FLOWSERVE CORP
Form 10-Q
May 05, 2010

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

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM __________ to __________.

Commission File No. 1-13179

FLOWSERVE CORPORATION

(Exact name of registrant as specified in its charter)

New York	**31-0267900**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5215 N. O Connor Blvd., Suite 2300, Irving, Texas	**75039**
(Address of principal executive offices)	(Zip Code)

(972) 443-6500

(Registrant s telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

As of April 30, 2010, there were 56,063,609 shares of the issuer s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FLOWSERVE CORPORATION
(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2010	2009
Sales	$ 958,906	$ 1,024,726
Cost of sales	(610,596)	(656,953)
Gross profit	348,310	367,773
Selling, general and administrative expense	(211,240)	(225,311)
Net earnings from affiliates	5,104	4,675
Operating income	142,174	147,137
Interest expense	(8,995)	(10,109)
Interest income	334	1,075
Other expense, net	(21,533)	(9,295)
Earnings before income taxes	111,980	128,808
Provision for income taxes	(31,775)	(35,983)
Net earnings, including noncontrolling interests	80,205	92,825
Less: Net loss (earnings) attributable to noncontrolling interests	15	(520)
Net earnings of Flowserve Corporation	$ 80,220	$ 92,305
Net earnings per share of Flowserve Corporation common shareholders:		
Basic	$ 1.44	$ 1.65
Diluted	1.42	1.64
Cash dividends declared per share	$ 0.29	$ 0.27

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	Three Months Ended March 31, 2010	2009
Net earnings, including noncontrolling interests	$ 80,205	$ 92,825
Other comprehensive (expense) income:		
Foreign currency translation adjustments, net of tax	(37,532)	(39,735)
Pension and other postretirement effects, net of tax	2,919	884
Cash flow hedging activity, net of tax	555	883
Other comprehensive expense	(34,058)	(37,968)
Comprehensive income, including noncontrolling interests	46,147	54,857

Comprehensive income attributable to noncontrolling interests		(39)		(802)
Comprehensive income of Flowserve Corporation	$	46,108	$	54,055

See accompanying notes to condensed consolidated financial statements.

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FLOWSERVE CORPORATION
(Unaudited)
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 468,356	$ 654,320
Accounts receivable, net of allowance for doubtful accounts of $16,706 and $18,769, respectively	815,871	791,722
Inventories, net	797,069	795,233
Deferred taxes	141,120	145,864
Prepaid expenses and other	135,974	112,183
Total current assets	2,358,390	2,499,322
Property, plant and equipment, net of accumulated depreciation of $631,135 and $635,527, respectively	534,133	560,472
Goodwill	857,463	864,927
Deferred taxes	31,329	31,324
Other intangible assets, net	120,798	124,678
Other assets, net	166,928	168,171
Total assets	$ 4,069,041	$ 4,248,894
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 397,458	$ 493,306
Accrued liabilities	816,832	916,945
Debt due within one year	28,211	27,355
Deferred taxes	20,484	20,477
Total current liabilities	1,262,985	1,458,083
Long-term debt due after one year	537,847	539,373
Retirement obligations and other liabilities	442,014	449,691
Shareholders equity:		
Common shares, $1.25 par value	73,664	73,594
Shares authorized 120,000		
Shares issued 58,931 and 58,875, respectively		
Capital in excess of par value	592,559	611,745
Retained earnings	1,590,281	1,526,774
	2,256,504	2,212,113
Treasury shares, at cost 3,584 and 3,919 shares, respectively	(261,348)	(275,656)
Deferred compensation obligation	8,505	8,684
Accumulated other comprehensive loss	(183,140)	(149,028)
Noncontrolling interest	5,674	5,634

Total equity	1,826,195	1,801,747
Total liabilities and equity	$ 4,069,041	$ 4,248,894

See accompanying notes to condensed consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows Operating activities:		
Net earnings, including noncontrolling interests	$ 80,205	$ 92,825
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation	21,286	18,145
Amortization of intangible and other assets	2,425	2,430
Amortization of deferred loan costs	915	397
Net (gain) loss on disposition of assets	(121)	270
Excess tax benefits from stock-based compensation arrangements	(9,860)	(290)
Stock-based compensation	8,298	10,070
Net earnings from affiliates, net of dividends received	(5,104)	(2,914)
Change in assets and liabilities:		
Accounts receivable, net	(46,542)	(43,979)
Inventories, net	(23,254)	(75,700)
Prepaid expenses and other	(25,646)	(10,571)
Other assets, net	1,817	6,509
Accounts payable	(84,305)	(107,925)
Accrued liabilities and income taxes payable	(88,466)	(94,135)
Retirement obligations and other liabilities	11,282	9,405
Net deferred taxes	8,111	15,434
Net cash flows used by operating activities	(148,959)	(180,029)
Cash flows Investing activities:		
Capital expenditures	(14,933)	(44,251)
Proceeds from disposal of assets	2,890	
Affiliate investing activity, net	5,073	
Net cash flows used by investing activities	(6,970)	(44,251)
Cash flows Financing activities:		
Excess tax benefits from stock-based compensation arrangements	9,860	290
Payments on long-term debt	(1,420)	(1,420)
Borrowings (payments) under other financing arrangements	775	(2,264)
Repurchase of common shares	(11,989)	(7,071)
Payments of dividends	(15,017)	(13,970)
Proceeds from stock option activity	4,612	202
Dividends paid to noncontrolling interests		(78)
Net cash flows used by financing activities	(13,179)	(24,311)
Effect of exchange rate changes on cash	(16,856)	(21,926)

Net change in cash and cash equivalents	(185,964)	(270,517)
Cash and cash equivalents at beginning of year	654,320	472,056
Cash and cash equivalents at end of period	$ 468,356	$ 201,539

See accompanying notes to condensed consolidated financial statements.

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FLOWSERVE CORPORATION
(Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2010, the related condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2010 and 2009, and the condensed consolidated statements of cash flows for the three months ended March 31, 2010 and 2009, of Flowserve Corporation, are unaudited. In management s opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such condensed consolidated financial statements have been made.

The accompanying condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (Quarterly Report) are presented as permitted by Regulation S-X and do not contain certain information included in our annual financial statements and notes thereto. Accordingly, the accompanying condensed consolidated financial information should be read in conjunction with the consolidated financial statements presented in our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Annual Report).

Segment Reorganization As previously disclosed in our 2009 Annual Report, we reorganized our divisional operations by combining Flowserve Pump Division (FPD) and Flow Solutions Division (FSD) into the new Flow Solutions Group (FSG), effective January 1, 2010. FSG has been divided into two reportable segments based on type of product and how we manage the business: FSG Engineered Product Division (EPD) and FSG Industrial Product Division (IPD). EPD includes the longer lead-time, highly engineered pump product operations of the former FPD and substantially all of the operations of the former FSD. IPD consists of the more standardized, general purpose pump product operations of the former FPD. Flow Control Division (FCD) remains unchanged. We have retrospectively adjusted prior period financial information to reflect our new reporting structure.

Venezuela As previously disclosed in our 2009 Annual Report, effective January 11, 2010, the Venezuelan government devalued its currency (Bolivar) and moved to a two-tier exchange structure. The official exchange rate moved from 2.15 to 4.30 Bolivars to the U.S. dollar for non-essential items and to 2.60 Bolivars to the U.S. dollar for essential items. Additionally, effective January 1, 2010, Venezuela was designated as hyperinflationary, and as a result, we began to use the U.S. dollar as our functional currency in Venezuela. In accordance with hyperinflationary accounting, all subsequent currency fluctuations between the Bolivar and the U.S. dollar are recorded in our statements of income. Our operations in Venezuela generally consist of a service center that both imports equipment and parts from certain of our other locations for resale to third parties within Venezuela and performs service and repair activities. Our Venezuelan subsidiary s sales for the three months ended March 31, 2010 and total assets at March 31, 2010 represented approximately 1% or less of our consolidated sales and total assets for the same period.

Although approvals by Venezuela s Commission for the Administration of Foreign Exchange have slowed, we have historically been able to remit dividends and other payments at the official rate, and we currently anticipate doing so in the future. Accordingly, we used the official rate of 4.30 Bolivars to the U.S. dollar for re-measurement of our Venezuelan financial statements into U.S. dollars. As a result of the currency devaluation, we recognized a loss of $12.4 million in the first quarter of 2010. The loss was reported in other expense, net in our condensed consolidated statement of income and resulted in no tax benefit. In addition, as a result of settling certain U.S. dollar denominated liabilities relating to essential import items at the 2.60 Bolivars to the U.S. dollar exchange rate, we realized $3.5 million of foreign currency exchange gains in other expense, net in our condensed consolidated statement of income that resulted in no tax expense.

We have evaluated the carrying value of related assets and concluded that there is no current impairment. We are continuing to assess and monitor the ongoing impact of the currency devaluation on our Venezuelan operations and imports into the market, including the Venezuelan subsidiary s ability to remit cash for dividends and other payments at the official rate, the future ability of our imported products to be classified as essential items and the ability to recover exchange losses, as well as further actions of the Venezuelan government and economic conditions in Venezuela that may adversely impact our future consolidated financial condition or results of operations.

Accounting Policies

Significant accounting policies, for which no significant changes have occurred in the three months ended March 31, 2010, are detailed in Note 1 of our 2009 Annual Report.

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Accounting Developments

Pronouncements Implemented

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance related to variable interest entities (VIE) under Accounting Standards Codification (ASC) 810. This guidance eliminates the exclusion of qualifying special-purpose entities (QSPE) from consideration for consolidation and revises the determination of the primary beneficiary of a VIE to require a qualitative assessment of whether a company has a controlling financial interest through (1) the power to direct the activities that most significantly impact the VIE s economic performance and (2) the right to receive benefits from or obligation to absorb losses of the VIE that could potentially be significant to the VIE. The determination of the primary beneficiary must be reconsidered on an ongoing basis. Our adoption of this guidance, effective January 1, 2010, did not have a material impact on our consolidated financial condition or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (ASC 820): Improving Disclosures about Fair Value Measurements, which requires additional disclosures on transfers in and out of Level I and Level II and on activity for Level III fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures of Level III activity, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Our adoption of the Level I and Level II disclosure guidance, effective January 1, 2010, did not have a material impact on our consolidated financial condition or results of operations. We do not expect the adoption of the Level III disclosure guidance to have a material impact on our consolidated financial condition or results of operations.

Pronouncements Not Yet Implemented

In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, Revenue Recognition (ASC 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services separately rather than as a combined unit. This amendment addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are still evaluating the impact of ASU No. 2009-13 on our consolidated financial condition and results of operations.

2. Acquisition

Effective April 21, 2009, EPD acquired Calder AG, a private Swiss company and a supplier of energy recovery technology for use in the global desalination market, for up to $44.1 million, net of cash acquired. Of the total purchase price, $28.4 million was paid at closing and $2.4 million was paid after the working capital valuation was completed in early July 2009. The remaining $13.3 million of the total purchase price was contingent upon Calder AG achieving certain performance metrics during the twelve months following the acquisition, and, to the extent achieved, was expected to be paid in cash within 12 months of the acquisition date. We initially recognized a liability of $4.4 million as an estimate of the acquisition date fair value of the contingent consideration, which was based on the weighted probability of achievement of the performance metrics over a specified period of time as of the date of the acquisition.

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The purchase price was allocated to the assets acquired and liabilities assumed based on estimates of fair values at the date of acquisition. The allocation of the purchase price is summarized below:

(Amounts in millions)	
Purchase price, net of cash acquired	$ 30.8
Fair value of contingent consideration (recorded as a liability)	4.4
Total expected purchase price at date of acquisition	$ 35.2
Current assets	$ 4.7
Intangible assets (expected useful life of approximately 10 years)	10.5
Property, plant and equipment	0.1
Current liabilities	(4.2)
Noncurrent liabilities	(1.1)
Net tangible and intangible assets	10.0
Goodwill	25.2
	$ 35.2

The excess of the acquisition date fair value of the total purchase price over the estimated fair value of the net tangible and intangible assets was recorded as goodwill. No pro forma information has been provided due to immateriality.

During the third quarter of 2009, the estimated fair value of the contingent consideration was reduced to $2.2 million based on third quarter 2009 results and an updated weighted probability of achievement of the performance metrics within the specified time frame. During the fourth quarter of 2009, the estimated fair value of the contingent consideration was reduced to $0 based on 2009 results and an updated weighted probability of achievement of the performance metrics during the twelve months following the acquisition. The resulting gains were included in selling, general and administrative expense (SG&A) in our condensed consolidated statements of income. The final measurement date of the performance metrics was March 31, 2010. The performance metrics were not met, resulting in no payment of contingent consideration.

3. Goodwill

As discussed in Note 1 of this Quarterly Report, effective January 1, 2010, we reorganized our divisional operations resulting in redefined reportable segments and reporting units. In connection with this segment reorganization, we reallocated goodwill to our redefined reporting units and evaluated goodwill for impairment. The identification of the reporting units began at the operating segment level: EPD, IPD and FCD, and considered whether components one level below the operating segment levels should be identified as reporting units for purposes of allocating goodwill and testing goodwill for impairment based on certain conditions. These conditions included, among other factors, (i) the extent to which a component represents a business and (ii) the aggregation of economically similar components within the operating segments, which resulted in nine reporting units. Other factors that were considered in determining whether the aggregation of components was appropriate included the similarity of the nature of the products and services, the nature of the production processes, the methods of distribution and the types of industries served. Based on the results of the impairment test of reallocated goodwill, we determined that no impairment existed at January 1, 2010.

Goodwill associated with our redefined reportable segments and changes in the carrying amount of goodwill for the three months ended March 31, 2010 are as follows:

Flow Solutions Group

(Amounts in thousands)	EPD	IPD	FCD (1)	Total
Balance January 1, 2010	$ 405,441	$ 122,501	$ 336,985	$ 864,927
Currency translation	(2,165)	(1,017)	(4,282)	(7,464)
Balance March 31, 2010	$ 403,276	$ 121,484	$ 332,703	$ 857,463

(1) An immaterial amount of goodwill was impaired in 2005 related to the sale of the General Services Group. Amount is not disclosed separately due to immateriality to the segment and overall company.

4. Stock-Based Compensation Plans

The Flowserve Corporation 2004 Stock Compensation Plan (the 2004 Plan), which was established on April 21, 2004, authorized the issuance of up to 3,500,000 shares of common stock through grants of restricted shares, restricted share units and

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performance-based units (collectively referred to as Restricted Shares), stock options and other equity-based awards. Of the 3,500,000 shares of common stock authorized under the 2004 Plan, 532,680 remain available for issuance as of March 31, 2010. In addition to the 2004 Plan, we established the Flowserve Corporation Equity and Incentive Compensation Plan (the 2010 Plan), effective January 1, 2010. This shareholder-approved plan authorizes the issuance of up to 2,900,000 shares of our common stock in the form of incentive stock options, non-statutory stock options, Restricted Shares, stock appreciation rights and bonus stock. Of the 2,900,000 shares of common stock authorized under the 2010 Plan, 2,644,439 remain available for issuance as of March 31, 2010. We recorded stock-based compensation as follows:

	Three Months Ended March 31,					
	2010			2009		
(Amounts in millions)	Stock Options	Restricted Shares	Total	Stock Options	Restricted Shares	Total
Stock-based compensation expense	$	$ 8.3	$ 8.3	$ 0.2	$ 9.9	$ 10.1
Related income tax benefit		(2.7)	(2.7)		(3.0)	(3.0)
Net stock-based compensation expense	$	$ 5.6	$ 5.6	$ 0.2	$ 6.9	$ 7.1

Stock Options Information related to stock options issued to officers, other employees and directors under all plans described in Note 6 to our consolidated financial statements included in our 2009 Annual Report is presented in the following table:

	Three Months Ended March 31, 2010			
	Shares	Weighted Average Exercise Price	Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Number of shares under option:				
Outstanding January 1, 2010	206,815	$ 42.58		
Exercised	(101,093)	45.62		
Outstanding March 31, 2010	105,722	$ 39.67	5.0	$ 7.5
Exercisable March 31, 2010	105,722	$ 39.67	5.0	$ 7.5

No options were granted during the three months ended March 31, 2010 or 2009. No stock options vested during the three months ended March 31, 2010, compared with a total fair value of stock options of $1.6 million vested during the three months ended March 31, 2009. The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model.

As of March 31, 2010, we had no unrecognized compensation cost related to outstanding unvested stock option awards. The total intrinsic value of stock options exercised during the three months ended March 31, 2010 and 2009 was $6.0 million and $0.3 million, respectively.

Restricted Shares Awards of Restricted Shares are valued at the closing market price of our common stock on the date of grant. The unearned compensation is amortized to compensation expense over the vesting period of the restricted shares. We had unearned compensation of $46.3 million and $31.5 million at March 31, 2010 and December 31, 2009, respectively, which is expected to be recognized over a weighted-average period of approximately 2 years. These amounts will be recognized into net earnings in prospective periods as the awards vest.

The total fair value of Restricted Shares vested during the three months ended March 31, 2010 and 2009 was $29.8 million and $13.6 million, respectively.

The following table summarizes information regarding Restricted Shares:

	Three Months Ended March 31, 2010	
	Shares	Weighted Average Grant-Date Fair Value
Number of unvested Restricted Shares:		
Outstanding January 1, 2010	1,545,244	$ 64.08
Granted	256,341	98.61
Vested	(522,843)	57.06
Cancelled	(37,677)	68.40
Outstanding March 31, 2010	1,241,065	$ 74.04

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Unvested Restricted Shares outstanding as of March 31, 2010, includes 470,000 units with performance-based vesting provisions granted in three annual grants since January 1, 2008. Performance-based units vest upon the achievement of pre-defined performance targets, and are issuable in common stock. Our performance targets are based on our average annual return on net assets over a rolling three-year period as compared with the same measure for a defined peer group for the same period. Compensation expense is recognized ratably over a 36-month cliff vesting period based on the fair market value of our common stock on the date of grant, as adjusted for anticipated forfeitures. During the performance period, earned and unearned compensation expense is adjusted based on changes in the expected achievement of the performance targets. Vesting provisions range from 0 to 910,000 shares based on performance targets. As of March 31, 2010, we estimate vesting of 800,000 shares based on expected achievement of performance targets.

5. Derivative Instruments and Hedges

Our risk management and derivatives policy specifies the conditions under which we may enter into derivative contracts. See Notes 1 and 7 to our consolidated financial statements included in our 2009 Annual Report and Note 8 of this Quarterly Report for additional information on our purpose for entering into derivatives not designated as hedging instruments and our overall risk management strategies. We enter into forward exchange contracts to hedge our cash flow risks associated with transactions denominated in currencies other than the local currency of the operation engaging in the transaction. At March 31, 2010 and December 31, 2009, we had $394.4 million and $309.6 million, respectively, of notional amount in outstanding forward exchange contracts with third parties. At March 31, 2010, the length of forward exchange contracts currently in place ranged from 9 days to 40 months. Also as part of our risk management program, we enter into interest rate swap agreements to hedge exposure to floating interest rates on certain portions of our debt. At both March 31, 2010 and December 31, 2009, we had $385.0 million of notional amount in outstanding interest rate swaps with third parties. All interest rate swaps are highly effective. At March 31, 2010, the maximum remaining length of any interest rate swap contract in place was approximately 18 months.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under forward exchange contracts and interest rate swap agreements and expect all counterparties to meet their obligations. If material, we would adjust the values of our derivative contracts for our or our counterparties credit risks. We have not experienced credit losses from our counterparties.

The fair value of forward exchange contracts not designated as hedging instruments are summarized below:

(Amounts in thousands)	**March 31, 2010**	**December 31, 2009**
Current derivative assets	$ 1,010	$ 3,753
Current derivative liabilities	9,386	4,339
Noncurrent derivative liabilities	95	145

The fair value of interest rate swaps in cash flow hedging relationships are summarized below:

(Amounts in thousands)	**March 31, 2010**	**December 31, 2009**
Current derivative assets	$ 26	$ 53
Noncurrent derivative assets	40	361
Current derivative liabilities	4,251	5,490
Noncurrent derivative liabilities	30	7

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

The impact of net changes in the fair values of forward exchange contracts not designated as hedging instruments are summarized below:

	Three Months Ended March 31,	
(Amounts in thousands)	2010	2009
Loss recognized in income	$ (10,032)	$ (8,338)

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The impact of net changes in the fair values of interest rate swaps in cash flow hedging relationships are summarized below:

	Three Months Ended March 31,	
(Amounts in thousands)	2010	2009
Loss reclassified from accumulated other comprehensive income into income for settlements, net of tax	$ (1,395)	$ (1,268)
Loss recognized in other comprehensive income, net of tax	(840)	(385)

Gains and losses recognized in our condensed consolidated statements of income for forward exchange contracts and interest rate swaps are classified as other expense, net, and interest expense, respectively.

6. Debt

Debt, including capital lease obligations, consisted of:

(Amounts in thousands)	March 31, 2010	December 31, 2009
Term Loan, interest rate of 1.83% and 1.81% at March 31, 2010 and December 31, 2009, respectively	$ 542,595	$ 544,016
Capital lease obligations and other	23,463	22,712
Debt and capital lease obligations	566,058	566,728
Less amounts due within one year	28,211	27,355
Total debt due after one year	$ 537,847	$ 539,373

Credit Facilities

Our credit facilities, as amended, are comprised of a $600.0 million term loan expiring on August 10, 2012 and a $400.0 million revolving line of credit, which can be utilized to provide up to $300.0 million in letters of credit, expiring on August 10, 2012. We hereinafter refer to these credit facilities collectively as our Credit Facilities. At both March 31, 2010 and December 31, 2009, we had no amounts outstanding under the revolving line of credit. We had outstanding letters of credit of $111.2 million and $123.1 million at March 31, 2010 and December 31, 2009, respectively, which reduced borrowing capacity to $288.8 million and $276.9 million, respectively. The carrying amount of our term loan approximated fair value at March 31, 2010 and December 31, 2009.

Borrowings under our Credit Facilities bear interest at a rate equal to, at our option, either (1) the base rate (which is based on the greater of the prime rate most recently announced by the administrative agent under our Credit Facilities or the Federal Funds rate plus 0.50%) or (2) London Interbank Offered Rate (LIBOR) plus an applicable margin determined by reference to the ratio of our total debt to consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), which as of March 31, 2010 was 0.875% and 1.50% for borrowings under our revolving line of credit and term loan, respectively.

We may prepay loans under our Credit Facilities in whole or in part, without premium or penalty. During the three months ended March 31, 2010, we made scheduled repayments under our Credit Facilities of $1.4 million. We have scheduled repayments under our Credit Facilities of $1.4 million due in each of the next four quarters.

European Letter of Credit Facilities

Our ability to issue additional letters of credit under our previous European Letter of Credit Facility (Old European LOC Facility), which had a commitment of 110.0 million, expired November 9, 2009. We paid annual and fronting fees of 0.875% and 0.10%, respectively, for letters of credit written against the Old European LOC Facility. We had outstanding letters of credit written against the Old European LOC Facility of 57.3 million ($77.4 million) and

77.9 million ($111.5 million) as of March 31, 2010 and December 31, 2009, respectively.

On October 30, 2009, we entered into a new 364-day unsecured European Letter of Credit Facility (New European LOC Facility) with an initial commitment of 125.0 million. The New European LOC Facility is renewable annually and, consistent with the Old European LOC Facility, is used for contingent obligations in respect of surety and performance bonds, bank guarantees and similar obligations with maturities up to five years. We pay fees of 1.35% and 0.40% for utilized and unutilized capacity, respectively, under our New European LOC Facility. We had outstanding letters of credit drawn on the New European LOC Facility of 9.6 million ($13.0 million) and 2.8 million ($4.0 million) as of March 31, 2010 and December 31, 2009, respectively.

Certain banks are parties to both facilities and are managing their exposures on an aggregated basis. As such, the commitment under the New European LOC Facility is reduced by the face amount of existing letters of credit written against the Old European LOC Facility prior to its expiration. These existing letters of credit will remain outstanding, and accordingly offset the 125.0 million capacity of the New European LOC Facility until their maturity, which, as of March 31, 2010, was approximately 16 months for the majority of the outstanding existing letters of credit. After consideration of outstanding commitments under both facilities, the available capacity under the New European LOC Facility was 85.9 million as of March 31, 2010.

7. Realignment Programs

Initial Realignment Program

In February 2009, we announced our plan to incur up to $40 million in costs to reduce and optimize certain non-strategic manufacturing facilities and our overall cost structure by improving our operating efficiency, reducing redundancies, maximizing global consistency and driving improved financial performance (the Initial Realignment Program). The Initial Realignment Program consists of both restructuring and non-restructuring costs. Restructuring charges represent costs associated with the relocation of certain business activities, outsourcing of some business activities and facility closures. Non-restructuring charges, which represent the majority of the Initial Realignment Program, are costs incurred to improve operating efficiency and reduce redundancies and primarily represent employee severance. Substantially all expenses under the Initial Realignment Program were recognized during 2009. Expenses are reported in Cost of Sales (COS) or SG&A, as applicable, in our condensed consolidated statements of income.

Total Initial Realignment Program Charges

Charges are presented net of adjustments relating to changes in estimates of previously recorded amounts. Net adjustments recorded during the three months ended March 31, 2010 were $0.9 million, with no adjustments recorded during the three months ended March 31, 2009.

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

Three Months Ended March 31, 2010

(Amounts in millions)	Flow Solutions Group EPD	IPD	FCD	Subtotal Reportable Segments	All Other	Consolidated Total
Total Initial Realignment Program Charges						
COS [1]	$ 0.3	$ 0.4	$	$ 0.7	$	$ 0.7
SG&A [1]	(0.4)			(0.4)		(0.4)
	$ (0.1)	$ 0.4	$	$ 0.3	$	$ 0.3

(1) Additional detail of restructuring and non-restructuring charges not provided due to immateriality.

Three Months Ended March 31, 2009

(Amounts in millions)	Flow Solutions Group EPD	IPD	FCD	Subtotal Reportable Segments	All Other	Consolidated Total
Restructuring Charges						
COS	$ 0.8	$ 1.0	$	$ 1.8	$	$ 1.8
SG&A		0.2		0.2		0.2
	$ 0.8	$ 1.2	$	$ 2.0	$	$ 2.0
Non-Restructuring Charges						
COS	$ 4.1	$	$ 0.2	$ 4.3	$	$ 4.3
SG&A	3.0	0.1	0.3	3.4	0.2	3.6
	$ 7.1	$ 0.1	$ 0.5	$ 7.7	$ 0.2	$ 7.9
Total Initial Realignment Program Charges						
COS	$ 4.9	$ 1.0	$ 0.2	$ 6.1	$	$ 6.1
SG&A	3.0	0.3	0.3	3.6	0.2	3.8

	$ 7.9	$ 1.3	$ 0.5	$ 9.7	$ 0.2	$ 9.9

	Flow Solutions Group			Subtotal Reportable		Consolidated
(Amounts in millions)	**EPD**	**IPD**	**FCD**	**Segments**	**All Other**	**Total**
Restructuring Charges Inception to Date						
COS	$ 7.7	$ 4.7	$ 0.5	$ 12.9	$ 0.7	$ 13.6
SG&A	0.6	0.2	0.2	1.0		1.0
	$ 8.3	$ 4.9	$ 0.7	$ 13.9	$ 0.7	$ 14.6
Non-Restructuring Charges Inception to Date						
COS	$ 5.8	$ 1.5	$ 5.0	$ 12.3	$	$ 12.3
SG&A	5.5	0.9	3.8	10.2	0.8	11.0
	$ 11.3	$ 2.4	$ 8.8	$ 22.5	$ 0.8	$ 23.3
Total Initial Realignment Program Charges Inception to Date						
COS	$ 13.5	$ 6.2	$ 5.5	$ 25.2	$ 0.7	$ 25.9
SG&A	6.1	1.1	4.0	11.2	0.8	12.0
	$ 19.6	$ 7.3	$ 9.5	$ 36.4	$ 1.5	$ 37.9
Total Expected Initial Realignment Program Charges (1)	$ 19.7	$ 7.8	$ 9.5	$ 37.0	$ 1.5	$ 38.5

(1) Remaining charges related to the Initial Realignment Program are expected to be incurred in 2010.

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Initial Realignment Program Restructuring Charges

Restructuring charges include costs related to employee severance at closed facilities, contract termination costs, asset write-downs and other exit costs. Severance costs primarily include costs associated with involuntary termination benefits. Contract termination costs include costs related to termination of operating leases or other contract termination costs. Asset write-downs include accelerated depreciation of fixed assets, and inventory write-downs. Other includes costs related to employee relocation, asset relocation, vacant facility costs (i.e., taxes and insurance) and other charges.

Restructuring charges, net of adjustments, for the Initial Realignment Program are as follows:

(Amounts in thousands)	Severance	Contract termination	Asset write-downs	Other	Total
Three Months Ended March 31, 2010					
COS	$ (32)	$ 178	$ 149	$ 595	$ 890
SG&A					
Total	$ (32)	$ 178	$ 149	$ 595	$ 890
Three Months Ended March 31, 2009					
COS	$ 1,663	$	$ 121	$	$ 1,784
SG&A	215				215
Total	$ 1,878	$	$ 121	$	$ 1,999
Total Restructuring Charges Inception to Date					
COS	$ 4,652	$ 1,012	$ 5,502	$ 2,392	$ 13,558
SG&A	989			46	1,035
Total	$ 5,641	$ 1,012	$ 5,502	$ 2,438	$ 14,593
Total Expected Restructuring Charges (1)					
COS	$ 4,652	$ 1,094	$ 5,502	$ 2,841	$ 14,089
SG&A	989	81		46	1,116
Total	$ 5,641	$ 1,175	$ 5,502	$ 2,887	$ 15,205

(1) Remaining charges related to the Initial Realignment Program are expected to be incurred in 2010.

The following represents the activity related to the restructuring reserve:

(Amounts in thousands)	Severance	Contract Termination	Other	Total
Balance at December 31, 2009	$ 1,184	$	$ 340	$ 1,524
Charges, net of adjustments	(32)	178	595	741
Cash expenditures	(54)	(178)	(582)	(814)
Balance at March 31, 2010	$ 1,098	$	$ 353	$ 1,451

Subsequent Realignment Program

In October 2009, we announced our plan to commence additional realignment initiatives (the Subsequent Realignment Program) and incur additional costs to expand our efforts to optimize assets, reduce our overall cost structure, respond to reduced orders and enhance our customer-facing organization. The Subsequent Realignment Program began in the fourth quarter of 2009 and will continue through 2010. We currently expect total Subsequent Realignment Program charges will be $49.1 million, of which $30.7 million have been incurred through March 31, 2010.

The Subsequent Realignment Program consists of both restructuring and non-restructuring costs. Restructuring charges, which represent the majority of the Subsequent Realignment Program, represent costs associated with the relocation of certain business activities, outsourcing of some business activities and facility closures. Non-restructuring charges are costs incurred to improve operating efficiency and reduce redundancies and primarily represent employee severance. Expenses are reported in COS or SG&A, as applicable, in our condensed consolidated statements of income.

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Total Subsequent Realignment Program Charges

Charges are presented net of adjustments relating to changes in estimates of previously recorded amounts. Net adjustments recorded during the three months ended March 31, 2010 were $0.5 million. The following is a summary of total charges incurred, net of adjustments, related to the Subsequent Realignment Program:

Three Months Ended March 31, 2010

(Amounts in millions)	Flow Solutions Group EPD	IPD	FCD	Subtotal Reportable Segments	All Other	Consolidated Total
Restructuring Charges						
COS	$ 0.4	$ 0.2	$	$ 0.6	$	$ 0.6
SG&A	(0.4)			(0.4)		(0.4)
	$	$ 0.2	$	$ 0.2	$	$ 0.2
Non-Restructuring Charges						
COS	$ (0.1)	$ (0.3)	$	$ (0.4)	$	$ (0.4)
SG&A	0.4			0.4		0.4
	$ 0.3	$ (0.3)	$	$	$	$
Total Subsequent Realignment Program Charges						
COS	$ 0.3	$ (0.1)	$	$ 0.2	$	$ 0.2
SG&A						
	$ 0.3	$ (0.1)	$	$ 0.2	$	$ 0.2

(Amounts in millions)	Flow Solutions Group EPD	IPD	FCD	Subtotal Reportable Segments	All Other	Consolidated Total
Restructuring Charges Inception to Date						
COS	$ 7.7	$ 0.6	$	$ 8.3	$	$ 8.3
SG&A	8.9	0.1		9.0	1.4	10.4
	$ 16.6	$ 0.7	$	$ 17.3	$ 1.4	$ 18.7
Non-Restructuring Charges Inception to Date						
COS	$ 3.8	$ 2.4	$ 2.0	$ 8.2	$	$ 8.2
SG&A	2.6	1.2		3.8		3.8

	$ 6.4	$ 3.6	$ 2.0	$ 12.0	$	$ 12.0
Total Subsequent Realignment Program Charges Inception to Date						
COS	$ 11.5	$ 3.0	$ 2.0	$ 16.5	$	$ 16.5
SG&A	11.5	1.3		12.8	1.4	14.2
	$ 23.0	$ 4.3	$ 2.0	$ 29.3	$ 1.4	$ 30.7
Total Expected Subsequent Realignment Program Charges (1)	$ 25.0	$ 4.5	$ 3.8	$ 33.3	$ 1.4	$ 34.7

(1) Total expected realignment charges represent management s best estimate based on initiatives identified to date. These amounts do not include approximately $15 million anticipated to be incurred for initiatives that are currently under consideration. The nature of these additional charges cannot currently be determined; however, we expect the charges to be incurred in 2010.

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Subsequent Realignment Program Restructuring Charges

Restructuring charges incurred, net of adjustments, for the Subsequent Realignment Program in 2010 are as follows:

(Amounts in thousands)	Severance	Contract termination	Asset write-downs	Other	Total
Three Months Ended March 31, 2010					
COS	$ 19				