 30, 2017.

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. 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. In March 2015, we designated €255.7 million of our €500.0 million 2022 Euro Senior Notes as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency. Generally, we view our investments in foreign subsidiaries from a long-term perspective and use capital structuring techniques to manage our investment in foreign subsidiaries as deemed necessary. We realized net gains (losses) associated with foreign currency translation of \$17.7 million and \$(15.6) million for the three months September 30, 2017 and 2016 and \$85.8 million and \$(12.6) million for the nine months ended September 30, 2017 and 2016, 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 foreign exchange contracts allows us to mitigate transactional exposure to exchange rate fluctuations as the gains or losses incurred on the foreign

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 September 30, 2017, we had a U.S. dollar equivalent of \$237.6 million in aggregate notional amount outstanding in foreign exchange contracts with third parties, as compared with \$393.8 million at December 31, 2016. Transactional currency gains and losses arising from transactions outside of our sites' functional currencies and changes in fair value of non-designated foreign exchange contracts are included in our consolidated results of operations. We recognized foreign currency net gains (losses) of \$8.4 million and \$1.4 million for the three months ended September 30, 2017 and 2016, respectively, and \$(9.7) million and \$2.5 million for the nine months ended September 30, 2017 and 2016, respectively, which are included in other (expense) income, net in the accompanying condensed consolidated statements of income.

Based on a sensitivity analysis at September 30, 2017, a 10% change in the foreign currency exchange rates for the nine months ended September 30, 2017 would have impacted our net earnings by approximately \$11 million. 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 exchange contracts discussed above.

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Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are controls and other procedures that are designed to ensure that the information that we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017. Our management, including our current Principal Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were not effective as of September 30, 2017 because of the previously identified material weaknesses in our internal control over financial reporting described in Item 9A. Controls and Procedures in our Form 10-K/A for the fiscal year ended December 31, 2016.

Management has concluded that, notwithstanding the material weaknesses referred to above, the Company's unaudited condensed consolidated financial statements in this Form 10-Q fairly state, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods presented, in conformity with U.S. GAAP.

Remediation Plan

In the second quarter of 2017, management became actively engaged in the planning for, and implementation of, remediation efforts to address the material weaknesses in our internal control over financial reporting identified above. Management has implemented the following steps in the third quarter of 2017:

- enhanced the current business process review control procedures to include additional prior period comparisons and additional key ratios, metrics and risk based criteria as determined by management;
- enhanced the detailed site and/or process reviews based on criteria determined by management's risk assessment including manual journal entries;
- conducted enhanced ethics, controls and policy training for employees at the one non-U.S. site where certain employees engaged in conduct that circumvented controls.

Management believes the measures described above and others that may be implemented will remediate the material weaknesses that we have identified. Management is in the process of testing the effectiveness of the revised controls. These material weaknesses cannot be considered fully remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

Other than the remediation actions identified above, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are party to the legal proceedings that are described in Note 10 to our condensed consolidated financial statements included in "Item 1. Financial Statements" of this Quarterly Report, and such disclosure is incorporated by reference into this "Item 1. Legal Proceedings." In addition to the foregoing, we and our subsidiaries are named defendants in certain other ordinary 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 the amount of any liability that could arise with respect to these matters, either individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There are numerous factors that affect our business and results of operations, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, careful consideration should be given to "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our 2016 Annual Report, which contain descriptions of significant factors that might cause the actual results of operations in future periods to differ materially from those currently expected or desired.

There have been no material changes in risk factors discussed in our 2016 Annual Report and subsequent SEC filings. The risks described in this Quarterly Report, our 2016 Annual Report and in our other SEC filings or press releases from time to time are not the only risks we face. Additional risks and uncertainties are currently deemed immaterial based on management's assessment of currently available information, which remains subject to change; however, new risks that are currently unknown to us may surface in the future that materially adversely affect our business, financial condition, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Note 12 to our condensed consolidated financial statements included in this Quarterly Report includes a discussion of our share repurchase program and payment of quarterly dividends on our common stock.

During the quarter ended September 30, 2017 we had no repurchases of common shares. As of September 30, 2017, we have \$160.7 million of remaining capacity under our current share repurchase program. The following table sets forth the activity for each of the three months during the quarter ended September 30, 2017:

| Period | Total Number of Shares Tendered | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program (in millions) |
|------------------|--|----------------------------------|--|---|
| July 1 - 31 | 320 | (1)\$ 46.17 | — | \$ 160.7 |
| August 1 - 31 | 2,899 | (2)38.35 | — | 160.7 |
| September 1 - 30 | — | — | — | 160.7 |
| Total | 3,219 | \$ 39.13 | — | |

(1) Shares tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares.

(2) Represents 419 shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares at an average price per share of \$38.91, and 2,480 shares purchased at a price of \$38.25 per share by a rabbi trust that we established in connection with our director deferral plans, pursuant to which non-employee directors may elect to defer directors' quarterly cash compensation to be paid at a later date in the form of common stock.

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Item 6. Exhibits.

| Exhibit No. | Description |
|----------------|---|
| <u>3.1</u> | Restated Certificate of Incorporation of Flowserve Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013). |
| <u>3.2</u> | Flowserve Corporation By-Laws, as amended and restated effective May 18, 2017 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 24, 2017). |
| <u>10.1</u> | Fourth Amendment to Credit Agreement, dated June 30, 2017, among Flowserve Corporation, Bank of America, N.A., as administrative agent, and other lenders referred therein (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 7, 2017). |
| <u>31.1+</u> | Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>31.2+</u> | Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>32.1++</u> | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| <u>32.2++</u> | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

+ Filed herewith.

++ Furnished herewith.

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SIGNATURES

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

FLOWSERVE CORPORATION

Date: November 1, 2017 /s/ R. Scott Rowe

R. Scott Rowe
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 1, 2017 /s/ Lee S. Eckert

Lee S. Eckert

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)