

FLOWSERVE CORP
Form 10-Q
November 07, 2018

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

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
OR

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

Commission File No. 1-13179

FLOWSERVE CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

31-0267900

(I.R.S. Employer Identification No.)

5215 N. O'Connor Blvd., Suite 2300, Irving, Texas

(Address of principal executive offices)

75039

(Zip Code)

(972) 443-6500

(Registrant's
telephone
number,
including area
code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

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

As of November 1, 2018 there were 130,856,957 shares of the issuer's common stock outstanding.

FLOWSERVE CORPORATION
 FORM 10-Q
 TABLE OF CONTENTS

	Page No.
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements.</u>	
<u>Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income – Three Months Ended September 30, 2018 and 2017 (unaudited)</u>	1
<u>Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income – Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	2
<u>Condensed Consolidated Balance Sheets – September 30, 2018 and December 31, 2017 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	5
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	47
<u>Item 4. Controls and Procedures</u>	47
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	48
<u>Item 1A. Risk Factors</u>	48
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 3. Defaults Upon Senior Securities</u>	49
<u>Item 4. Mine Safety Disclosures</u>	49
<u>Item 5. Other information</u>	49
<u>Item 6. Exhibits</u>	49
<u>SIGNATURES</u>	<u>50</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

FLOWSERVE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share data)

	Three Months Ended September 30,	
	2018	2017
Sales	\$952,716	\$883,380
Cost of sales	(644,215)	(615,368)
Gross profit	308,501	268,012
Selling, general and administrative expense	(241,878)	(206,001)
(Loss) gain on sale of businesses	(7,727)	9,864
Net earnings from affiliates	3,295	2,918
Operating income	62,191	74,793
Interest expense	(13,826)	(15,043)
Interest income	1,269	1,108
Other (expense) income, net	(5,283)	7,511
Earnings before income taxes	44,351	68,369
Provision for income taxes	(14,912)	(19,628)
Net earnings, including noncontrolling interests	29,439	48,741
Less: Net earnings attributable to noncontrolling interests	(1,234)	(1,136)
Net earnings attributable to Flowserve Corporation	\$28,205	\$47,605
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$0.22	\$0.36
Diluted	0.21	0.36
Cash dividends declared per share	\$0.19	\$0.19

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Amounts in thousands)

	Three Months Ended September 30,	
	2018	2017
Net earnings, including noncontrolling interests	\$29,439	\$48,741
Other comprehensive (loss) income:		
Foreign currency translation adjustments, net of taxes of \$3,246 and \$(5,209), respectively	(19,669)	17,674
Pension and other postretirement effects, net of taxes of \$(311) and \$(557), respectively	2,599	(444)
Cash flow hedging activity	52	12
Other comprehensive (loss) income	(17,018)	17,242
Comprehensive income, including noncontrolling interests	12,421	65,983
Comprehensive income attributable to noncontrolling interests	(1,578)	(1,090)
Comprehensive income attributable to Flowserve Corporation	\$10,843	\$64,893

See accompanying notes to condensed consolidated financial statements.

Table of Contents

FLOWSERVE CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

(Amounts in thousands, except per share data)	Nine Months Ended September 30,	
	2018	2017
Sales	\$2,845,798	\$2,626,762
Cost of sales	(1,979,807)	(1,844,303)
Gross profit	865,991	782,459
Selling, general and administrative expense	(711,845)	(680,305)
(Loss) gain on sale of businesses	(7,727)	141,158
Net earnings from affiliates	7,908	9,027
Operating income	154,327	252,339
Interest expense	(43,645)	(44,689)
Interest income	4,237	2,373
Other expense, net	(17,206)	(13,971)
Earnings before income taxes	97,713	196,052
Provision for income taxes	(37,028)	(85,836)
Net earnings, including noncontrolling interests	60,685	110,216
Less: Net earnings attributable to noncontrolling interests	(4,117)	(1,682)
Net earnings attributable to Flowserve Corporation	\$56,568	\$108,534
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$0.43	\$0.83
Diluted	0.43	0.83
Cash dividends declared per share	\$0.57	\$0.57

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

(Amounts in thousands)	Nine Months Ended September 30,	
	2018	2017
Net earnings, including noncontrolling interests	\$60,685	\$110,216
Other comprehensive (loss) income:		
Foreign currency translation adjustments, net of taxes of \$8,034		