FLOWSERVE CORP
Form DEF 14A
April 03, 2009

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**SCHEDULE 14A**
**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

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

FLOWSERVE CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(4) Date Filed:

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5215 N. O Connor Blvd., Suite 2300
Irving, Texas 75039
April 3, 2009

NOTICE OF 2009 ANNUAL MEETING
OF SHAREHOLDERS

The 2009 Annual Meeting of Shareholders (the Annual Meeting ) of Flowserve Corporation (the Company ) will be held on Thursday, May 14, 2009 at 11:30 a.m., local time, at the Flowserve Corporation Learning Resource Center, which is located at 4343 West Royal Lane, Irving, Texas 75063. Directions to the Annual Meeting and a map of the area are included in the proxy materials on the inside back cover and are also available online at **www.proxydocs.com/fls**.

Shareholders of record of the Company s common stock, par value $1.25 per share, at the close of business on March 27, 2009 are entitled to notice of and to vote at the Annual Meeting.

At the Annual Meeting, the Company will ask you to:

- elect three directors, each to serve a term expiring at the 2012 annual meeting of shareholders;
- approve the adoption of the Flowserve Corporation Equity and Incentive Compensation Plan;
- ratify the appointment of PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for 2009; and
- attend to other business properly presented at the Annual Meeting or any adjournments or postponements thereof.

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

The proxy statement and annual report to shareholders are also available on our hosted website at **www.proxydocs.com/fls**. For additional related information, please refer to the Important Notice of Electronic Availability of Materials for the Shareholder Meeting to be held on May 14, 2009 in the enclosed proxy statement.

Your vote is important, and your prompt cooperation in voting is greatly appreciated. Whether or not you plan to attend the meeting in person, we urge you to vote as soon as possible. Please vote by completing and mailing the proxy card in the enclosed business reply envelope or using the telephone or Internet. Instructions regarding all three methods of voting are on the proxy card and are contained in the proxy statement.

Thank you in advance for voting and for your support of the Company.

By Order of the Board of Directors,

Ronald F. Shuff
Senior Vice President, Secretary and General Counsel

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

PROXY STATEMENT
FOR THE
2009 ANNUAL MEETING OF SHAREHOLDERS

SOLICITATION

We are providing these proxy materials in connection with the solicitation by the Board of Directors (the Board ) of Flowserve Corporation, a New York corporation (the Company ), of proxies to be voted at the 2009 Annual Meeting of Shareholders (the Annual Meeting ), which will be held on May 14, 2009, and at any adjournments or postponements of this scheduled meeting. The use of we, us, or our in this proxy statement refers to the Company. This proxy statement and form of proxy are first being mailed to our shareholders on or about April 6, 2009.

**IMPORTANT NOTICE OF ELECTRONIC AVAILABILITY OF MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 14, 2009**

This proxy statement and the Company s annual report for the year ending December 31, 2008 are also available electronically on our hosted website at **www.proxydocs.com/fls**.

To access and review the materials made available electronically:

1. Go to **www.proxydocs.com/fls**.

2. Click the 2009 Proxy Statement in the right column.

3. Have your proxy card or voting instructions available.

We encourage you to review all of the important information contained in the proxy materials before voting. If you would like to attend the Annual Meeting in person, please refer to the inside back cover of this proxy statement or **www.proxydocs.com/fls** for directions to the meeting.

Cost of Proxy Solicitation

The solicitation of proxies is made by our Board and will be conducted primarily by mail. Brokerage firms and other custodians, nominees and fiduciaries are reimbursed by the Company for reasonable out-of-pocket expenses that they incur to send proxy materials to shareholders and solicit their votes. In addition to this mailing, proxies may be solicited, without extra compensation, by our officers and employees, by mail, telephone, facsimile, electronic mail and other methods of communication. The Company bears the full cost of soliciting proxies. The Company has also retained Georgeson Inc. to aid in the solicitation of proxies by mail, telephone, facsimile, e-mail and personal solicitation and will request brokerage houses and other nominees, fiduciaries and custodians to forward soliciting materials to beneficial owners of the Company s common stock. For these services, the Company will pay Georgeson Inc. a fee of $8,000, plus reimbursement for reasonable out-of-pocket expenses.

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Shareholders Sharing an Address

To reduce the expenses of delivering duplicate proxy materials, we deliver one annual report and proxy statement to multiple shareholders sharing the same mailing address unless otherwise requested. We will promptly send a separate annual report and proxy statement to a shareholder at a shared address upon request at no cost. Shareholders with a shared address may also request that we send a single copy in the future if we are currently sending multiple copies to the same address. Requests related to delivery of proxy materials may be made by calling Investor Relations at (972) 443-6500 or writing to Flowserve Corporation, Attention: Investor Relations, 5215 N. O Connor Blvd., Suite 2300, Irving, Texas 75039.

VOTING

Who May Vote and Number of Votes

If you are a shareholder of record at the close of business on March 27, 2009 (the Record Date ), you may vote on the matters proposed in this proxy statement. You have one vote for each share you own.

How to Vote

*Voting by Proxy Holders for Shares Registered in the Name of a Brokerage Firm or Bank.* If your shares are held by a broker, bank or other nominee (i.e., in street name ), you will receive instructions from your nominee, which you must follow in order to have your shares voted. Street name shareholders who wish to vote at the meeting will need to obtain a proxy from the broker, bank or other nominee that holds their shares to confirm their shareholder status for entry into the Annual Meeting.

*Voting by Proxy Holder for Shares Registered Directly in the Name of Shareholder.* If you hold your shares in your own name as a holder of record, you must vote your shares in person at the Annual Meeting or instruct the proxy holders named in the enclosed proxy card how to vote your shares by either (i) using the toll-free telephone number or the Internet website set forth below or (ii) signing, dating and mailing the enclosed proxy card to our proxy tabulation firm, Broadridge Investor Communications Services ( Broadridge ), in the enclosed envelope. Each of these voting methods is described below:

*Vote by Telephone.* If you hold your shares in your name as a holder of record, you may vote by telephone by calling toll-free to 1-800-690-6903 from the United States and Canada and following the series of voice instructions that will direct you how to vote your shares. Have your proxy card available when you place your telephone call. Telephone voting is available 24 hours a day, 7 days a week, until 11:59 p.m., Eastern Time, on May 13, 2009. If you hold shares in the Flowserve Corporation Retirement Savings Plan, your telephone vote must be received by 11:59 p.m., Eastern Time, on May 12, 2009. IF YOU VOTE BY TELEPHONE, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.

*Vote by Internet.* You have the option to vote via the Internet at the address of **www.proxyvote.com** by following the on-screen instructions that will direct you how to vote your shares. Internet voting is available 24 hours a day, 7 days a week, until 11:59 p.m., Eastern Time, on May 13, 2009. If you hold shares in the Flowserve Corporation Retirement Savings Plan, your Internet vote must be received by 11:59 p.m., Eastern Time, on May 12, 2009. Have your proxy card available when you access the Internet website. IF YOU VOTE BY INTERNET, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.

*Vote by Mail.* If you would like to vote by mail, mark the enclosed proxy card, sign and date it and return it to Broadridge in the enclosed envelope as soon as possible before the Annual Meeting. Your signed proxy

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card must be received by Broadridge prior to the date of the Annual Meeting for your vote to be counted at the Annual Meeting.

*Vote in Person.* If you are a registered shareholder and attend the Annual Meeting in person, you may deliver your completed proxy card or vote by ballot at the Annual Meeting.

Changing Your Vote

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

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

Quorum for the Meeting

A majority of the outstanding shares of the Company s common stock, par value $1.25 per share (the common stock ), entitled to vote at the Annual Meeting and represented in person or by proxy, constitutes a quorum. A quorum is necessary to conduct business at the Annual Meeting. You are part of the quorum if you have voted by proxy. Shares that the holder abstains from voting on a particular proposal are counted as present at the meeting for purposes of determining a quorum.

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

Counting of Votes

Only votes cast count in the voting results, and withheld votes are not considered votes cast. Members of the Board are elected by a plurality of affirmative votes cast by holders of shares entitled to vote in the election. Abstentions and broker non-votes have no effect on the determination of whether a plurality exists with respect to a given nominee. The proposals to approve the adoption of the Flowserve Corporation Equity and Incentive Compensation Plan and to ratify the appointment of PricewaterhouseCoopers LLP to serve as the Company s independent registered public accounting firm for 2009 require the affirmative vote of at least a majority of the votes cast. Abstentions will count as votes cast on this proposal, but will not count as votes for the proposal and, therefore, will have the same effect as votes against the proposal. Additionally, broker non-votes will not be considered to have voted on the proposal and will have no effect on the proposal.

Under the rules of the New York Stock Exchange ( NYSE ), brokers may, at their discretion with respect to certain routine matters, vote shares they hold in street name on behalf of beneficial owners who have not returned voting instructions to the brokers. Routine matters include the election of directors and the ratification of external auditors. The proxies will be voted in accordance with your instructions specified on the proxy card. If no instructions are given, proxies will be voted for each proposal.

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There are no dissenters rights of appraisal with respect to the matters to be acted upon at the meeting.

At the close of business on the Record Date, the Company had 56,026,802 shares of common stock issued and outstanding (excluding treasury shares) that may be voted at the Annual Meeting.

Voting by Participants in the Flowserve Corporation Retirement Savings Plan

If you are a participant in the Flowserve Corporation Retirement Savings Plan, the proxy card serves as a voting instruction to the trustee for this plan. The proxy card indicates the number of shares of common stock credited to your account under this plan as of the Record Date for voting at the Annual Meeting.

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

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

To be timely, if you vote your shares in the Flowserve Corporation Retirement Savings Plan by telephone or Internet, your vote must be received by 11:59 p.m., Eastern Time, on May 12, 2009. If you do not vote by telephone or Internet, please return your proxy card as soon as possible.

Vote Tabulations

Tabulation of voted proxies will be handled by Broadridge, an independent firm. Broadridge is the inspector of elections for the Annual Meeting.

SHAREHOLDER PROPOSALS AND NOMINATIONS

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 (the Exchange Act ), certain shareholder proposals may be eligible for inclusion in our 2010 proxy statement. These shareholder proposals must comply with the requirements of Rule 14a-8, including a requirement that shareholder proposals be received by the Corporate Secretary no later than December 14, 2009. We strongly encourage any shareholder interested in submitting a proposal to contact the Corporate Secretary in advance of this deadline to discuss the proposal. Submitting a shareholder proposal does not guarantee that we will include it in our proxy statement. The Corporate Governance and Nominating Committee reviews all shareholder proposals and makes recommendations to the Board for action on such proposals.

Alternatively, under the Company s By-laws, if a shareholder does not want to submit a proposal for inclusion in our proxy statement but wants to introduce it at our annual meeting, or intends to nominate a person for election to the Board directly (rather than by recommending such person as a candidate to our Corporate Governance and Nominating Committee as described below under Board of Directors Committees of the Board Corporate Governance and Nominating Committee ), the shareholder must submit the proposal or nomination between January 14, 2010 and February 12, 2010. If, however, the 2010 annual meeting is held more than 30 days before or more than 60 days after the anniversary of the 2009 Annual Meeting, the shareholder must submit any such proposal between (i) 120 calendar days prior to the 2010 annual meeting and (ii) the later of 90 calendar days prior to the 2010 annual meeting or 10 days following the date on which the date of the 2010 annual meeting is publicly announced. The shareholder s submission must be made by a registered shareholder on his or her behalf or on behalf of a beneficial owner of the shares, and must include detailed information specified in our By-laws concerning the proposal or nominee, as the case may be, and detailed information as to

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the shareholder s interests in Company securities. We will not entertain any proposals or nominations at the 2010 annual meeting that do not meet these requirements.

If the shareholder does not comply with the requirements of Rule 14a-4(c)(1) under the Exchange Act, we may exercise discretionary voting authority under proxies that we solicit to vote in accordance with our best judgment on any such shareholder proposal or nomination. The Company s By-laws are posted on our website at **www.flowserve.com** under the Investor Relations Governance caption. To make a submission or to request a copy of the Company s By-laws, shareholders should contact our Corporate Secretary at the following address:

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

We strongly encourage shareholders to seek advice from knowledgeable legal counsel before submitting a proposal or a nomination.

## PROPOSAL NUMBER ONE: ELECTION OF DIRECTORS

The Company s Board currently consists of twelve directors. There are three classes of directors with a minimum of three members per class, and the members of each class hold office until the third succeeding annual meeting of shareholders after which they were elected. The Board has nominated Roger L. Fix, Lewis M. Kling and James O. Rollans, whose terms of office as members of the Board are expiring at the 2009 Annual Meeting, to serve for a new term that will expire at the 2012 annual meeting of shareholders. Diane C. Harris, whose term also expires at the 2009 Annual Meeting, will retire from the Board effective as of the Annual Meeting, and is therefore not nominated for reelection. Biographical information regarding each of the nominees is provided below under the heading Board of Directors Biographical Information Nominees to Serve a Term Expiring at the 2012 Annual Meeting of Shareholders.

### REQUIRED VOTE AND RECOMMENDATION

The nominees will be elected by a plurality of affirmative votes cast in person or represented by proxy. Abstentions and broker non-votes will have no effect on the determination of whether a plurality exists with respect to a given nominee. The three nominees receiving the highest number of affirmative votes will be elected.

The individuals named as proxies on the enclosed proxy card will vote your proxy FOR the election of these nominees unless you instruct otherwise or unless you withhold authority to vote for any one or more of them. If any director is unable to stand for re-election, the Board may reduce the number of directors or choose a substitute. The nominees have indicated their willingness to serve as directors, and we have no reason to believe any nominee will not be able to stand for reelection.

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF ROGER L. FIX, LEWIS M. KLING AND JAMES O. ROLLANS TO SERVE AS DIRECTORS FOR A TERM EXPIRING AT THE 2012 ANNUAL MEETING OF SHAREHOLDERS.**

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# BOARD OF DIRECTORS

## BIOGRAPHICAL INFORMATION

### Nominees to Serve a Term Expiring at the 2012 Annual Meeting of Shareholders

***Roger L. Fix,*** age 55, has served as director since 2006 and serves as a member of the Organization and Compensation Committee. Mr. Fix is the President and Chief Executive Officer of Standex International Corporation ( Standex ), a publicly traded diversified manufacturing and marketing company. He has been its Chief Executive Officer since 2003, President since 2001 and director since 2001. He was its Chief Operating Officer from 2001 to 2002. He is also a member of Standex s Executive Committee since 2003. Before joining Standex, he was employed by Outboard Marine Corporation, a marine manufacturing company, as Chief Executive Officer and President from 2000 to 2001 and Chief Operating Officer and President during 2000. He served as its director from 2000 to 2001. He served as Chief Executive of John Crane Inc., a global manufacturer of mechanical seals for pump and compressor applications in the process industry, from 1998 to 2000 and as its President North America from 1996 to 1998. He was President of Xomox Corporation, a manufacturer of process control valves and actuators, from 1993 to 1996. He was also employed by Reda Pump Company, a manufacturer of electrical submersible pumping systems for oil production, from 1981 to 1993, most recently as Vice President and General Manager/Eastern Division. Additionally, he was employed by Fisher Controls Company, a manufacturer of process control valves and pneumatic and electronic instrumentation, from 1976 to 1981.

***Lewis M. Kling,*** age 64, has served as President, Chief Executive Officer and as a director since 2005. He served as Chief Operating Officer from 2004 to 2005. Before joining the Company, he served as Group President and Corporate Vice President of SPX Corporation, a Fortune 500 company that provides flow technology products, terminal equipment and other industrial products and services worldwide, from 1999 to 2004 and as a member of the Board of Directors of Inrange Technologies Corporation, a designer and manufacturer of switching and networking products for data and telecommunications networks, from 2000 to 2003. Mr. Kling also served as President of Dielectric Communications, a division of General Signal Corporation, which was purchased by SPX Corporation, from 1997 to 1999. He is also a director of Eastman Chemical Company, a manufacturer of chemicals, fibers and plastics. Mr. Kling s employment agreement with the Company is described in this proxy statement under Executive Compensation Compensation Discussion and Analysis Employment Agreements.

***James O. Rollans,*** age 67, has served as a director since 1997. He serves as the Chairman of the Audit Committee and as a member of the Corporate Governance and Nominating Committee. He is an independent corporate director and corporate financial advisor. Mr. Rollans was President and Chief Executive Officer of Fluor Signature Services, a subsidiary of Fluor Corporation, a major engineering, procurement and construction firm, from 1999 to 2001. He served as Senior Vice President of Fluor Corporation from 1992 to 1999, as its Chief Financial Officer from 1998 to 1999 and from 1992 to 1994, as its Chief Administrative Officer from 1994 to 1998 and as its Vice President of Corporate Communications from 1982 to 1992. Mr. Rollans is also a director of Encore Credit Corporation, a mortgage finance company, and a director of Advanced Medical Optics, Inc., a developer and manufacturer of ophthalmic surgical and contact lens care products.

### Directors Serving a Term Expiring at the 2011 Annual Meeting of Shareholders

***John R. Friedery,*** age 52, has served as a director since August 2007 and serves as a member of the Audit Committee. Mr. Friedery is currently Senior Vice President, Ball Corporation; President, Metal Beverage Packaging, Americas and Asia, a provider of metal and plastic packaging for beverages, foods and

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household products, and of aerospace and other technologies services. He previously served as the Chief Operating Officer, Packaging Products Americas, and the President, Metal Beverage Container operations, as well as other leadership roles in Ball Corporation since 1988. Prior to his employment with Ball Corporation, he served in field operations for Dresser/Atlas Well Services and in operations, exploration and production for Nondorf Oil and Gas.

***Joe E. Harlan,*** age 49, was elected as a director in August 2007 and serves as a member of the Finance Committee. Mr. Harlan is currently the Executive Vice President, Electro and Communications Business with 3M Company, a technology solutions provider to the electrical, electronics and communications markets worldwide. He served as President and Chief Executive Officer of Sumitomo 3M Ltd., an industrial chemicals manufacturer, from 2003 to 2004. Prior to his career with 3M Company, he held a number of leadership positions with General Electric Company, including serving as Vice President of Finance for GE Lighting Group (USA).

***Michael F. Johnston,*** age 61, has served as a director since 1997. He serves as Chairman of the Finance Committee and as a member of the Corporate Governance and Nominating Committee. Mr. Johnston served as the Chief Executive Officer, through May 2008, and as the Chairman of the Board, through November 2008, of Visteon Corporation ( Visteon ), an automotive components supplier, and has served as Visteon s President, Chief Executive Officer and Chief Operating Officer at various times since 2000. Before joining Visteon, he was employed by Johnson Controls, Inc., a company serving the automotive and building services industry, as President of North America/Asia Pacific, Automotive Systems Group, from 1999 to 2000, President of Americas Automotive Group from 1997 to 1999 and in other senior management positions since 1991. Mr. Johnston is also a director of Visteon and a director of Whirlpool Corporation, an appliance manufacturer.

***Kevin E. Sheehan,*** age 63, has served as a director since 1990. He serves as non-executive Chairman of the Board of Directors and also serves as a member of the Finance Committee. He also serves as an alternate director of all other committees for any committee member not in attendance at a committee meeting. He served as the Company s Interim Chairman, President and Chief Executive Officer from April 2005 to August 2005. He is a partner in Cambridge Ventures, a venture capital firm focused on investments in early stage growth companies. He is the Board Chairman of Contour Hardening, a private company connected with Cambridge Ventures. Prior to joining Cambridge Ventures, he was Managing Director of CID Capital for 12 years. Before joining CID Capital in 1994, Mr. Sheehan was employed by Cummins Engine Company, a manufacturer of diesel engines and related components, for 22 years in various management capacities.

Directors Serving a Term Expiring at the 2010 Annual Meeting of Shareholders

***Gayla J. Delly,*** age 49, has served as director since January 2008 and serves as a member of the Audit Committee. Ms. Delly currently is President of Benchmark Electronics Inc., a company that provides contract manufacturing, design, engineering, test and distribution services to manufacturers of computers, medical devices, telecommunications equipment and industrial control and test instruments. Ms. Delly is a certified public accountant. She previously served as Executive Vice President and Chief Financial Officer of Benchmark Electronics Inc., a leading provider of electronics manufacturing services, from 2001 to 2006, and as Corporate Controller and Treasurer from 1995 to 2001. Prior to joining Benchmark Electronics Inc., Ms. Delly served as a Senior Manager in the Audit Group of KPMG.

***Rick J. Mills,*** age 61, has served as a director since 2007 and serves as a member of the Audit Committee. He served as a Vice President of Cummins Inc., a manufacturer of large diesel engines, and President of the Components Group at Cummins Inc., through March 2008. He was Vice President and President Filtration Business from 2000 to 2005 and held other key management positions at Cummins Inc. from 1970 to 2000. Mr. Mills is also a director and member of the Audit Committee and Nominating and Governance Committee of

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Rohm and Haas, a global company producing specialty chemical polymers and biologically active compounds, and a director and member of the Audit Committee of GERDAU Ameristeel, the second largest mini-mill steel producer in North America.

***Charles M. Rampacek,*** age 65, has served as a director since 1998. He serves as the Chairman of the Corporate Governance and Nominating Committee and as a member of the Organization and Compensation Committee. Mr. Rampacek is currently a business and management consultant in the energy industry. Mr. Rampacek served as the Chairman of the Board, President and Chief Executive Officer of Probex Corporation ( Probex ), an energy technology company providing proprietary oil recovery services, from 2000 to 2003. From 1996 to 2000, Mr. Rampacek served as President and Chief Executive Officer of Lyondell-Citgo Refining, L.P., a manufacturer of petroleum products. From 1982 to 1995, he held various executive positions with Tenneco Inc. and its energy related subsidiaries, including President of Tenneco Gas Transportation Company, Executive Vice President of Tenneco Gas Operations and Senior Vice President of Refining. Mr. Rampacek is also a member of the Board of Directors of Enterprise Products GP, LLC, which is the general partner of Enterprise Products Partners L.P., a publicly-traded limited partnership that provides mid-stream services for the oil and gas industry, and serves on its Audit, Conflicts and Governance Committee.

***William C. Rusnack,*** age 64, has served as a director since 1997 and serves as Chairman of the Organization and Compensation Committee and as a member of the Corporate Governance and Nominating Committee. He is currently a private investor and independent corporate director. Mr. Rusnack was President, Chief Executive Officer, Chief Operating Officer and director of Premcor Inc., one of the largest independent oil refiners in the U.S., from 1998 to 2002. Before joining Premcor, Inc., Mr. Rusnack served for 31 years with Atlantic Richfield Company, ( ARCO ), an integrated petroleum company, most recently as Senior Vice President of ARCO from 1990 to 1998 and President of ARCO Products Company from 1993 to 1998. He is also a director and member of the Corporate Governance and Executive Committees, as well as Chairman of the Organization and Compensation Committee, of Sempra Energy, an energy services company, and is a director and member of the Executive Committee, as well as Chairman of the Audit Committee, of Peabody Energy, a coal mining company.

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

***Diane C. Harris,*** age 66, has served as a director since 1993 and serves as a member of the Finance Committee. She is President of Hypotenuse Enterprises, Inc., a mergers and acquisitions service and corporate development outsourcing company. Ms. Harris was Vice President of Corporate Development of Bausch & Lomb Incorporated, an optics and health care products company, from 1981 to 1996, when she left to form Hypotenuse Enterprises, Inc., a mergers and acquisitions advisory and consulting firm, as its President. She was a director of the Association for Corporate Growth from 1993 to 1998 and its elected President from 1997 to 1998. Through 2008, Ms. Harris was also a director of the Monroe Fund, a private investment company. Ms. Harris will retire from the Board effective as of the date of the 2009 Annual Meeting, which is the end of her current term. We thank Ms. Harris for her many years of exemplary service on the Board, including as a former Chairperson of the Audit/Finance Committee.

ROLE OF THE BOARD; CORPORATE GOVERNANCE MATTERS

It is of utmost importance that the Board fulfills its duty to oversee the Chief Executive Officer and other senior management in the competent and ethical operation of the Company on a day-to-day basis and ensure that the Company s shareholders best interests are being served. In satisfaction of this duty, the Board has established internal guidelines designed to promote effective oversight of the Company s material business affairs that the Board monitors and updates, as deemed appropriate.

The guidelines set parameters for the director recruiting process and the composition of Board committees. They also determine the formal process for review and evaluation of the Chief Executive Officer, individual directors and the Board s performance. The guidelines also establish targets for director equity ownership. Additionally, these guidelines require a director to offer his or her resignation when such director s principal occupation changes during a term of office. Under such circumstances, the Corporate Governance and Nominating Committee will review whether it is appropriate for the director to continue serving on the Board. Finally, these guidelines establish maximum term and age limits for directors, which may be waived by the Board if deemed appropriate.

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

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

The Board s Corporate Governance Guidelines, as well as the Company s Code of Ethics and Code of Business Conduct, are available on the Company s website at **www.flowserve.com** under the Investor Relations Governance caption. These documents are also available in print at no cost to any shareholder who submits a written request to: Flowserve Corporation, 5215 N. O Connor Blvd., Suite 2300, Attention: Investor Relations, Irving, Texas 75039.

Non-Executive Chairman of the Board

The Company currently separates the positions of Chairman of the Board and Chief Executive Officer. Kevin E. Sheehan, the Company s current non-executive Chairman of the Board, presides over the meetings of the Board, including executive sessions of the Board where only non-employee directors are present. He reviews and approves the agendas for Board meetings among his other duties as Chairman of the Board. He also serves as a member of the Finance Committee and as an alternate member for all other Board committees. Mr. Sheehan generally attends all committee meetings when possible.

Meetings of the Board

The Board held eight regular meetings and three special meetings in 2008. Executive sessions of non-employee directors are normally held at each regular Board meeting. Any non-employee director may request that additional executive sessions be scheduled. Shareholders may communicate with the Company s non-employee directors by following the instructions set forth under Shareholder Communications with the Board below.

Board members customarily have attended the Company s annual meetings of shareholders. With the exception of Mr. Johnston, each Board member attended the Company s 2008 annual meeting of

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shareholders. In 2008, each director attended over 75% of the meetings of the Board held during the period for which he or she has been a director and the meetings of the Board committees on which he or she served.

Shareholder Communications with the Board

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

COMMITTEES OF THE BOARD

The Board maintains an Audit Committee, a Finance Committee, a Corporate Governance and Nominating Committee ( CG&N Committee ) and an Organization and Compensation Committee ( O&C Committee ). Only independent directors are eligible to serve on Board committees.

Each committee is governed by a written charter. The charters of the Audit Committee, Finance Committee, CG&N Committee and O&C Committee are available on the Company s website at **www.flowserve.com** under the Investor Relations Governance caption. These documents are also available in print at no cost to any shareholder who submits a written request to: Flowserve Corporation, Attention: Investor Relations, 5215 N. O Connor Blvd., Suite 2300, Irving, Texas 75039.

Audit Committee

The Audit Committee is composed of four directors, James O. Rollans (Chairman), Gayla J. Delly, John R. Friedery and Rick J. Mills. The Board has determined that Mr. Rollans, former Chief Financial Officer of Fluor Corporation, is a qualified audit committee financial expert under SEC rules and has accounting or related financial management expertise for purposes of the NYSE corporate governance listing standards. The Board has also determined that all members of the Audit Committee are financially literate, within the meaning of the NYSE corporate governance listing standards, and meet the independence standards set forth in the SEC rules and the NYSE corporate governance listing standards.

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

The Audit Committee meets regularly with the external and internal auditors in executive sessions to discuss their reports on a confidential basis. In addition, the Audit Committee prepares and issues the Report of the Audit Committee included in this proxy statement. The Audit Committee met eight times in 2008.

Finance Committee

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

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The Finance Committee advises the Board on all corporate financing and related treasury matters regarding capital structure and major corporate transactions. The Finance Committee monitors corporate risk-management programs and approves major capital expenditures made by the Company. The Finance Committee also advises the Board on the Company s pension fund performance. The Finance Committee met eight times in 2008.

Corporate Governance and Nominating Committee

The CG&N Committee is composed of four directors, Charles M. Rampacek (Chairman), Michael F. Johnston, James O. Rollans and William C. Rusnack. The Board has determined that all members of the CG&N Committee met the independence standards set forth in the NYSE corporate governance listing standards.

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

All identified candidates, including shareholder-recommended candidates, as applicable, are evaluated by the CG&N Committee using generally the same methods and criteria, although those methods and criteria may vary from time to time depending on the CG&N Committee s assessment of the Company s needs and current situation. A shareholder desiring to recommend a candidate for election to the Board should submit a notice, as required by the Company s By-laws, including the candidate s name and qualifications to our Corporate Secretary, who will refer the recommendation to the CG&N Committee. The CG&N Committee may require any shareholder-recommended candidate to furnish such other information as may reasonably be required to determine the eligibility of such recommended candidate or to assist in evaluating the recommended candidate. The CG&N Committee may require the submission of a fully completed and signed Questionnaire for Directors and Executive Officers on the Company s standard form and a written consent by the shareholder-recommended candidate to serve as a director if so elected.

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

The CG&N Committee is also responsible for preparing materials for the annual Chief Executive Officer s performance review conducted by the Board. Further, the CG&N Committee reviews and recommends, as deemed appropriate, changes to the Company s corporate governance policies consistent with SEC rules and the NYSE corporate governance listing standards. The CG&N Committee met two times in 2008.

Organization and Compensation Committee

The O&C Committee is composed of three directors, William C. Rusnack (Chairman), Roger L. Fix and Charles M. Rampacek. The Board has determined that all members of the O&C Committee met the independence standards set forth in the NYSE corporate governance listing standards.

The O&C Committee is responsible for establishing executive compensation for officers, including the Chief Executive Officer and other corporate officers. As further discussed under Executive Compensation, decisions regarding compensation are made by the O&C Committee in a manner that is intended to be internally equitable, externally competitive and an incentive for effective performance in the best interests of shareholders. The O&C Committee is the administrator of the Company s stock option plan, restricted common stock and stock unit plans and incentive compensation plans for key employees. The O&C Committee may, under certain circumstances, delegate routine or ministerial activities under these plans to management. The O&C Committee also reviews the recommendations of the Chief Executive Officer and the Senior Vice President, Human Resources, regarding adjustments to the Company s executive compensation programs. The O&C Committee has retained and regularly meets with its independent executive compensation consultant, Lyons, Benenson & Company Inc., which assists the O&C Committee in evaluating the Company s compensation programs and adherence to the philosophies and principles stated below under Executive Compensation Compensation Discussion and Analysis. The O&C Committee is also responsible for reviewing the management succession plan and for recommending changes in director compensation to the Board. The O&C Committee periodically reviews the organizational design, management development plans and managerial capabilities of the Company. The O&C Committee also prepares and issues the Organization and Compensation Committee Report included in this proxy statement. The O&C Committee met six times in 2008.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2008, the members of the O&C Committee included Christopher A. Bartlett, Roger L. Fix, Charles M. Rampacek and William C. Rusnack. Mr. Bartlett served as a member of the O&C Committee during 2007 and the early part of 2008 until retiring from the Board as of the 2008 annual meeting of shareholders. None of the members of the O&C Committee were at any time during 2008 an officer or employee of the Company. None of our executive officers serve as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or O&C Committee.

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EXECUTIVE OFFICERS AND OTHER CORPORATE OFFICERS

The following sets forth certain information regarding the Company s executive officers and other corporate officers. Information pertaining to Mr. Kling, who is both a director and executive officer of the Company, may be found above under Board of Directors Biographical Information Nominees to Serve a Term Expiring at the 2012 Annual Meeting of Shareholders.

| Name | Age | Position With the Company |
|---|---|---|
| Lewis M. Kling | 64 | President, Chief Executive Officer and Director |
| Kyle B. Ahlfinger | 50 | Vice President and Chief Marketing Officer |
| Andrew J. Beall | 52 | President, Flow Solutions Division and Chief Information Officer |
| Deborah K. Bethune | 50 | Vice President, Tax |
| Mark A. Blinn | 47 | Senior Vice President, Chief Financial Officer and Latin America Operations |
| Mark D. Dailey | 50 | Senior Vice President, Human Resources and Chief Compliance Officer |
| Paul W. Fehlman | 45 | Vice President of Investor Relations, Financial Planning and Analysis and Treasurer |
| Thomas E. Ferguson | 52 | Senior Vice President and President, Flowserve Pump Division |
| Richard J. Guiltinan, Jr. | 55 | Vice President and Chief Accounting Officer |
| Thomas L. Pajonas | 53 | Senior Vice President and President, Flow Control Division |
| Jerry L. Rockstroh | 53 | Senior Vice President, Supply Chain and Continuous Improvement Process |
| Lars E. Rosene | 41 | Vice President, Public Affairs and Chief Sustainability Officer |
| Ronald F. Shuff | 56 | Senior Vice President, Secretary and General Counsel |

***Kyle B. Ahlfinger*** has served as Vice President and Chief Marketing Officer since May 2007. He served as Vice President of Marketing for the Flow Control Division from 2005 to 2007. Prior to that, he served with Rockwell Automation, an industrial automation control and information solutions company, as the Director of Marketing from 2003 to 2005, as Director of Business Development 2002 to 2003 and an international assignment as Director of Market and Channel Development Europe/Middle East/Africa Region from 2000 to 2002.

***Andrew J. Beall*** has served as Senior Vice President since December 2006, President of Flow Solutions Division since 2003 and Chief Information Officer since October 2008. He served as Vice President from 2003 to December 2006. From 1994 to 2003, Mr. Beall served in a number of key domestic and international management positions with the Company including as Vice President of Flowserve, Pump Division, Flow Solutions Division and Flow Control Division in Latin America from 1999 to 2003.

***Deborah K. Bethune*** has served as Vice President, Tax since 2004. She was employed previously with Electronic Data Systems Corporation, a leading global technology services provider, for 17 years, where she held several tax management positions, most recently as the Director of International Taxes for the Americas and Asia Pacific regions.

***Mark A. Blinn*** has served as Senior Vice President since December 2006, Chief Financial Officer since 2004 and in Latin America Operations since November 2007. He served as Vice President from 2004 to December 2006. He was employed previously as the Chief Financial Officer of FedEx Kinko s Office and Print Services,

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Inc., an international shipping and printing company, from 2003 to 2004 and as Vice President and Treasurer of Kinko s, Inc. from 2002 to 2003. Mr. Blinn also served as Vice President and Chief Accounting Officer of Centex Corporation, a home building company, from 2000 to 2002 and as Managing Director of Corporate Finance since 1999.

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

***Paul W. Fehlman*** has served as Vice President of Investor Relations, Financial Planning and Analysis since February 2009 and Treasurer since 2005. He served as the Company s Director of Financial Services and Assistant Treasurer from 2000 to 2005.

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

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

***Thomas L. Pajonas*** has served as Senior Vice President since December 2006 and President of Flow Control Division since 2004. He served as Vice President from 2004 to December 2006. He was previously employed as Managing Director of Alstom Transport, a supplier of rail products, from 2003 to 2004 and Senior Vice President from 1999 to 2003 of the Worldwide Power Boiler Business of Alstom, Inc. From 1996 to 1999 he served in various capacities as Senior Vice President and General Manager International Operations and subsequently Senior Vice President and General Manager Standard Boilers Worldwide of Asea Brown Boveri, a technology-based provider of power and automation products.

***Jerry L. Rockstroh*** has served as Senior Vice President of Supply Chain and Continuous Improvement Process since December 2006. He served as Vice President of Supply Chain and Continuous Improvement Process since late 2005 to December 2006 and as Vice President of Supply Chain during 2005. From September 1983 to February 2005, he served in various executive level positions within different business units of AlliedSignal/Honeywell, an aerospace, automotive and technology engineering firm, including as Global Vice President of Operations and Integrated Supply Chain.

***Lars E. Rosene*** has served as Vice President Public Affairs and Chief Sustainability Officer since February 2009. He served as Vice President Global Communications and Public Affairs from May 2007 to February 2009 and as Director of Public Affairs from 2005 to 2007. Prior to his service with the Company, from 2002 to 2005 Mr. Rosene served as Vice President and Director of Public Affairs and Communications for Citigroup.

***Ronald F. Shuff*** has served as Senior Vice President since December 2006, Secretary since 1989 and General Counsel since 1988. He served as Vice President of the Company from 1990 to December 2006.

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# EXECUTIVE COMPENSATION

## COMPENSATION DISCUSSION AND ANALYSIS

The following is an overview and analysis of our executive compensation program and policies, the material compensation decisions we have made under our program and policies and the material factors that we considered in making those decisions. Following this discussion are presented a series of tables containing specific information about the compensation earned or paid in 2008 to our Chief Executive Officer, our Chief Financial Officer and our three other most highly-compensated executive officers serving at the end of 2008, whom we collectively refer to throughout this document as our Named Executive Officers. During 2008, our Named Executive Officers were:

- President and Chief Executive Officer, Lewis M. Kling;
- Senior Vice President, Chief Financial Officer and Latin America Operations, Mark A. Blinn;
- Senior Vice President and President of Flow Control Division, Thomas L. Pajonas;
- Senior Vice President and President of Flowserve Pump Division, Thomas E. Ferguson; and
- Senior Vice President, Human Resources and Chief Compliance Officer, Mark D. Dailey.

This Compensation Discussion and Analysis is intended to facilitate a better understanding of the detailed information provided in our executive compensation tables that follow by analyzing such data within the context of our overall compensation program.

### Oversight of the Executive Compensation Program

Our executive compensation program is administered by the O&C Committee. Consistent with the NYSE corporate governance listing standards, the O&C Committee is composed entirely of independent, non-employee members of the Board. In addition, the non-executive Chairman of the Board generally attends the meetings of the O&C Committee.

As reflected in its charter, the O&C Committee has overall responsibility for setting the compensation for our Chief Executive Officer and for approving the compensation of our other executive officers, including the Named Executive Officers. The O&C Committee also oversees the alignment of organizational design and management development in support of achieving our operational objectives and strategic plans and monitors the policies, practices and processes designed to develop our core organizational capabilities and managerial competencies.

The O&C Committee has retained and regularly meets with its independent executive compensation consultant, Lyons, Benenson & Company Inc. ( LB&Co ). LB&Co assists and advises the O&C Committee on all aspects of the executive compensation program, and they provide no other services on our behalf. The services they provide entail, among other matters, providing and analyzing competitive compensation data, analyzing the effectiveness of executive compensation programs and making recommendations as appropriate, assisting in the design and negotiation of certain employment agreements, analyzing the appropriateness of the comparator high performance peer group (discussed below), and evaluating how well our compensation programs adhere to the philosophies and principles stated below under Our Executive Compensation Principles and Policies.

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The O&C Committee is also responsible for reviewing the management succession plan and for recommending changes in director compensation to the Board. On matters pertaining to director compensation, the O&C Committee also receives data, advice and counsel from LB&Co. The O&C Committee periodically reviews the organizational design, management development plans and managerial capabilities of the Company. The O&C Committee also prepares and issues the Organization and Compensation Committee Report included in this proxy statement.

Executive Compensation Program Objectives

Our key compensation objectives are to attract and retain key leaders, reward current performance, drive future performance and align the long-term interests of our executives with those of our shareholders. As discussed in detail below, we use several different compensation elements to achieve these objectives, including base salary, annual incentives and long-term incentives (including a long-term cash incentive plan, restricted common stock and contingent performance shares). While the individual compensation elements may differ, the design of the executive compensation program is based on the same principles and objectives as the overall compensation program provided to all of our employees.

Our Executive Compensation Principles and Policies

The O&C Committee is responsible for establishing the principles that underlie our executive compensation program and that guide the design and administration of specific plans, agreements and arrangements for our executives, including the Named Executive Officers. Our compensation principles are intended to attract and retain valuable executive talent and thereafter motivate our executives to add long-term shareholder value through improving our financial position and being personally accountable for the performance of the business units, divisions or functions for which they are responsible. Our executive compensation principles and policies, which are established and refined from time to time by the O&C Committee, are described below.

***Compensation Should Reinforce Our Business Objectives and Values.***

Our overarching business objective is to profitably grow our position as a product and integrated solutions provider in the flow control industry. Seven strategies for achieving this objective are communicated to all our employees. These strategies include (and are referred to in this proxy statement as our seven strategies): organic growth; strategic acquisitions; globalization; process excellence; portfolio management; organizational capability; and technology/innovation. The O&C Committee considers these strategies when identifying the appropriate incentive measures and when assigning individual goals and objectives to the Named Executive Officers.

***Compensation Should be Performance-Based.***

The O&C Committee believes that a significant portion of our executives total compensation should be tied not only to how well they perform individually, but also, where applicable, should be at risk based on how well their respective divisions and the Company perform in accordance with applicable financial and non-financial objectives. As such, the O&C Committee uses a variety of targeted performance-based compensation vehicles in our executive compensation program that are specifically designed to incorporate performance criteria that promote our annual operating plan and long-term business strategy, which builds long-term shareholder value.

As the O&C Committee believes that there should be a strong correlation between executive pay and Company performance, in years when our performance exceeds objectives established for the relevant performance

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period, executive officers should be paid more than the established target award. Conversely, when performance does not meet the established objectives, incentive award payments should be less than the established target level or eliminated altogether if performance is below the minimum threshold performance levels.

***Performance-Based Compensation Should be Benchmarked Against Comparative Companies.***

The O&C Committee believes that the use of internal performance metrics alone yields an incomplete picture of Company performance. Accordingly, the performance-based element of our executive compensation program also emphasizes and evaluates the Company s performance relative to organizations in a benchmark high performance peer group of high performance cyclical industrial manufacturers. This evaluation serves as a means to assess, on a comparative basis, how well we deliver results that build long-term shareholder value, which in turn allows us to better establish the performance expectations of senior management in leading the Company.

Our high performance peer group, which was last modified in 2007, is reevaluated on a cyclical basis by the O&C Committee, and a detailed process is followed in identifying and evaluating organizations appropriate for inclusion. This process begins by compiling an initial sample of potential comparator organizations from the following: current competitors; industries based on relevant SIC codes; the Fortune 1000 Industrial and Farm Equipment; and the S&P 1500 Industrial. Once the initial comparator sample is compiled, a top-down, multi-stage filtering approach is then utilized to distill the comparator sample and establish the final high performance peer group. The first filter applied to the initial sample imposes a revenue requirement of between $750 million and $15 billion. In order to ensure inclusion of high performing organizations, a second filter is applied using minimum key financial performance metrics, including revenue growth, return on net assets (or RONA ), operating cash flow, operating margin and total shareholder return (or TSR ). Three of these four measures are required by the filter to be above the industrial median. Finally, in order to ensure the high performance peer group is focused appropriately from an operations perspective, a third filter is applied that assesses key operational and strategic aspects, including debt to equity ratios, net property, plant and equipment as a percentage of revenue (one of these two measures was required by the filter to be above the industrial median), goodwill as a percentage of revenue (greater than 25th percentile), multinational presence (greater than 20%), dividends as a percentage of TSR (less than 50%) and organic sales growth figures (greater than 50%). Finally, the O&C Committee will consider direct competitors that fail to pass one or two filters but outperform the Company in both key financial metrics and TSR.

As the result of this analysis and for purposes of establishing certain performance-based components of our executive compensation program, our high performance peer group consists of the following companies:

| | |
|---|---|
| Crane Co. | ITT Industries Inc. |
| Curtiss-Wright Corp. | Lincoln Electric Holdings Inc. |
| Danaher Corp. | Moog Inc. |
| Donaldson Co Inc. | PACCAR Inc. |
| Eaton Corp. | Pentair Inc. |
| Gardner-Denver | Rockwell Automation Inc. |
| IDEX Corporation | Watts Water Technology |
| Illinois Tool Works Inc. | Weir Group Plc |

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While changes are made to the high performance peer group when appropriate, in the interest of having a more consistent and functional benchmarking standard, the O&C Committee prefers to keep the high performance peer group as constant as possible, following a cyclical review process. The next scheduled review is anticipated to take place later in 2009.

***Compensation Levels Should be Market Competitive.***

To further implement the compensation and performance principles described above, namely the attraction and retention of executive talent and the addition of long-term shareholder value, at least once each year the O&C Committee reviews compensation survey data compiled and prepared by management and its consultant, which is also reviewed by LB&Co, to evaluate how and whether our executive compensation program is market competitive. The survey data used by the O&C Committee is gathered from two key sources: (i) proxy information for comparable executive positions within the high performance peer group, as identified above, and (ii) information from a broad group of durable goods manufacturing companies using Hewitt Associates Total Compensation Measurement[tm] survey (the Hewitt Survey ). The O&C Committee does not limit its market analysis to survey data relating only to the organizations in our high performance peer group because of the limited scope of available compensation data and the recognition that potential candidates for qualified executives, as well as market opportunities for our current executives, are not necessarily limited to companies in our industry sectors.

The O&C Committee uses this survey data to benchmark our executives base salary, annual bonus opportunities, total cash compensation, long-term incentive compensation and total direct compensation. Additionally, the O&C Committee uses the survey data to evaluate how, for each executive position, the O&C Committee s compensation actions are appropriate, reasonable and consistent with the Company s philosophy, practices and policies, considering the various labor markets in which we compete for executives.

The O&C Committee believes that setting target compensation levels at the market median balances our interests in maintaining market competitive compensation and organizational efficiency. As such, total target-direct compensation (i.e., base salary, target annual incentive opportunity and target long-term incentive compensation) for our executives is generally set at the 50th percentile base salary and 50th percentile target annual incentive for both comparison groups listed above, and long-term incentive compensation is set at the 50th percentile opportunity of the high performance peer group and 75th percentile opportunity of the broad market taken from the Hewitt Survey. As the targets for long-term incentive compensation are set based on the high performance peer group, the O&C Committee believes it is appropriate to use a higher percentile than used when comparing to the broader market. In utilizing and adhering to these compensation benchmarks, the O&C Committee thus establishes goals for both absolute and relative Company performance that may be at or above median performance, so that performance and compensation may be objectively determined at the end of the performance period. As discussed, actual total direct compensation, which may be at, above or below the competitive median, varies and is determined by performance against these pre-established measures and objectives.

***Incentive Compensation Should Represent the Majority of Total Compensation.***

The O&C Committee believes that the proportion of an executive s total compensation that varies, or is at risk, based on individual, division, function and/or corporate performance should increase as the scope and level of the executive s business responsibilities increase. Accordingly, for 2008, on average 72.0% of the total target-direct compensation of the Named Executive Officers at the time of award was tied to our stock price or our performance. The percentages of each Named Executive Officer s total target-direct compensation for 2008 that was at risk as of the time of award is presented in the following table, and are calculated by dividing (i) the sum of

the annual incentive opportunity and target long-term incentive opportunity by (ii) the sum of the annual incentive opportunity and target long-term incentive opportunity and base salary.

| Named Executive Officer | Fiscal 2008 Pay At Risk (%) |
|---|---|
| Lewis M. Kling | 80% |
| Mark A. Blinn | 72% |
| Thomas L. Pajonas | 70% |
| Thomas E. Ferguson | 70% |
| Mark D. Dailey | 68% |

***Incentive Compensation Should be Balanced Between Short-Term and Long-Term Performance.***

As stated above, the O&C Committee believes that executive compensation should be linked to building long-term shareholder value while remaining consistent with our business objectives and values. Our executive compensation program addresses this objective by including long-term incentives in the form of equity-based awards, such as restricted common stock and contingent performance shares, which serves to include the performance of the Company s common stock as a targeted incentive. As discussed in further detail below, we have also established minimum stock ownership requirements for our executives that carry associated penalties when our executives do not comply.

The O&C Committee also recognizes, however, that while stock prices may relate to corporate performance over the long term, other factors, such as general economic conditions, industry business cycles and varying attitudes among investors toward the stock market in general and specific industries and/or companies in particular, may significantly affect stock prices at any point in time. The influence of these other factors makes performance of the Company s common stock alone an incomplete measure of the Company s performance. Accordingly, the annual cash components of the executive compensation program, which consist of base salary and annual cash incentive opportunities, emphasize current or short-term corporate performance and the realization of defined business and financial objectives, which tend to be independent of short-term fluctuations in the price of the Company s common stock.

Over the past several years, the O&C Committee has maintained the ratio of base salary and annual cash incentive opportunity (short-term focus compensation) to long-term incentive compensation (long- term focus compensation) at approximately 2:3 for our Chief Executive Officer and approximately 1:1 for all other Named Executive Officers. The O&C Committee believes that these ratios appropriately align the executives compensation with the Company s short-term and long-term performance, as they provide each Named Executive Officer a competitive amount of cash compensation each year (with the opportunity to increase that amount if he or she exceeds annual incentive objectives), complemented by an opportunity to earn a substantial amount of additional compensation if the Company and the executives are successful in achieving the Company s long-term objectives. The O&C Committee believes the higher proportion of long-term incentive compensation for the Chief Executive Officer reflects the global governance and management role, and the accompanying risks, held by Mr. Kling.

***The Mix of Long-Term Incentives Should Balance Stock- and Financial-Based Achievements.***

In 2008, our long-term incentive awards for the Named Executive Officers took the form of an equally-weighted mix of restricted common stock, which generally vest ratably over time, and contingent performance shares, which generally vest at the expiration of a 3-year performance period based on RONA performance. The O&C

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Committee has determined that this long-term incentive mix is appropriate because it encourages long-term equity ownership, promotes a balance between stock-based and financial-based achievements and aligns the interests of the Named Executive Officers with those of our shareholders.

While the O&C Committee approved the guidelines for determining the value of long-term incentive awards in 2007, the O&C Committee may in the future make adjustments to this mix of award types or approve different types of awards as part of its overall long-term incentive program. Any review of the long-term incentive program would be undertaken as part of the established practice of annually approving and granting equity awards to the long-term incentive plan participants at the O&C Committee s annual compensation review, as discussed below.

***Executive Compensation Program is Reviewed Annually for Effectiveness.***

At the first regular committee meeting following our fiscal year end, the O&C Committee undertakes a comprehensive review of all components of our executive compensation program, with the input of LB&Co, in light of evolving market practices in the general industry, external regulatory requirements, the competitive market for executives and our executive compensation philosophy. In conducting its review, the O&C Committee will review information related to each executive officer s income and benefits, including base salary, target incentive, perquisites, retirement income and health and welfare benefits.

Elements of the Executive Compensation Program

*Overview.* The primary elements of the Company s executive compensation program in 2008 were:

- base salary;
- an annual incentive opportunity, which is paid in cash;
- long-term incentives (including restricted common stock, contingent performance shares and stock ownership requirements);
- pension plan;
- severance benefits;
- change-in-control plan; and
- certain perquisites and other benefits.

The O&C Committee s process of reviewing the executive compensation program and setting compensation levels for our Named Executive Officers involves several components. During the first quarter of each year, the O&C Committee reviews each Named Executive Officer s total compensation. The O&C Committee members also meet regularly with the Named Executive Officers at various times during the year, both formally within Board meetings and informally outside of Board meetings, which allows the O&C Committee to assess directly each Named Executive Officer s performance. The O&C Committee also solicits input from all non-employee members of the Board as to the Chief Executive Officer s performance during the year. The O&C Committee further reviews appraisal forms completed by all Board members, which set forth the Board s overall annual-performance assessment of the Chief Executive Officer, and are used in considering the compensation for the Chief Executive Officer. In addition, the Chief Executive Officer annually presents his evaluation of each Named Executive Officer to the O&C Committee, which includes a review of each officer s contributions and performance over the past year, strengths, weaknesses, development plans and succession potential. The Chief Executive Officer also presents compensation recommendations for the O&C Committee s consideration. Following this presentation and a review of the competitive market for pay, the O&C Committee makes its own

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assessments and formulates compensation amounts for each Named Executive Officer with respect to each of the elements in the Company s executive compensation program as described below.

*Base Salary.* During the first quarter of each year, the O&C Committee reviews and establishes the base salaries of the Named Executive Officers. The O&C Committee has established and maintains base salary market reference points for the Company s various executive positions indicated by the compensation survey data compiled and prepared by management and independently reviewed by LB&Co. For each Named Executive Officer, the O&C Committee takes into account the scope of his or her responsibilities, experience and individual performance and then balances these factors against competitive salary practices. The O&C Committee also considers internal pay equity on an annual basis within the Company with respect to the other executives, also referencing external benchmarks provided by LB&Co. The O&C Committee did not assign any relative or specific weights to these factors. Because we are committed to a pay-for-performance philosophy, the O&C Committee generally manages base salary levels to the market median of companies within the high performance peer group.

Based on the factors discussed above, Mr. Kling s base salary was increased by 7.0% for 2008, and the base salary increases for the other Named Executive Officers ranged from 7.0% to 15.2% (as shown in the following table).

| Named Executive Officer | 2008 Base Salary Increase % |
|---|---|
| Lewis M. Kling | 7.0% |
| Mark A. Blinn | 7.0% |
| Thomas L. Pajonas | 7.4% |
| Thomas E. Ferguson | 15.2% |
| Mark D. Dailey | 11.0% |

The base salaries paid to the Named Executive Officers during 2008 are shown in the Summary Compensation Table under the Salary column. Mr. Kling s base salary and the other components of his compensation in 2008 are discussed below in further detail under Chief Executive Officer Compensation in 2008.

*Annual Incentive Opportunity.* During the first quarter of each year, the O&C Committee establishes an annual cash incentive opportunity for each Named Executive Officer under the Company s Annual Incentive Plan. At that time, the O&C Committee approves: (i) the overall Company performance measures for the fiscal year; (ii) the divisional performance measures for the fiscal year; and (iii) a target annual incentive opportunity for each Named Executive Officer.

*Setting Company Performance Measures.* The O&C Committee, working with the Chief Executive Officer and LB&Co, sets the performance measures for the Company for each fiscal year. In order to ensure that the primary focus of the Named Executive Officers was setting the overall strategic direction of the Company and achieving overall Company results aligned to support building shareholder value, the O&C Committee agreed that each Named Executive Officer s performance should be evaluated based on the results of the Company as a whole. As such, the Company s performance measures established for 2008 were as follows:

| 2008 Performance Measures | Weighting | 2008 Target (in millions) |
|---|---|---|
| Operating Income | 75.0% | $ 463.8 |
| Cash Flows from Operations | 25.0% | $ 244.8 |

The metrics presented in the table above were evaluated using pre-defined internal criteria that coincide in all material respects with the Company s audited financial results. Additionally, the O&C Committee may exercise its judgment, within pre-established parameters, in whether to include the effect of certain specified extraordinary events in determining the extent to which the performance objectives are met.

Where applicable, annual incentive awards are paid in March for the prior year s performance based upon the O&C Committee s assessment of actual performance during the prior year against the pre-established Company performance objectives. For 2008, the performance measures for annual incentive awards were based on internally-defined metrics based on operating income and cash flow. The O&C Committee selected these measures, with input from management, because these performance metrics support the seven strategies that we believe drive sustainable and profitable Company growth (as discussed under Our Executive Compensation Principles and Policies above). A more in-depth description of the O&C Committee s decisions with respect to the annual incentive awards paid to each Named Executive Officer for 2008 follows.

100% of the preliminary annual incentive award determination for each Named Executive Officer was based upon his performance against these objectives.

*Setting a Target Incentive Opportunity.* Each year, the O&C Committee establishes a target annual incentive opportunity for each Named Executive Officer, which is expressed as a percentage of the executive s base salary. For 2008, the target annual incentive opportunity was set at 100% for the Chief Executive Officer and 60% for all other Named Executive Officers except for Mr. Dailey, who has a target of 50%. These targets are agreed upon by the O&C Committee in consultation with LB&Co and in adherence to our stated executive compensation principles and policies.

*Measuring Performance and Establishing Payout.* Following the analysis of the Company s performance compared to all applicable Company and division performance measures for a given year, the O&C Committee establishes a payout range around each executive s target annual incentive opportunity. The payout range ultimately determines the percentage of the target incentive to be paid, based on a percentage of performance measure achievement, with an established upper limitation and a minimum below which no payment will be made.

The 2008 payout range established for each Named Executive Officer was 0% to 200% of his respective target award opportunity. The actual payout percentage is determined using a matrix that compares how the Company performed against the established performance measures for the year (referred to as plan ). The following table provides example matrix points of percentage of target award opportunity paid out at different threshold levels of Company performance against plan. In addition to Company performance against plan, the Chief Executive Officer can make a recommendation to increase or decrease an award based on achievement of individual performance objectives for each Named Executive Officer. The column Individual Payout Range in the following table reflects the individual variations in percentage of target payout that can occur based on this recommendation and potential O&C Committee modifications, as discussed below.

| **Company Performance** | **% of Target Payout** | **Individual Payout Range** |
|---|---|---|
| <85% Plan | 0% | n/a |
| 85% Plan | 60% | 45% 75% |
| 100% Plan | 100% | 75% 125% |

| | | | |
|---|---|---|---|
| >125% Plan | 200% | 150% | 250% |

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After the end of 2008, the O&C Committee reviewed the Company s actual performance against each of the performance objectives established at the beginning of the year. The O&C Committee noted that the Company s performance in 2008 was strong, evidenced by, among other things, a 19% increase in sales over 2007, a 50% increase in operating income over 2007 to $612.9 million, representing approximately 132% of plan, a 280 basis point increase in operating margin over 2007 and cash flows from operations of $406.0 million, representing approximately 166% of plan. Consistent with the goal of aligning awards with performance, the O&C Committee determined the target annual incentive opportunity percentage payout for each Named Executive Officer in accordance with the actual achievement of Company and division performance measures. In determining the extent to which these performance objectives were met for 2008, the O&C Committee exercised its judgment, within pre-established parameters set by the O&C Committee, whether to reflect or exclude the impact of certain specified developments that may have occurred during the year, such as unanticipated changes in accounting principles or extraordinary, unusual or other unplanned events that have been reported in the Company s public filings. The O&C Committee decided that no such adjustments were necessary in 2008, with the exception of deleting the impact of a small acquisition from the computation, which did not increase the maximum amount payable under any award. As a result of this analysis, the preliminary annual incentive award percentage payout for the Chief Executive Officer and all other Named Executive Officers was 200% of their target annual incentive opportunity.

While 100% of the preliminary annual incentive award determination is based on the O&C Committee s assessment of performance against our Company s and divisions performance measures, the O&C Committee may also modify a Named Executive Officer s award based on an assessment of individual contribution to our performance, as well as individual performance in relation to any extraordinary events or transactions. The O&C Committee considers the aforementioned Chief Executive Officer s assessments and recommendations as to other Named Executive Officers when determining these adjustments. In assessing the Named Executive Officers for 2008, the Board evaluated each Named Executive Officer as having exceeded expectations, based on the specific individual objectives outlined in the following table, which were established and communicated to the Named Executive Officers at the beginning of 2008.

| **Officer** | **Objectives** |
|---|---|
| Lewis M. Kling | 1. Meet 2008 budget objectives.<br>2. Refine Flowserve s long-term strategy for profitable growth.<br>3. Advance Flowserve s human capital programs and processes.<br>4. Promote continuous business portfolio review.<br>5. Accelerate profitable impact of high growth markets. |

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All of the Chief Executive Officer s objectives listed above, with the exception of (4) and (5), are shared by all Named Executive Officers. In addition to those listed above, each Named Executive Officer has the following specific individual objectives:

| | |
|---|---|
| Mark A. Blinn | Develop strategy and improve operational performance for Latin America operations.<br>Maintain continuous involvement with customers, shareholders and analysts to ensure maximum exposure and credibility of Flowserve. |
| Thomas L. Pajonas | Maintain continuous involvement with customers, shareholders and analysts to ensure maximum exposure and credibility of Flowserve. |
| Thomas E. Ferguson | Maintain continuous involvement with customers, shareholders and analysts to ensure maximum exposure and credibility of Flowserve. |
| Mark D. Dailey | Drive the Global Employee Management System (GEMS) as the system of record.<br>Implement new succession planning, performance management and learning management systems.<br>Continue to enhance and deploy Flowserve s Ethics and Compliance culture. |

In 2008, the O&C Committee increased the preliminary annual incentive award payouts for each of the Named Executive Officers by 19.0% based on its assessment of each such executive s performance against specific objectives that supported our seven strategies (as discussed above under Our Executive Compensation Principles and Policies ). The annual incentive awards the Company paid to the Named Executive Officers for 2008 are reported below in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column.

The O&C Committee believes that the Named Executive Officers 2008 annual incentive awards are consistent with the Company s strategy of rewarding its executives for the achievement of important and challenging business goals. The O&C Committee feels the annual incentive award calculations resulted in performance-related bonus annual payments to the Named Executive Officers that the O&C Committee deemed clearly earned under objective criteria and reasonable in view of the Company s strong 2008 performance.

*Long-Term Incentives.* Our long-term incentive program rewards the Named Executive Officers for the Company s performance over a period of more than one fiscal year. Beginning in 2007 and continuing through 2008, our long-term incentive program consists of two components: time-vested restricted common stock awards and contingent performance share units. In 2008, all Named Executive Officers received their long-term incentive awards in this form, except for Mr. Kling, who received time-vested restricted share units and contingent performance common stock, as more fully discussed under Chief Executive Officer Compensation in 2008.

Prior to 2007, the Company s long-term incentive program included a cash component. This cash component consisted of a target award that paid out within a range of 0% to 300% of the target based on the Company s three-year RONA, operating margin and sales growth performance. In 2006, the O&C Committee approved the

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termination of this cash component of the long-term incentive program in conjunction with the restructuring of our long-term incentive program to include the time-vested restricted common stock awards and contingent performance share units. The final cash component target under this plan was established in February 2006 and referenced a performance period of 2006 2008. Due to the Company s financial performance against the aforementioned metrics during this performance period, the final awards under this program paid out at 286.5% of the established target and were paid in March 2009. Each of the Named Executive Officers participated in this plan in 2006, and the amounts received are included, along with the annual incentive awards described above, in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table below.

As previously discussed, the O&C Committee believes that long-term incentive compensation is essential to retaining and motivating executives. The O&C Committee further believes that providing our executives with long-term incentives will encourage them to operate the Company s business with a view towards building long-term shareholder value. Based on these considerations, the O&C Committee determined that for 2008, an equity award combination consisting of approximately one-half in value of restricted common stock and one-half in value of contingent performance shares would best serve the goals that the O&C Committee sought to achieve for 2008. The awards are granted subject to a pre-approved total target pool of restricted share awards available to employees eligible to participate in the long-term incentive program.

Each year, the O&C Committee establishes a target long-term incentive opportunity for each Named Executive Officer, which is expressed as a percentage of the executive s base salary. During the first quarter of each year, the O&C Committee determines the aggregate equivalent dollar value of the long-term incentive award for each Named Executive Officer and then makes annual grants of restricted common stock and contingent performance shares, as appropriate. The equity awards are made after the O&C Committee has had an opportunity to evaluate the Company s operating results for the prior year and at the same time that the Company is making its major compensation decisions for the current fiscal year. The O&C Committee may increase or decrease a Named Executive Officer s time-vested restricted common stock award (but not the contingent performance share award) based on an assessment of his individual contribution to the Company s results and, for Named Executive Officers other than the Chief Executive Officer, after considering the recommendations of the Chief Executive Officer. These adjustments must be based on individual performance relative to the Company s seven strategic initiatives. In addition to adjustments made to the restricted stock awards of other plan participants, the O&C Committee will not grant awards in the aggregate in excess of the pre-approved total target pool of available restricted shares by more than 10% without specific advance approval of the increase.

In determining the aggregate equivalent dollar value available for individual long-term incentive awards, and the aggregate amount of total awards available for our executives, the O&C Committee considers both the target dollar value of the long-term incentive package and the package s potential dilutive effect on the Company s outstanding shares of common stock. The O&C Committee first sets the target dollar value of the long-term incentive package for each Named Executive Officer and, in doing so, considers data from durable-goods manufacturing companies using the Hewitt Survey and proxy information from the Company s high performance peer group, as previously described. We generally provide long-term incentive awards at target levels that approximate the 50th percentile of competitive practice within the high performance peer group and the 75th percentile of durable goods manufacturing companies, based on the O&C Committee s review of high performance peer group materials and data provided by LB&Co.

Once the target dollar value is set as described above, the O&C Committee next considers the potential dilutive effect of awards on the Company s outstanding shares of common stock. The O&C Committee evaluates shareholder dilution based on equity compensation burn rates, which means the annual rate at which shares are awarded under our shareholder approved stock compensation plans as compared to the total amount of the

Company s outstanding common stock. The O&C Committee then compares the rate to those of the companies in the high performance peer group, guidelines used by certain institutional shareholder advisory services and the advice of LB&Co. Generally, the O&C Committee targets a maximum Company-wide burn rate of 1.0% of the Company s outstanding common stock for each annual grant of long-term incentive awards for all Company employees. Based on projections of equity awards to be made to employees during the balance of 2008, the O&C Committee determined that it could make the proposed awards to the Named Executive Officers and the projected additional awards to employees and still remain comfortably within the Company s guideline of an annual burn rate on the order of 1.0% of the Company s outstanding common stock.

In past years, the O&C Committee has established the practice of annually approving and granting equity awards to long-term incentive plan participants at the O&C Committee s meeting held in the first quarter of the year. Based on the criteria described above, the O&C Committee met on March 7, 2008 and approved a target long-term incentive opportunity of 300% of base salary for the Chief Executive Officer, 200% of base salary for the Chief Financial Officer and 165% of base salary for all other Named Executive Officers.

The material terms and conditions of these equity awards are determined under the provisions of our equity compensation plans that were approved previously by our shareholders. These plans are included as exhibits to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC on February 25, 2009 (the Annual Report ), which can be found on the Company s website at **www.flowserve.com** under the Investors Relations SEC Filings caption.

*Restricted Common Stock Awards.* Starting in 2004, the O&C Committee began granting restricted common stock awards that vest ratably over time to replace a portion of the annual cash long-term incentive opportunities and stock option awards, with the intent of providing comparable value to our executives. The O&C Committee believes that introducing the restricted common stock component provides a better balance for executives between risk and potential reward, thus serving as a more effective incentive for our superior executive performers to remain with the Company and continue such performance.

Target restricted common stock grants to the Named Executive Officers (except Mr. Kling, who received time-based restricted share units for the same purpose) in 2008 represented approximately one-half of the executives total target long-term incentive opportunity. Target grants were determined by dividing this portion of the executive s long-term incentive opportunity by the price of the Company s common stock, which was calculated by taking an average of closing prices reported on the NYSE during the last twenty trading days of 2007.

Restricted common stock awards (or restricted share units for Mr. Kling) will only be earned by a Named Executive Officer if the individual continues to be employed by the Company until the applicable vesting dates of the awards. During the restriction periods, the Named Executive Officers holding unvested restricted common stock are entitled to vote the shares and to receive dividends on the shares, if any, on the same basis as the Company s shareholders holding unrestricted stock. Holders of restricted share units, such as Mr. Kling, do not have voting rights on the units and are entitled to receive dividend accruals.

The accounting expenses recorded in accordance with accounting principles generally accepted in the United States ( GAAP ) of the restricted common stock awards and restricted common stock units earned by the Named Executive Officers during 2008 pursuant to Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payment, are shown in the Summary Compensation Table under the Stock Awards column. Additional information on the awards granted in 2008, including the number of shares subject to each award and its full grant date fair value, is shown in the 2008 Grants of Plan-Based Awards table.

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*Contingent Performance Share Awards.* Contingent performance shares are restricted share units that vest, if at all, based on the Company s achievement of pre-determined financial metrics, measured over a three-year performance period, in relation to the high performance peer group s achievement of these same financial metrics at the time of measurement. Until vesting, holders of contingent performance share units do not have voting rights on the units and are entitled to receive dividend accruals. Mr. Kling s contingent performance restricted stock is not eligible to receive dividends and does not have voting rights. The O&C Committee believes that these performance-based awards, as compared to restricted common stock that vest ratably over time, provide a stronger incentive for our executives to achieve specific performance goals over the performance period that advance our business strategies, build long-term shareholder value and encourage executive retention, as these awards are subject to forfeiture if the executive s employment terminates for any reason other than death, disability or retirement before the end of the three-year performance period or if the performance goals are not reached.

Target contingent performance share grants to the Named Executive Officers (except Mr. Kling, who received contingent performance restricted stock for the same purpose) in 2008 represented approximately one-half of the executives total target long-term incentive opportunity. As with the restricted common stock grants, target grants were determined by dividing this portion of the executive s long-term incentive opportunity by the price of the Company s common stock, which was calculated by taking an average of closing prices reported on the NYSE during the last twenty trading days of 2007.

In 2008, the O&C Committee approved contingent performance share long-term incentive opportunities (or counterpart contingent performance restricted stock for Mr. Kling) that will vest in March 2011 based on the Company s achievement of a three-year RONA performance relative to the high performance peer group s RONA performance. The O&C Committee believes that RONA is a financial measure that is more highly correlated to shareholder value creation than other financial measures, such as more simplistic return on equity measures, particularly when compared to the high performance peer group. The O&C Committee also believes that tying vesting amounts to comparisons with the high performance peer group, rather than the market in general, will ensure that performance is measured in a more transparent manner and will not benefit disproportionately from general market movement.

Prior to the granting of contingent performance share awards (or counterpart contingent performance restricted stock for Mr. Kling) each year, the O&C Committee establishes a vesting percentage range around each executive s target long-term incentive opportunity allocated to the contingent performance shares that is based on the Company s RONA performance relative to the high performance peer group. This vesting percentage range has an established upper limitation and a minimum below which no shares will vest. Similar to the annual cash incentive awards, the percentage vesting range ultimately determines the amount of contingent performance shares that actually vest relative to the original award amount.

For 2008, the vesting percentage range established for each Named Executive Officer was 0% to 200% of his respective target long-term incentive opportunity allocated to the contingent performance shares. In order to achieve a target (100%) vesting percentage, the Company must achieve an average RONA over the three-year performance period equivalent to 100% of the RONA average of the high performance peer group. To illustrate, if the high performance peer group had an average 15.0% RONA over the performance period, then the Company would have to achieve a 15.0% RONA over the same period to achieve a target vesting percentage. The following table illustrates the vesting percentage of the contingent performance

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shares at different levels of Company RONA performance relative to the average RONA performance of the high performance peer group.

| Company RONA Performance v. High Performance Peer Group RONA Performance | Target Vesting % |
|---|---|
| <85% of RONA Avg. | 0 % |
| 85% of RONA Avg. | 50 % |
| 100% of RONA Avg. | 100 % |
| 120% of RONA Avg. | 200 % |

*Stock Ownership Requirements.* The executive compensation program requires that the Company s executives own a minimum amount of Company common stock. The O&C Committee believes that this ownership requirement encourages the executives to act like owners by requiring them to acquire and maintain a meaningful stake in the Company and thereby promotes the Company s objective of building long-term shareholder value.

The stock ownership requirements are designed to maintain management stock ownership at levels high enough to indicate management s commitment to share value appreciation to our shareholders while satisfying an individual executive s prudent needs for personal asset diversification. The stock ownership requirements are set by the O&C Committee as a result of a competitive analysis prepared by management and reviewed by LB&Co, and the requirements are reviewed each year and updated as necessary. The requirements were last updated by the O&C Committee in 2008.

The ownership requirements mandate that our executives, over time, acquire and hold shares of the Company s common stock equal in value to a multiple of their respective annual base salary. The Company s current stock ownership requirements for the Named Executive Officers and the share value of these ownership requirements are shown in the following table.

| Named Executive Officer | Ownership Requirement | Required Investment at 12/31/2008 (# of Shares)(1) |
|---|---|---|
| Lewis M. Kling | 5 x Annual Base Salary | 45,718 |
| Mark A. Blinn | 3 x Annual Base Salary | 13,994 |
| Thomas L. Pajonas | 3 x Annual Base Salary | 12,355 |
| Thomas E. Ferguson | 3 x Annual Base Salary | 12,355 |
| Mark D. Dailey | 3 x Annual Base Salary | 10,628 |

(1) Based on an average price per share of $112.91, which is calculated using the average closing prices of our common stock between May 1st and October 31st of 2008, as reported by the NYSE. Shares have been rounded up to the nearest whole share.

The required stock ownership levels are expected to be achieved within five years from the date the guidelines are first applicable or within five years of the executive joining the Company. Recognizing the time required to achieve the ownership requirements, the O&C Committee approved the establishment of an interim retention requirement. Executives who do not meet the ownership requirement must show that they have retained at least 60% of the vested restricted common stock, vested contingent performance shares and exercised stock options granted during their employment with the Company. All Named

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Executive Officers have met their required stock ownership requirements for 2008, with the exception of Mark Blinn. In accordance with our policy, Mr. Blinn received a 20% reduction to the 2009 long-term incentive award he would have otherwise received had his ownership requirements been met.

The O&C Committee reviews these stock ownership requirements on an annual basis and monitors the executives progress toward meeting their target ownerships levels. Shares held directly by an executive count toward satisfying the requirements. The share equivalent of vested and unexercised stock options and shares held in the Flowserve Corporation Non-Qualified Deferred Compensation Plan also count toward satisfying the stock ownership requirements. Unvested restricted common stock and unvested contingent performance shares are not counted toward satisfying the stock ownership requirements.

*Flowserve Corporation Pension Plans.* We provide pension benefits to U.S. salaried employees under the Flowserve Corporation Pension Plan (the Qualified Plan ), which is a tax-qualified cash balance pension plan, subject to funding requirements, vesting rules and maximum benefit limitations of the Employee Retirement Income Security Act of 1974, as amended ( ERISA ). The Named Executive Officers participate in the Qualified Plan on the same terms as the rest of our U.S. salaried employees. Because the Internal Revenue Code of 1986, as amended (the Code ), limits the pension benefits (based on an annual compensation limit) that can be accrued under a tax-qualified pension plan, we established and maintain a partially funded, non-qualified defined benefit restoration pension plan, the Senior Management Retirement Plan (the SMRP ), for our executives, including the Named Executive Officers, to compensate these individuals for the reduction in their pension benefit resulting from this limitation. The SMRP is purely a restoration plan to provide comparable level retirement benefits to those provided to other U.S. employees based on a comparable benefit formula. In addition, we also established and maintain a second partially-funded, non-qualified supplemental defined benefit pension plan, the Supplemental Executive Retirement Plan (the SERP ), for our U.S. executives, including the Named Executive Officers, to maintain a total retirement benefit level that is competitive with general industry companies similar in size. These programs are designed to provide U.S. executives with income following retirement and to ensure that we are able to attract and retain executive talent by providing comprehensive retirement benefits.

On July 1, 1999, the Qualified Plan was converted to a cash balance design. Since then, participants in the Qualified Plan and the SMRP accrue contribution credits based on age and years of service at the rate of 3% to 7% for eligible earnings up to the Social Security wage base, and at the rate of 6% to 12% for eligible earnings in excess of the Social Security wage base. Participants in the SERP accrue contribution credits at the rate of 5% of all eligible earnings. Eligible earnings include base salary and annual incentive award. SERP participants also earn interest on the accrued cash balance based on the rate of return on 10-year Treasury bills, with the exception of Thomas E. Ferguson who, because of his age and service as of July 1, 1999, was provided a guaranteed interest rate under a grandfather provision applicable to similarly situated U.S. salaried employees.

The actuarial present value of the accumulated pension benefits of the Named Executive Officers as of the end of 2008, as well as other information about the Company s defined benefit pension plans, is shown in the 2008 Pension Benefits table below. For a discussion regarding the valuation method and assumptions used in quantifying the present value of the current accrued pension benefits, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Pension and Postretirement Benefits Obligations Accrual Accounting and Significant Assumptions in the Company s Annual Report.

*Review and Assessment of Compensation Under Termination Scenarios.* The O&C Committee also reviews each Named Executive Officer s total compensation under several scenarios including a change-in-control of the Company, termination of employment by management and resignation or retirement by the executive. Tally sheets setting forth all of the listed scenarios are prepared by management and reviewed by the O&C

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Committee with input from LB&Co. Based on the O&C Committee s review of the tally sheets, the O&C Committee determined that the potential payments that would be provided to the Named Executive Officers were consistent with our executive compensation principles and policies.

*Flowserve Corporation Executive Officer Change-in-Control Severance Plan.* To ensure that the Named Executive Officers receive financial protection in the event of the loss of their positions following a transaction that involves a change in the ownership or control of the Company, and to provide security with respect to their long-term incentive compensation arrangements, the Flowserve Corporation Executive Change-in-Control Severance Plan (the CIC Plan ) provides certain specified severance benefits to the Named Executive Officers, including Mr. Kling. These benefits are triggered if, within two years following a change-in-control of the Company (as defined in the CIC Plan), the employment of the Named Executive Officer is terminated involuntarily other than for cause, death or disability, or for reasons constituting a constructive termination. In addition, benefits are triggered when a Named Executive Officer is terminated within the 90-day period immediately prior to a change-in-control if such termination (i) occurs after the initiation of discussions leading to such change-in-control and (ii) can be demonstrated to have occurred at the request or initiation of parties to such change-in-control.

Upon the occurrence of the change-in-control and without a requirement that the Named Executive Officer s employment be terminated, all then-outstanding unvested equity awards (including stock options, restricted common stock and contingent performance share awards) will fully vest.

The severance benefits provided upon a termination of employment covered under the CIC Plan include:

- A target bonus or target annual incentive award in effect at the time of termination (or if higher, at the time of the change-in-control), pro-rated based on the number of days the Named Executive Officer was employed during the performance period.

- A lump sum cash payment equal to three times the sum of the executive s then-current annual base salary and target bonus or other annual incentive award. For purposes of this calculation, the base salary shall be the highest of: (i) the highest-annualized monthly base salary during the twelve months preceding the termination; (ii) the base salary in effect on the date of termination; and (iii) the base salary in effect on the date of the change-in-control. For purposes of this calculation, the target bonus or annual incentive award shall be the higher of the target bonus or annual incentive award in effect on (i) the date of termination or (ii) the date of the change-in-control.

- Payment of awards granted under the long-term incentive program and any other stock option or other stock-based long-term incentive award that have been earned and not yet paid, pursuant to the terms of the applicable plan.

- Full vesting at target of each stock option or other stock-based long-term incentive award. Named Executive Officers have 90 days following the date of employment termination to exercise vested stock options.

- Continuation of participation in the life insurance, medical, health and accident benefit plans for a period of up to three years following the date of termination.

- Calculation of benefits under the Company s defined benefit pension plan including supplemental retirement plan benefits with three years added to the executive s years of service and age for retirement purposes.

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A tax gross-up payment sufficient to compensate the executive for the amount of any excise tax imposed by Section 4999 of the Code and for any taxes imposed on such additional payment.

The benefits under the CIC Plan, if payable, are in lieu of severance benefits payable to Mr. Kling under his employment agreement and the Officer Severance Plan described below under Officer Severance Plan. Additional information regarding the CIC Plan can be found below under the heading Potential Payments Upon Termination or Change-in-Control.

The O&C Committee believes that it is in the best interests of the Company and its shareholders to offer such a plan to its Named Executive Officers and other executives, including the Named Executive Officers. The Company competes for executives in a highly competitive market in which companies routinely offer similar benefits to senior employees. The O&C Committee views these amounts as reasonable and appropriate for the Named Executive Officers, who may not be in a position to obtain comparable employment. The O&C Committee also believes that these benefits are important to encourage executives to support a change-in-control transaction if the Board deems the transaction to be in the best interest of our shareholders.

In the O&C Committee s view, the accelerated vesting of all outstanding equity awards in connection with a change-in-control of the Company is currently a customary and reasonable component of a comprehensive change-in-control benefits program plan, but the O&C Committee will continue to review this matter. The O&C Committee believes that the equity awards granted to our executives have been reasonable in amount and are a substantial part of the value that would be received by them in the event of a change-in-control of the Company, in lieu of benefiting from the likely future increase in the price of our common stock over the years. The O&C Committee believes that accelerating vesting is appropriate since the current executive team s performance would have been responsible for this anticipated share price increase and benefit to future shareholder value.

Our Qualified Plan also confers competitive post-employment benefits to the executives upon a change-in-control. The additional years of credited service and additional age credit for purposes of determining an individual s benefits under the plan compensate that individual upon his early termination from the plan.

The potential tax gross-up payment, while potentially substantial and possibly resulting in the Company s loss of a tax deduction of compensation expense, is only applicable in the event of a change-in-control of the Company. In the O&C Committee s view, it is an appropriate method for the Company to offset the effects of a 20% excise tax levied by federal income tax laws on certain income paid to executives in such circumstances. The potential tax gross-up payment will change from time to time based on several factors, including the executive s W-2 earnings, unvested equity value and our stock price.

The O&C Committee reviews the plan periodically to evaluate both its effectiveness and competitiveness and to determine the value of potential awards. This analysis and assessment of competitiveness is reviewed by LB&Co.

The amount of the estimated payments and benefits payable to the Named Executive Officers, assuming a change-in-control of the Company and a qualifying termination of employment as of the last day of 2008 and other information regarding the plan is discussed in Potential Payments Upon Termination or Change-in-Control.

*Perquisites and Other Benefits.* Our executive compensation program includes limited executive perquisites and other benefits. The aggregate incremental cost of providing perquisites and other benefits to the Named Executive Officers is included in the Summary Compensation Table under the All Other Compensation

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column and related footnotes. As previously discussed, the O&C Committee strives to make our executive compensation program primarily performance-based, and as such has taken steps to reduce the perquisites to our executives. The O&C Committee believes that the perquisites and other executive benefits that we continue to provide are competitive with the level of benefits offered by the companies with which we compete for executive talent, and as such serves to meet our stated objective of attracting and retaining executive talent. In addition, some of the perquisites are, in the O&C Committee s view, provided for the Company s benefit notwithstanding any personal benefit an executive may derive. A discussion and analysis of perquisites provided in 2008 follows.

*Personal Use of Corporate Aircraft.* Our global presence places heightened travel demands on our executives, and we own minority interests in several corporate jets through time-share programs to help meet these demands. Our corporate aircraft are used primarily for business purposes, and any personal use of our corporate aircraft must be approved in advance by the Board. The Board has permitted Mr. Kling limited personal use of our corporate aircraft, and the value of any personal travel has been imputed to him as income in accordance with Internal Revenue Service ( IRS ) guidelines. No other Named Executive Officers used our corporate aircraft for personal use in 2008.

Since our interests in the aircraft are time-based, we calculate the aggregate incremental cost of personal corporate aircraft usage on a per hour basis, as flight hours used for personal travel reduce hours available for business travel. Our methodology calculates an average incremental cost per flight hour over a given year, which includes fuel, crew expenses, on-board catering, landing fees, hangar/parking fees and smaller variable costs, and multiplies that average cost by the hours used. This methodology has the effect of treating certain associated costs as incremental to a greater extent than would be the case if we owned or leased the aircraft and treated such costs as fixed or allocated them ratably per flight. For fiscal 2008, our average incremental cost per flight hour for this purpose was $4,712.

*Executive Physicals.* All Named Executive Officers were eligible to receive an annual physical examination. We believe this is a standard benefit provided by comparative companies.

*Financial Counseling.* The Chief Executive Officer and the Named Executive Officers were eligible for an annual financial-planning fee reimbursement benefit of up to $12,500 for the Chief Executive Officer and $8,500 for all other Named Executive Officers. We believe this to be a standard benefit provided by comparative companies.

*Enhanced Vacation.* All Named Executive Officers are eligible to receive an enhanced vacation benefit. Each officer is eligible for a minimum of four weeks vacation and may receive more, if the officer s years of service so qualify under the Company s regular employee vacation award schedule.

*Non-Qualified Deferred Compensation Plan.* Prior to 2008, the Flowserve Corporation Deferred Compensation Plan (the Deferral Plan ) was available to all U.S. employees who met the IRS definition of a highly compensated employee. The Deferral Plan allowed eligible participants, including the Named Executive Officers, to elect, at their discretion, to defer payment of a portion of their salary and all or a portion of their annual incentive award and to have these deferred amounts treated as if invested in specified hypothetical investment benchmarks. Participants are entitled to direct the manner in which their deferral accounts will be deemed to be invested by selecting among hypothetical investment benchmarks chosen by the Pension and Investment Committee, the administrators of the Deferral Plan. Generally, there are no vesting requirements on deferred amounts or earnings on deferred amounts. The Company did not make any contributions to the plan.

Effective December 31, 2007, the Deferral Plan was frozen. Accordingly, no deferrals were made by any executives, including the Named Executive Officers, in 2008, and no further deferrals may be made. Existing participant account balances will remain within the Deferral Plan and remain subject to future appreciation or depreciation until the balances are distributed on or after the participant s termination of employment with the Company.

With respect to amounts deferred prior to December 31, 2004, participants may voluntarily elect to withdraw all of the balance in their accounts. If a participant elects to withdraw such amounts, the Company will pay an amount equal to 90% of the balance in the participant s deferral account in a lump sum in cash, and the participant will forfeit the remainder of such deferral account. With respect to amounts deferred after December 31, 2004, participants may not voluntarily elect to withdraw any portion of the balance in their accounts.

In prior years, executives may have deferred significant amounts of their salary and annual incentive awards, which minimized the reduction in the federal income tax deduction available to the Company, as the compensation deferred was not subject to Section 162(m) of the Code limitation until the year paid. Total deferral account balances as of the end of 2008 are shown in the 2008 Non-Qualified Deferred Compensation table below.

Changes in the Executive Compensation Program

Following the O&C Committee s annual review of our executive compensation program in 2008, the O&C Committee concluded, in consultation with LB&Co, that all elements of the executive compensation program were consistent with our stated executive compensation principles and policies, and no changes were necessary.

Employment Agreements

Consistent with its compensation philosophy, the Company generally does not enter into employment agreements with its executives, who are considered to serve at the will of the Board. The only exceptions to this policy are the individual employment agreements with the Chief Executive Officer, Lewis M. Kling, and with the Chief Financial Officer, Mark A. Blinn.

*Employment Agreement with Lewis M. Kling.* The Company entered into an employment agreement with Mr. Kling in connection with his promotion to President and Chief Executive Officer of the Company on July 28, 2005. The agreement was for a minimum of three years with automatic renewal for one year periods. On May 29, 2007, the Company entered into a renewal employment agreement with Mr. Kling that expires on February 28, 2010. In connection with Mr. Kling s renewal employment agreement, the Company granted Mr. Kling a one-time grant of 50,000 shares of performance-based restricted common stock, half of which vest on the basis of the Company s average RONA performance over the three-year period ending December 31, 2012, and half of which vest on the average TSR for the same period, both as determined by the O&C Committee. The employment agreement with Mr. Kling provides for a base salary, an annual target bonus, participation in the Company s long-term incentive program, benefits and perquisites on the same level as other executives, retirement plan benefits and severance benefits in the event of his termination, as described in greater detail under Potential Payments Upon Termination or Change-in-Control Lewis M. Kling Employment Agreement Special Termination Benefits. The employment agreement also incorporates non-compete and non-solicitation provisions, which will remain in effect for a period of one year following a termination of employment for any reason.

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Pursuant to Mr. Kling s employment agreement, in the event Mr. Kling is terminated by the Company without cause or if he terminates employment for good reason, as defined in the agreement, Mr. Kling will be provided the following severance benefits: (i) a lump-sum payout equal to the sum of his annual base salary and the annual bonus that he earned in the year prior to the year of termination, (ii) a pro-rated annual bonus award, based on his target bonus award percentage, (iii) immediate vesting on all unvested stock-based awards, (iv) a target payout of all cash-based performance plan awards and (v) full vesting of his non-qualified pension benefit.

Mr. Kling does not participate in the Officer Severance Plan described below, but he does participate in the CIC Plan.

*Employment Agreement with Mark A. Blinn.* The Company entered into an employment agreement with Mr. Blinn on May 7, 2007 that provides for special retention arrangements. Mr. Blinn s employment agreement is further described in this proxy statement under Potential Payments Upon Termination or Change-in-Control Mark A. Blinn Employment Agreement Special Termination Benefits. The O&C Committee approved special retention equity grants for Mr. Blinn, consisting of 30,000 shares of restricted common stock and options to purchase 30,000 shares of common stock with an exercise price of $52.25 per share, which was the fair market value on the grant date of December 14, 2006. Both the restricted common stock and the options will fully vest on December 14, 2009 if not earlier forfeited by a termination of Mr. Blinn s employment with the Company, except to the limited extent noted hereafter.

In addition, if Mr. Blinn is not promoted to the office of Chief Executive Officer upon Mr. Kling s departure, or if another person is appointed Chief Operating Officer prior to Mr. Kling s departure, then he may elect, prior to April 1, 2012, to resign with good reason (as defined in the employment agreement) and receive severance benefits as if he was terminated without cause under the Officer Severance Plan (defined below) described under Potential Payments Upon Termination or Change-in-Control Mark A. Blinn Employment Agreement Special Termination Benefits. Upon such resignation, all unvested restricted common stock and stock options granted to Mr. Blinn will automatically vest and any unvested contingent performance share units that are contingent upon specified levels of financial performance by the Company will expire. However, Mr. Blinn is obligated, if he elects to so resign, to continue to furnish up to an additional 120 days of transitional support to the Company, in his then current job function and at his then current salary, if requested by the Company.

Officer Severance Plan

In 2006, the Board of Directors and the O&C Committee approved and the Company adopted a revised severance plan for the Company s senior executive officers and other corporate officers, which was amended and restated in 2008 (the Officer Severance Plan ). Under the Officer Severance Plan, Company s officers are provided the following benefits for a termination of employment as a result of a reduction in force or if the executive is terminated without cause: (i) two years of the officer s current base salary, paid on a bi-weekly basis in accordance with the Company s regular salary payments and (ii) a lump sum payment, payable at the time annual incentive awards are paid to officers still employed by the Company, substantially equivalent to the annual incentive plan payment, at target, the officer would have otherwise received under the Company s annual incentive plan if the officer had been employed at the end of the applicable performance period and was otherwise eligible for a payment under the annual incentive plan. In addition, in order to receive such payments, the executive must execute a release and covenant not to sue and must continue to comply with a one year non-competition and non-solicitation agreement following his termination of employment. No benefits are payable under the Officer Severance Plan to any officer who receives benefits under the CIC Plan. In addition, Mr. Kling does not participate in the Officer Severance Plan.

The Officer Severance Plan replaced the Company s practice of each executive negotiating his severance package upon a termination of employment. The O&C Committee believes that the Officer Severance Plan is far superior to individual negotiations in the event of a termination of employment and adopted the Officer Severance Plan for that reason. The O&C Committee determined that the Company s former practice of not maintaining this type of formal severance program was not competitive in the current executive labor market.

In addition, to protect the Company s competitive position, each executive is required to sign an agreement with the Company that requires them to forfeit the proceeds from some or all of their long-term incentive awards if they engage in conduct that is detrimental to the Company. Detrimental conduct includes working for certain competitors, soliciting customers or employees after employment ends and disclosure of confidential information in a manner that may result in competitive harm to the Company.

Tax Implications of Executive Compensation

Section 162(m) of the Code limits to $1.0 million per year the federal income tax deduction to public corporations for compensation paid for any fiscal year to the Company s Chief Executive Officer and the three other most highly-compensated executive officers as of the end of the fiscal year included in the Summary Compensation Table, unless such compensation meets certain requirements. Approximately $6.6 million will be subjected to this limitation for the 2008 tax year and will, therefore, not be deductible on the Company s federal income tax return.

The cash-based Annual Incentive Plan was approved by shareholders at the 2007 annual meeting of shareholders. We expect to be allowed to deduct performance-based compensation beginning in 2008 for tax purposes based on the payments that are anticipated to be made as a result of performance during 2007 and thereafter relating to the Annual Incentive Plan.

Stock options under our existing plans are intended to comply with the rules under Section 162(m) for treatment as performance-based compensation. Therefore, we expect to be allowed to deduct compensation related to options granted under each of these plans.

The equity based long-term incentive program has been revised to comply with the rules under Section 162(m) and was approved at the 2007 annual meeting of shareholders. We expect to be allowed to deduct performance-based compensation granted under the equity based long-term incentive program, including the contingent performance shares, beginning with the grants awarded in 2007. These will be eligible for pay-out beginning in 2010; therefore, they should be deductible for tax purposes beginning in 2010.

The O&C Committee has considered and will continue to consider tax deductibility in structuring executive compensation arrangements. However, the O&C Committee retains discretion to establish executive compensation arrangements that it believes are consistent with its principles described earlier and in the best interests of the Company and our shareholders, even if those arrangements are not fully deductible under Section 162(m).

Accounting Implications of Executive Compensation

The Company recognizes compensation expense in our financial statements for all equity-based awards pursuant to the principles set forth in SFAS No. 123(R). The O&C Committee considered the GAAP accounting implications of the awards in setting the long-term incentive mix and further determined that the mix of time-vested restricted common stock and contingent performance shares was appropriate for 2008.

Chief Executive Officer Compensation in 2008

While the compensation of the Chief Executive Officer was set in a manner consistent with our compensation philosophy and the general compensation principles and policies discussed above, in the interests of providing shareholders with a better understanding of Mr. Kling s compensation for 2008, we are providing the following discussion and analysis.

In February 2008, the O&C Committee identified specific criteria for evaluating the Chief Executive Officer s performance during 2008. These criteria included stock performance, financial performance, strategic vision and leadership, including the development of human capital. In evaluating the Chief Executive Officer s performance in 2008, the O&C Committee Chairman gathered input from individual Board members during the Board s special executive session. During this session, the O&C Committee reviewed both the detailed compensation market data prepared by our Company s compensation consultant and LB&Co. The O&C Committee discussed and determined the following Chief Executive Officer compensation changes and awards in executive session with only O&C Committee members and LB&Co present. The O&C Committee also followed the principles and practices earlier discussed during the Board s special executive session to conduct the Chief Executive Officer performance review.

*Base Salary.* Mr. Kling s base salary was increased from $964,843 to $1,032,382 during 2008. This represented an increase of 7.0% over 2007 base salary.

*Annual Incentive Opportunity.* To recognize Mr. Kling s performance during 2008, the O&C Committee approved a cash award under the Annual Incentive Plan of $2,482,682. As discussed under Elements of the Executive Compensation Program Annual Incentive Opportunity Measuring Performance and Establishing Payout above, the actual payout represented 200% of Mr. Kling s target annual incentive opportunity, and was further increased by 19.0% by the O&C Committee in recognition of Mr. Kling s performance against his performance objectives during 2008.

*Long-Term Incentives.* In accordance with the principles and practices set forth earlier, the O&C Committee approved a long-term incentive award consisting of 14,990 shares of restricted common stock, contingent upon performance, and 21,740 restricted common stock units, which vest ratably over time, at the same time 2008 long-term incentive awards were made to key managers, including the Named Executive Officers. Mr. Kling s time-vested restricted common stock units award was increased by the O&C Committee in recognition of Mr. Kling s performance, consistent with our compensation principles and policies. Mr. Kling does not have the right to receive dividends on his contingent performance restricted common stock.

In addition, the O&C Committee approved a long-term incentive cash award of $2,549,850 for the 2006-2008 long-term cash performance cycle. As discussed above under Elements of the Executive Compensation Program Long Term Incentives above, the actual payout represented 286.5% of Mr. Kling s target award that was established in 2006. As also discussed above, the O&C Committee terminated this cash component of the long-term incentive program in 2006, and no further amounts will be paid under this program.

The O&C Committee reviews the Chief Executive Officer s total compensation package on an annual basis and analyzes it in view of competitive data provided by LB&Co, pay equity relative to the other Named Executive Officers and the Company s performance for the fiscal year. The O&C Committee plans to continue to annually disclose its Chief Executive Officer s and Named Executive Officers compensation adjustments and awards, including the rationale for these actions, in future proxy statements.

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## ORGANIZATION AND COMPENSATION COMMITTEE REPORT

The Organization and Compensation Committee of the Board of Directors of the Company is currently comprised of three independent directors, Roger L. Fix, Charles M. Rampacek and William C. Rusnack (Chairman).

The Organization and Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis, set forth above in this proxy statement, with management. Based on this review and discussion, the Organization and Compensation Committee recommended to the Board of Directors that this Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2008.

William C. Rusnack, Chairman
Roger L. Fix
Charles M. Rampacek

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SUMMARY COMPENSATION TABLE

The following table sets forth compensation information for 2008, 2007 and 2006 for our Named Executive Officers the individuals who served during 2008 as Chief Executive Officer and Chief Financial Officer of the Company and the three other most highly compensated executive officers of the Company.

| al Position | Year | Salary ($)(1) | Bonus ($)(2) | Stock Awards ($)(3) | Option Awards ($)(3) | Non-Equity Incentive Plan Compensation ($)(4) | Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)(5) | All Other Compensati ($)(6) |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 1,043,144 | | 6,018,888 | 376,738 | 5,032,532 | 531,009 | 438,130 |
| f | 2007 | 932,308 | | 3,811,797 | 1,177,152 | 2,312,256 | 343,467 | 87,812 |
| | 2006 | 883,846 | | 2,207,679 | 2,197,394 | 1,147,232 | 313,407 | 101,281 |
| | 2008 | 527,061 | | 1,989,023 | 278,900 | 1,467,139 | 149,367 | 96,457 |
| | 2007 | 472,846 | | 1,580,173 | 385,594 | 740,892 | 115,276 | 45,678 |
| ficer | 2006 | 443,308 | 450,250 | 632,933 | 341,895 | 360,941 | 108,404 | 38,443 |
| | 2008 | 468,368 | | 965,923 | 31,542 | 1,288,246 | 151,067 | 48,535 |
| sident of | 2007 | 414,555 | | 685,972 | 135,639 | 634,625 | 108,692 | 45,895 |
| sion | 2006 | 390,087 | 393,000 | 440,991 | 322,799 | 419,505 | 96,688 | 41,838 |
| on | 2008 | 463,328 | | 900,657 | 69,479 | 1,241,508 | 216,651 | 43,796 |
| sident of | 2007 | 383,569 | | 648,572 | 199,267 | 662,552 | 170,624 | 34,615 |
| ivision | 2006 | 364,226 | 368,000 | 461,678 | 389,606 | 388,735 | 207,931 | 37,009 |
| | 2008 | 400,824 | | 887,877 | 53,475 | 849,431 | 122,751 | 55,521 |
| Resources | | | | | | | | |
| nce Officer | | | | | | | | |

(1) Salary reported for 2008 represents amounts earned by the executive officers in 2008.

(2) The amounts reported in this column for 2006 represent retention payments paid out to executive officers under a Transitional Executive Security Plan, which both paid out and terminated in 2006.

(3) The amounts in these columns for 2008 reflect the expense of equity-based awards recognized in our 2008 financial statement reporting of awards pursuant to the equity compensation plans, in accordance with SFAS No. 123(R), and include amounts from awards granted both during and prior to 2008. Assumptions used in the calculation of these amounts are discussed in Note 7 to the Company s audited consolidated financial

statements for the fiscal year ended December 31, 2008, included in the Company s Annual Report.

(4) The 2008 amounts in this column represent an annual cash incentive bonus for 2008 under the Company s Annual Incentive Plan (Mr. Kling $2,482,682; Mr. Blinn $758,051; Mr. Pajonas $668,830; Mr. Ferguson $661,632; Mr. Dailey $476,981) and a long-term cash incentive award for the 2006-2008 long-term cash performance cycle (Mr. Kling $2,549,850; Mr. Blinn $709,088; Mr. Pajonas $619,416; Mr. Ferguson $579,876; Mr. Dailey $372,450), both of which were earned in 2008. The long-term cash incentive program was terminated in 2006, and these amounts represent the final payout of this program. These amounts were accrued in the Company s 2008 financial statements but were not actually paid to Messrs. Kling, Blinn, Pajonas, Ferguson and Dailey until March 2009.

(5) There were no above-market or preferential earnings with respect to any deferred compensation balances.

(6) The following table shows the components of this column for the Named Executive Officers, calculated at the aggregate incremental cost to the Company:

| Name | Retirement Plan Contributions | Insurance Premiums(A) | Dividends on Restricted Stock | Financial Counseling | Other | Total |
|---|---|---|---|---|---|---|
| Lewis M. Kling | $ 10,350 | $ 21,507 | $ 125,291 | | $ 280,982(B) | $ 438,130 |
| Mark A. Blinn | 10,350 | 15,820(C) | 61,488 | $ 5,915 | 2,884(D) | 96,457 |
| Thomas L. Pajonas | 10,350 | 12,124 | 20,828 | 4,960 | 273(E) | 48,535 |
| Thomas E. Ferguson | 10,350 | 12,353 | 16,405 | | 4,688(E) | 43,796 |
| Mark D. Dailey | 10,350 | 15,051(F) | 18,373 | 8,500 | 3,247(G) | 55,521 |

(A) Includes annual premiums for group term life insurance, the Company s portion of annual premiums for medical, dental and vision benefits and the Company s portion of disability premiums.

(B) Represents the aggregate incremental cost to the Company of Mr. Kling s 54.5 hours of corporate aircraft personal use in the amount of $276,063. The valuation methodology for the $4,712 per hour rate used for this purpose is more fully described under Elements of the Executive Compensation Program Perquisites and Other Benefits above. Also includes $4,480 attributable to an annual physical exam and $439 attributable to spousal travel.

(C) Includes $10,905 attributable to the Company s portion of annual premiums for medical, dental and vision benefits.

(D) Includes $2,500 attributable to an annual physical exam and $279 attributable to spousal travel.

(E) Attributable to spousal travel.

(F) Includes $10,905 attributable to the Company s portion of annual premiums for medical, dental and vision benefits.

(G) Includes $2,500 attributable to an annual physical exam and $747 attributable to spousal travel.

(7) The Company entered into an employment agreement with Mr. Kling as of July 28, 2005, whereby Mr. Kling agreed to serve as President and Chief Executive Officer beginning on August 1, 2005 and ending on July 31, 2008, with automatic renewal for one-year periods. The Company entered into a renewal employment agreement with Mr. Kling on May 29, 2007, as amended on November 19, 2008, that extended his employment date until February 28, 2010, which is more fully described under Employment Agreements Employment Agreement with Lewis M. Kling above.

(8) The Company entered into an employment agreement with Mr. Blinn on May 7, 2007, as amended on November 19, 2008 and February 23, 2009, which is more fully described under Employment Agreements Employment Agreement with Mark A. Blinn above.

(9) Mr. Dailey s 2006 and 2007 compensation amounts are not included, as he was not a Named Executive Officer at that time.

2008 GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information with respect to 2008 plan-based awards granted to the Named Executive Officers for the year ended December 31, 2008.

| | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards[1] | | | All Other Stock Awards; Number of Shares of Stock or Units | All Other Option Awards; Number of Securities Underlying Options | Exercise or Base Price of Option Awards |
|---|---|---|---|---|---|---|---|---|---|
| Grant Date | Threshold ($) | Target ($) | Maximum ($) | Threshold (#) | Target (#) | Maximum (#) | (#) | (#) | ($/Sh) |
| 3/7/2008(3) | 619,429 | 1,032,382 | 2,064,764 | | | | | | |
| 3/7/2008 | | | | 7,495 | 14,990 | 29,980 | | | |
| 3/7/2008 | | | | | | | 21,740(5) | | |
| 3/7/2008(3) | 189,606 | 316,010 | 632,020 | | | | | | |
| 3/7/2008 | | | | 2,550 | 5,100 | 10,200 | | | |

| | | |
|---|---|---|
| 3/7/2008 | | 6,990(5) |
| 3/7/2008(3) | 167,400 | |