

FLOWSERVE CORP  
Form DEF 14A  
April 11, 2014  
**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    Filed by a Party other than the Registrant

**Check the appropriate box:**

Preliminary Proxy Statement

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to ss.240.14a-12

**FLOWSERVE CORPORATION**

*(Name of Registrant as Specified In Its Charter)*

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

**Payment of Filing Fee (Check the appropriate box):**

**No fee required.**

**Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.**

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

**Fee paid previously with preliminary materials.**

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

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

**Invitation to 2014 Annual Meeting of Shareholders**

**Thursday, May 22, 2014**

**11:30 a.m., local time**

***Flowserve Global Technology and Training Center, 4343 West Royal Lane, Irving, Texas 75063***

**Mark A. Blinn**

*President and*

*Chief Executive Officer*

Dear Fellow Shareholder:

I am pleased to invite you to join me, our Board of Directors, executive officers, associates and other Shareholders at Flowserve's 2014 Annual Meeting of Shareholders. The attached Notice of Annual Meeting of Shareholders and Proxy Statement contain details of the business to be conducted.

Flowserve's Board and senior leadership were very pleased about the positive feedback we received after redesigning our proxy statement last year. This year, we have further enhanced the clarity of the information we provide to you. This proxy statement demonstrates our continuing commitment to move beyond required disclosures to simplify and more clearly explain the information you need.

Throughout the year, we conduct considerable outreach to shareowners on a variety of topics, and we are guided by your feedback. You will see that we have continued to enhance the Compensation Discussion and Analysis that begins on page 21 in order to show how our executives' pay is linked to performance and clearly explain our executive compensation philosophy and practices. Last year, shareholders representing approximately 98.7% of the votes cast expressed satisfaction with the compensation of the executives included in the proxy statement and Flowserve's executive compensation programs. While we are very grateful to see this level of support from our shareholders, we are committed to continue to work hard to stay attuned to our shareholders.

Your vote is very important to us and to our business. Prior to the meeting, I encourage you to sign and return your proxy card, or use telephone or Internet voting, so that your shares will be represented and voted at the meeting. You can find instructions on how to vote beginning on page 10.

I hope to see you at the meeting. Thank you in advance for voting and for your continued support of Flowserve.

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## Notice of Annual Meeting of Shareholders

The 2014 Annual Meeting of Shareholders (the “Annual Meeting”) of Flowserve Corporation (the “Company”) will be held on **Thursday, May 22, 2014 at 11:30 a.m., local time**, at the Flowserve Corporation Global Technology and Training 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.proxyvote.com](http://www.proxyvote.com)**.

Shareholders of record of the Company’s common stock, par value \$1.25 per share, at the close of business on March 27, 2014 are entitled to notice of and to vote at the Annual Meeting.

At the Annual Meeting, shareholders will vote on the following matters either in person or by proxy:

- the election of seven directors, each to serve a term expiring at the 2015 annual meeting of shareholders;
- an advisory vote to approve the Company’s executive compensation;
- ratification of the appointment of PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for 2014;
- a shareholder proposal, if properly presented; and
- transaction of any other business properly presented at the Annual Meeting.

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

In accordance with Securities and Exchange Commission rules, we are furnishing proxy materials to our shareholders on the Internet, rather than by mail. We believe this e-proxy process expedites our shareholders’ receipt of proxy materials, lowers our costs and reduces the environmental impact of our Annual Meeting. The proxy statement and annual report to shareholders and any other proxy materials are available on our hosted website at **[www.proxyvote.com](http://www.proxyvote.com)**. For additional related information, please refer to the “Important Notice of Electronic Availability of Materials for the Shareholder Meeting to be held on May 22, 2014” in the enclosed proxy statement.

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Your vote is important, and whether or not you plan to attend the Annual Meeting, your prompt cooperation in voting is greatly appreciated. We encourage you to vote via the Internet. It is convenient and saves us significant postage and processing costs. You may also vote via telephone or by mail if you received paper copies of the proxy materials. Instructions regarding all three methods of voting are included in the Notice of Internet Availability of Proxy Materials, the proxy card and the proxy statement.

By Order of the Board of Directors,

Carey A. O'Connor

*Senior Vice President, General Counsel and Corporate Secretary*



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Proxy Summary

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. Page references are supplied to help you find additional information in this proxy statement.

## 2014 Annual Meeting of Shareholders

**Date and Time:** May 22, 2014, 11:30 a.m., local time

**Record Date:** March 27, 2014

**Location:** Flowserve Global Technology and Training Center, 4343 W. Royal Lane, Irving, Texas 75063

## Voting Matters

	<b>Board Vote Recommendation</b>	<b>Page Reference (for more detail)</b>
Election of Directors	FOR each Director Nominee	12
Management Proposals:		
Advisory Vote on Executive Compensation	FOR	44
Ratification of Auditors	FOR	48
Shareholder Proposal:		
Confidential Voting in Uncontested Proxy Solicitations	AGAINST	48

## How to Vote (page 10)

You can vote by any of the following methods:

- Internet ([www.proxyvote.com](http://www.proxyvote.com)) until May 21, 2014;
- Telephone (1-800-690-6903) until May 21, 2014;
- Completing, signing and returning your proxy or voting instruction card before May 22, 2014; or
- In person, at the annual meeting, if you are a registered shareholder. You may deliver a completed proxy card or vote by ballot at the meeting.

**Board Nominees (page 13)**

<b>Name</b>	<b>Age</b>	<b>Director since</b>	<b>Occupation</b>	<b>Committee Memberships</b>	<b>Other Public Company Boards</b>
Gayla J. Delly	54	2008	President & CEO, Benchmark Electronics	Audit	1
Rick J. Mills	66	2007	Independent Corporate Director	Corp. Gov. & Nominating Audit (Chair) Corp. Gov. & Nominating	2
Charles M. Rampacek	70	1998	Energy Industry Consultant	Audit Finance	1
William C. Rusnack	69	1997	Independent Corporate Director	Audit Corp. Gov. & Nominating (Chair)	2
John R. Friedery	57	2007	Independent Corporate Director	Org. & Comp. (Chair) Corp. Gov. & Nominating	0
Joe E. Harlan	54	2007	Executive Vice President, Dow Chemical Company	Finance (Chair) Org. & Comp.	0
Leif E. Darner	62	2013	Independent Corporate Director	Audit Finance	0

**Executive Officers (page 20)**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Since</b>	<b>Previous Position</b>
Mark A. Blinn	52	President and CEO	October 2009	Flowserve SVP and CFO
Mark D. Dailey	55	Senior VP and Chief Administrative Officer	February 2010	Flowserve SVP, Human Resources and CCO
Thomas L. Pajonas	57	Executive VP and COO	January 2012	Flowserve SVP and President, Flow Control Division
Carey A. O'Connor	42	Senior VP, General Counsel and Secretary	November 2012	Flowserve VP and Corporate Secretary
Michael S. Taff	51	Senior VP and CFO	January 2012	SVP and CFO, The Babcock & Wilcox Company
Dave M. Stephens	52	Senior VP, Chief Human Resources Officer	February 2014	Flowserve VP, Human Resources



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**Executive Compensation Highlights (page 21)**

Objectives and Principles

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. We use the following principles to effect these objectives:

- **Compensation Should be Performance-Based** – a significant portion of our executives’ total compensation should be tied to how well they perform individually and should be “at risk” based on how well the Company performs.

- **Compensation Should Reinforce Our Business Objectives and Values** – we consider our seven key strategies for achieving our business vision when identifying incentive measures and assigning goals and objectives.

- **Performance-Based Compensation Should be Benchmarked** – internal performance metrics without comparison to an industry-appropriate, high performing external benchmark yield an incomplete measure of Company performance.

- **Compensation Levels Should be Market Competitive** – our executive compensation program is compared to relevant market data to ensure we encourage building long-term shareholder value and attract and retain executive talent.

- **Incentive Compensation Should Represent the Majority of Total Compensation** – the proportion of an executive’s total compensation that is “at risk” based on individual or Company performance should increase with the scope and level of responsibilities.

- **Incentive Compensation Should Balance Short-Term and Long-Term Performance** – we use annual cash incentive opportunities and equity-based awards to balance the Company’s short- and long-term performance objectives.

- **Long-Term Incentives Should Balance Stock- and Financial-Based Achievements** – our equity awards are equally weighted between time-vested restricted stock, which makes the Company’s share price a targeted incentive, and contingent performance shares, which emphasize achievement of financial performance metrics.

- **The Executive Compensation Program Should be Reviewed Annually for Effectiveness** – our Organization and Compensation Committee conducts an annual review of all executive compensation program components to ensure alignment with our compensation objectives.

Executive Compensation Program Elements

Category	Compensation Element	Description
Cash	Base Salary	Fixed cash compensation based on responsibilities of the position
	Annual Incentive Opportunity	

		Annual cash incentive for achievement of financial performance metrics
<i>Long-Term Incentives</i>	<b>Restricted Common Stock</b>	Vests ratably over a three-year period
	<b>Contingent Performance Units</b>	Cliff vests at end of a three-year period based on financial performance
<i>Retirement</i>	<b>Qualified Pension Plan</b>	Qualified pension plan, available to all salaried U.S. employees
	<b>Senior Management Pension Plan</b>	Partially-funded, non-qualified defined benefit restoration plan, available to certain U.S. employees based on salary level
	<b>Supplemental Executive Pension Plan</b>	Partially-funded, non-qualified supplemental defined benefit plan, available to eligible U.S. executives to maintain competitive total retirement benefits
	<b>401(k) Plan</b>	Qualified 401(k) plan available to all U.S. employees
<i>Other</i>	<b>Severance Plan</b>	Sets standard benefits for senior executives in the event of severance
	<b>Change-in-Control Plan</b>	Sets standard benefits for senior executives upon a change-in-control
	<b>Other Benefits</b>	Physical exam, enhanced vacation; no perquisites offered

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## 2013 Executive Total Compensation Mix

2013 Executive Compensation Summary (page 36)

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Mark A. Blinn President and CEO	2013	1,016,923	4,882,277	1,259,153	382,243	102,426	7,643,026
Michael S. Taff Senior VP & CFO	2013	541,340	1,462,644	355,137	115,229	61,467	2,475,817
Thomas L. Pajonas Executive VP & COO	2013	663,750	4,325,292	598,154	233,455	69,061	5,889,712
Mark D. Dailey Senior VP & Chief Admin. Officer	2013	420,589	945,864	246,023	141,053	42,698	1,756,127
Carey A. O'Connor Senior VP, General Counsel and Secretary	2013	326,252	626,400	183,067	68,348	24,154	1,228,121

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**PROXY STATEMENT FOR THE 2014 ANNUAL MEETING OF SHAREHOLDERS**

**Flowserve Corporation**

5215 N. O'Connor Blvd., Suite 2300

Irving, Texas 75039

**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 2014 Annual Meeting of Shareholders (the "Annual Meeting"), which will be held on Thursday, May 22, 2014, 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.

**IMPORTANT NOTICE OF ELECTRONIC AVAILABILITY OF MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 22, 2014**

Pursuant to Securities and Exchange Commission ("SEC") rules, we may furnish proxy materials, including this proxy statement and the Company's annual report for the year ending December 31, 2013, to our shareholders by providing access to such documents on the Internet instead of mailing printed copies. Most shareholders will not receive printed copies of the proxy materials unless they request them. Instead, a Notice of Internet Availability of Proxy Materials ("Notice of Internet Availability"), which was mailed to most of our shareholders, will explain how you may access and review the proxy materials and how you may submit your proxy on the Internet. If you would like to receive a paper or electronic copy of our proxy materials, please follow the instructions included in the Notice of Internet Availability. Shareholders who requested paper copies of proxy materials or previously elected to receive proxy materials electronically did not receive the Notice of Internet Availability and are receiving the proxy materials in the format requested.

This proxy statement and the Company's annual report for the year ending December 31, 2013 are available electronically on our hosted website at **[www.proxyvote.com](http://www.proxyvote.com)**.

To access and review the materials made available electronically:

1. Go to **www.proxyvote.com** and input the 12-digit control number from the Notice of Internet Availability or proxy card.
2. Click the “2014 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.proxyvote.com** for directions to the meeting.

The Notice of Internet Availability and the proxy materials are first being made available to our shareholders on or about April 10, 2014.

### **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 Alliance Advisors 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, par value \$1.25 per share (“common stock”). For these services, the Company will pay Alliance Advisors a fee of \$8,000 plus reimbursement for reasonable out-of-pocket expenses.

### **Shareholders Sharing an Address**

To reduce the expenses of delivering duplicate proxy materials, we deliver one Notice of Internet Availability and, if applicable, 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. Shareholders who hold shares in “street name” (as described below) may contact their brokerage firm, bank, broker-dealer or similar organization to request information about this “householding” procedure.



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## Voting

### Who May Vote and Number of Votes

If you are a shareholder of record at the close of business on March 27, 2014 (the “Record Date”), you may vote on the matters proposed in this proxy statement. You have one vote for each share you own.

### Quorum for the Meeting

A majority of the outstanding shares of 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.*** 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 has not received voting instructions from the beneficial owner and cannot or chooses not to vote the shares in its discretion for that particular proposal.

### Counting of Votes

The voting standards required to elect directors and approve the other proposals, as well as the treatment of abstentions and broker non-votes, are described with each proposal under the respective “Required Vote and Recommendation” heading.

Only “votes cast” count in the voting results, and withheld votes and abstentions are not considered votes cast. If your shares are held through a broker, your vote instructs the broker how you want your shares to be voted. If you vote on each proposal, your shares will be voted in accordance with your instructions. Under the rules of the New York Stock Exchange (“NYSE”), brokers may vote shares they hold in “street name” on behalf of beneficial owners who have not voted with respect to certain discretionary matters. The proposal to ratify the appointment of PricewaterhouseCoopers LLP (Proposal Three) is considered a discretionary matter, so brokers may vote shares on this matter in their

discretion if no voting instructions are received. However, the election of directors (Proposal One), the advisory vote on executive compensation (Proposal Two) and the shareholder proposal are **NOT** considered discretionary matters, so brokers have no discretion to vote shares for which no voting instructions are received, and no vote will be cast if you do not vote on those items. ***We therefore urge you to vote on ALL voting items.***

The advisory vote on executive compensation is non-binding, meaning that our Board will not be obligated to take any compensation actions, or to adjust our executive compensation programs or policies, as a result of the vote. Notwithstanding the advisory nature of the vote, the resolution will be considered passed with the affirmative vote of a majority of the votes present at the Annual Meeting.

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, 137,483,098 shares of common stock were issued and outstanding (excluding treasury shares) that may be voted at the Annual Meeting.

## **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 on the proxy card how to vote your shares by either (i) using the Internet website or the toll-free telephone number set forth below or (ii) if you received paper copies of the proxy materials, signing, dating and mailing the enclosed proxy card to our independent proxy tabulation firm, Broadridge Investor Communications Services ("Broadridge"), in the enclosed envelope. Each of these voting methods is described below:

***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 21, 2014. Have your proxy card available when you access the Internet website. **IF YOU VOTE BY INTERNET, YOU DO NOT NEED TO RETURN A PROXY CARD.**

•

***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 21, 2014. **IF YOU VOTE BY TELEPHONE, YOU DO NOT NEED TO RETURN A PROXY CARD.**

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- **Vote by Mail.** If you received paper copies of the proxy materials, you may 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 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 a completed proxy card or vote by ballot 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, your vote serves as a voting instruction to the trustee for this plan.

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 20, 2014. If you do not vote by telephone or Internet, please return your proxy card as soon as possible.

- If you vote in a timely manner, the trustee will vote the shares as you have directed.
- If you do not vote, or if you do not vote in a timely manner, the trustee will vote your shares in the same proportion as the shares voted by participants who timely return their cards to the trustee.

**Changing Your Vote**

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

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

**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 2015 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 11, 2014. 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 2015 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 in writing between January 22, 2015 and February 21, 2015. If, however, the 2015 annual meeting is held more than 30 days before or more than 60 days after the anniversary of the 2014 Annual Meeting, the shareholder must submit any such proposal between (i) 120 calendar days prior to the 2015 annual meeting and (ii) the later of 90 calendar days prior to the 2015 annual meeting or 10 days following the date on which the date of the 2015 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 the shareholder’s interests in Company securities. We will not entertain any proposals or nominations at the 2015 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](http://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 and contact the Corporate Secretary before submitting a proposal or a nomination.

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## **PROPOSAL ONE: ELECTION OF DIRECTORS**

The Company's Board currently consists of eleven directors. At the 2012 annual meeting of shareholders, our shareholders approved amendments to our governing documents that eliminated the classified structure of the Board but left unaffected the existing terms of directors previously elected under our prior three-class structure. The annual election of Board members with expiring terms commenced with the 2013 annual meeting of shareholders.

Accordingly, the Board has nominated Leif E. Darner, Gayla J. Delly, John R. Friedery, Joe E. Harlan, Rick J. Mills, Charles M. Rampacek and William C. Rusnack, whose terms of office as members of the Board are expiring at this Annual Meeting, to serve a one-year term expiring at the 2015 annual meeting of shareholders. Biographical information for each nominee is provided below under the headings "Board of Directors—Biographical Information—Nominees to Serve an Annual Term Expiring at the 2015 Annual Meeting of Shareholders."

### **Required Vote and Recommendation**

Our By-laws require that, in an uncontested election, each director will be elected by a vote of the majority of the votes cast. A majority of votes cast means that the number of shares cast "for" a director's election exceeds the number of votes cast "against" that director. We will not treat any share as having cast a vote on this proposal (a) where the ballot is marked as withheld, (b) if it is otherwise present at the Annual Meeting but there is an abstention or (c) where a shareholder gives no authority or direction. In a contested election, the directors will be elected by a plurality of the votes cast, meaning the directors receiving the largest number of "for" votes will be elected to the open positions.

In an uncontested election, any nominee for director who duly holds office as a director under the By-Laws and does not receive an affirmative vote of a majority of the votes cast in favor of or against such nominee is required to tender his or her resignation promptly after such election. The independent directors of the Board, giving due consideration to the best interests of the Company and our shareholders, will then evaluate the relevant facts and circumstances and make a decision, within 30 days after the election, on whether to accept the tendered resignation. Any director whose resignation is under consideration is prohibited from participating in the Board's decision. The Board will promptly disclose publicly its decision and, if applicable, the reasons for rejecting the tendered resignation. The Board may fill any vacancy resulting from a director's accepted resignation, as provided in our By-laws.

Broker non-votes will not be considered to have voted on this proposal and will therefore have no effect on the proposal.

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 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 re-election.



The Board recommends that you vote “FOR” the election of all nominees to serve as directors.

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## **Board of Directors - Biographical Information**

### **Nominees to Serve an Annual Term Expiring at the 2015 Annual Meeting of Shareholders**

*Leif E. Darner*, age 62, has served as a director since August 2013 and serves as a member of the Audit Committee and the Finance Committee. From 2008 through 2013, Mr. Darner served as the chief executive officer of performance coatings at Akzo Nobel N.V., a leading global paints and coatings company and major producer of specialty chemicals, where he also served on the board of management and executive committee from 2004 through 2013. Prior to his most recent role, Mr. Darner led the chemicals business of Akzo Nobel N.V., and was previously general manager of the marine and protective coatings business unit.

We believe Mr. Darner is well qualified to serve as a director due to his executive leadership experience, strong international operations background, and extensive operational experience. This provides Mr. Darner with a unique insight into the Company's operational challenges and opportunities in international markets.

*Gayla J. Delly*, age 54, has served as a director since January 2008 and serves as a member of the Audit Committee and the Corporate Governance and Nominating Committee. Ms. Delly currently serves as President and Chief Executive Officer 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. At Benchmark Electronics Inc., she previously served as President from 2006 to December 2011, Executive Vice President and Chief Financial Officer from 2001 to 2006, and as Corporate Controller and Treasurer from 1995 to 2001. From March 2005 to October 2008, Ms. Delly also served as a member of the board of directors for Power One, a provider of power conversion and management solutions.

We believe that Ms. Delly is well qualified to serve as a director due to her international manufacturing experience, with specific focus on engineering and technology in emerging markets, including Asia and Latin America, which provides valuable insight into the Company's operations and assists in identifying product portfolio opportunities. In addition to her board experience, Ms. Delly has valuable executive leadership experience and financial expertise gained from her time with Benchmark Electronics Inc.

**John R. Friedery**, age 57, has served as a director since August 2007 and serves as Chairman of the Organization and Compensation Committee and as a member of the Corporate Governance and Nominating Committee. From January 2008 to January 2010, Mr. Friedery served as Senior Vice President; President, Metal Beverage Packaging, Americas and Asia, for Ball Corporation, a provider of metal and plastic packaging for beverages, foods and household products, and of aerospace and other technologies services. From January 2004 to December 2007, he served as Ball Corporation's Chief Operating Officer, Packaging Products Americas, and from April 2000 to May 2004 as 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. Mr. Friedery is currently providing strategic and management consulting services to the packaging and other manufacturing industries.

We believe that Mr. Friedery is well qualified to serve as a director due to his extensive operational experience with an international industrial manufacturing focus, which provides a global business perspective and a deep understanding of the Company's industry, end-markets and strategic focus. In addition to his board experience, Mr. Friedery also has experience with renewables and sustainability expertise gained from his service with Ball Corporation.

**Joe E. Harlan**, age 54, has served as a director since August 2007 and serves as Chairman of the Finance Committee and as a member of the Organization and Compensation Committee. Mr. Harlan currently serves as Executive Vice President and President of the Performance Products and Performance Systems Division of Dow Chemical Company, a global specialty chemical, advanced materials, agrosociences and plastics company. From 2008 to August 2011, he served as Executive Vice President of the Consumer and Office Business of the 3M Company, a diversified consumer products and office supply provider. From 2005 to 2008, Mr. Harlan served as 3M Company's Executive Vice President of the Electro and Communications Business. He served as President and Chief Executive Officer of Sumitomo 3M Ltd., a diversified technology and products manufacturer, from 2003 to 2004. Prior to his career with 3M Company, he spent 20 years with General Electric Company, holding a number of leadership positions including serving as Vice President of Finance and CFO for GE Lighting Group (Global).

We believe that Mr. Harlan is well qualified to serve as a director due to his strong international experience and familiarity with emerging markets, including Asian markets, gained through his various executive leadership roles. In addition to his board experience, Mr. Harlan also has experience in engineering and technology service from his positions with General Electric and 3M Company.

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**Rick J. Mills**, age 66, has served as a director since 2007 and serves as Chairman of the Audit Committee and as a member of the Corporate Governance and Nominating 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., from 2005 to March 2008. He was Vice President and President — Filtration Business from 2000 to 2005 and held other key management positions with Cummins Inc. from 1970 to 2000, including Corporate Controller and Chief Accounting Officer from 1996 to 2000. From February 2005 to April 2009, Mr. Mills served as a director for Rohm & Haas, a specialty chemicals company, which was sold to Dow Chemical in April 2009. From 2008 to 2010, Mr. Mills served as a director and member of the audit committee of GERDAU Ameristeel, the second largest mini-mill steel producer in North America, which was acquired by GERDAU, SA in 2010. Since January 2012, Mr. Mills has served as a director and member of the audit committee of Commercial Metals Company, a global manufacturer, recycler and marketer of steel and metal products and related materials. Since October 2013, Mr. Mills has served as director and member of the audit committee of Masonite International, a global manufacturer of interior and exterior doors, door components and door entry systems.

We believe that Mr. Mills is well qualified to serve as a director due to his extensive knowledge of industrial manufacturing and cyclical end-markets, which provides a deep familiarity with the Company's industrial challenges and opportunities. Additionally, Mr. Mills has valuable corporate governance and compliance expertise through his board of directors and audit committee experience.

**Charles M. Rampacek**, age 70, has served as a director since 1998 and serves as a member of the Audit Committee and the Finance Committee. Mr. Rampacek is currently a business and management consultant in the energy industry. Mr. Rampacek served as the Chairman of the Board, President and Chief Executive Officer of Probex Corporation ("Probex"), an energy technology company providing proprietary oil recovery services, from 2000 to 2003. From 1996 to 2000, Mr. Rampacek served as President and Chief Executive Officer of Lyondell-Citgo Refining, L.P., a manufacturer of petroleum products. From 1982 to 1995, he held various executive positions with Tenneco Inc. and its energy related subsidiaries, including President of Tenneco Gas Transportation Company, Executive Vice President of Tenneco Gas Operations and Senior Vice President of Refining. In 2005, two complaints seeking recovery of certain alleged losses were filed against former officers and directors of Probex, including Mr. Rampacek, as a result of the bankruptcy of Probex in 2003. These complaints were defended under Probex's director and officer insurance by AIG, and settlement was reached and paid by AIG with bankruptcy court approval in the first half of 2006. An additional complaint was filed in 2005 against noteholders of certain Probex debt, of which Mr. Rampacek was a party. A settlement of \$2,000 was reached and similarly approved in the first half of 2006.

From November 2006 to September 2011, Mr. Rampacek served as 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. Since December 2009, Mr. Rampacek has also been a member of the Board of Directors of Cenovus Energy Inc., a Canadian publicly-traded company that is involved in natural gas and oil sands production and North American oil refining. He is a member of Cenovus Energy

Inc.'s Nominating and Corporate Governance Committee, Reserve Committee and Safety, Environment and Responsibility Committee.

We believe that Mr. Rampacek is well qualified to serve as a director due to his extensive knowledge of and experience in the energy industry, including the oil and natural gas markets and with complex energy recovery technology, which provides unique insight into the Company's end markets and customer needs. Mr. Rampacek also has extensive board of directors experience and knowledge of corporate governance matters.

**William C. Rusnack**, age 69, has served as a director since 1997 and serves as Chairman of the Corporate Governance and Nominating Committee and a member of the Audit Committee. He is currently a private investor and independent corporate director. Mr. Rusnack was President, Chief Executive Officer, Chief Operating Officer and director of Premcor Inc. 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 has also been since October 2001 a director of Sempra Energy, an energy services company, where he serves as lead director, a member of the governance and executive committees, as well as chairman of the organization and compensation committee. Since January 2002, he has also been a director of Peabody Energy, a coal mining company, where he serves as a member of the executive committee, nominating and governance committee and as chairman of the audit committee. From April 2010 through July 2012, he served as a director and member of the compensation committee and nominating and governance committee of Solutia Inc., a producer of specialty chemicals and performance materials, which was acquired by Eastman Chemical in July 2012.

We believe Mr. Rusnack is well qualified to serve as a director due to his extensive knowledge of the energy industry, including the oil and natural gas markets, and his experience in infrastructure operations, which provides an intimate understanding of the Company's customers and its operational challenges and opportunities. Mr. Rusnack also has extensive executive compensation and risk management expertise through his board experience with Sempra Energy, Peabody Energy and the Company.

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## **Directors Serving a Term Expiring at the 2015 Annual Meeting of Shareholders**

**Mark A. Blinn**, age 52, has served as a director and as President and Chief Executive Officer since October 2009. Mr. Blinn previously served as the Company's Chief Financial Officer beginning in 2004 and Senior Vice President, Latin America Operations beginning in November 2007. Prior to his service with the Company, he was employed as the Chief Financial Officer of FedEx Kinko's Office and Print Services, 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. Since January 2013, Mr. Blinn has served as a director of Texas Instruments, a semiconductor company.

We believe Mr. Blinn is well qualified to serve as a director due to his position as the Company's President and Chief Executive Officer, which provides the Board with intimate knowledge of the Company's day to day operations. Mr. Blinn also brings an international and emerging markets perspective to the Board from his experience as the Company's Senior Vice President, Latin America Operations.

**Roger L. Fix**, age 60, has served as a director since 2006 and serves as a member of the Finance Committee and the Organization and Compensation Committee. Mr. Fix served as Chief Executive Officer of Standex International Corporation ("Standex"), a publicly traded diversified manufacturing company from 2003 to January 2014 and currently serves as the non-executive chairman of the board of directors of Standex. He was Standex's Chief Operating Officer from 2001 to 2002. 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 also served as a member of its board of directors 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.

We believe that Mr. Fix is well qualified to serve as a director due to his executive leadership experience, including with John Crane Inc., Xomox Corporation and other competitor companies, which provides extensive knowledge of the Company's products and valuable insight into the competitive landscape for flow control products. In addition to his board experience, Mr. Fix also has international operations experience and corporate development expertise.

**David E. Roberts**, age 53, has served as a director since November 2011 and serves as a member of the Finance Committee and the Organization and Compensation Committee. Mr. Roberts has served as President and CEO of Penn West Exploration, a Canadian oil and gas exploration and production company, since June 2013. He served as Executive Vice President and Chief Operating Officer of Marathon Oil Corporation, an independent upstream company with international operations in exploration and production, oil sands mining and integrated gas, from 2008 through December 2012. He held other key management positions with Marathon from 2006 through 2011, including Executive Vice President in charge of Marathon's worldwide upstream operations and Senior Vice President of business development. Prior to his time at Marathon, Mr. Roberts held leadership roles at BG Group, an integrated natural gas company, and served as advisor to the Vice Chairman of Chevron Corporation from 2001 to 2003.

We believe Mr. Roberts is well qualified to serve as a director due to his executive leadership experience, strong international operations background, business development experience and extensive knowledge of and experience in the energy industry. This provides Mr. Roberts with a unique insight into the Company's operational challenges and opportunities and its end-markets and customer needs.

**James O. Rollans**, age 71, has served as a director since 1997. Mr. Rollans serves as the Non-Executive Chairman of the Board of Directors and as an alternate member of all Board committees. Mr. Rollans 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, as its Vice President of Corporate Communications from 1982 to 1992, and as a member of its board of directors from 1995 to 2001. From February 2002 to February 2009, Mr. Rollans served as a director of Advanced Medical Optics, Inc., a developer and manufacturer of ophthalmic surgical and contact lens products. Mr. Rollans is also currently a director of Encore Credit Corporation, a mortgage finance company.

We believe that Mr. Rollans is well qualified to serve as a director due to his executive leadership experience, including his various leadership roles with a Fortune 500 customer of flow control products and services, which provide a multi-disciplined perspective and a profound level of customer intimacy, and also due to his experience in managing challenging, complex projects in emerging markets like those faced by the Company. Mr. Rollans also has strong financial expertise gained from his financial leadership roles with Fluor Corporation and extensive board experience with other public companies.

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Role of the Board; Corporate Governance Matters

The Board has a 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 help ensure that our shareholders' best interests are being served. In its efforts to satisfy this duty, the Board has established internal guidelines designed to promote effective oversight of the Company's vital business affairs that the Board monitors, which it updates as it deems 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 further establish targets for director equity ownership and 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 of the Board will review whether it is appropriate for the director to continue serving on the Board. Finally, these guidelines establish 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 in his or her role 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 family members with respect to past employment or affiliation with the Company or its independent registered public accounting firm.

The Board has determined that, other than Mark A. Blinn, the Company's President and Chief Executive Officer, each member of the Board, including all persons nominated for re-election, meet the independence standards set forth in the applicable rules of the SEC and the NYSE corporate governance listing standards.

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](http://www.flowserve.com) under the "Investor Relations — Governance" caption.

Board Leadership Structure and Risk Oversight

The positions of Chairman of the Board and Chief Executive Officer have been separated at the Company since 2005. James O. Rollans, 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 an alternate member for all Board committees. Mr. Rollans strives to attend as many committee meetings as possible.

We currently believe that separating the positions of Chairman of the Board and Chief Executive Officer is most appropriate for the Company because it places an independent director in a position of leadership on the Board. We believe this independent leadership and the non-executive Chairman's authority to call meetings of the non-employee directors adds value to our shareholders by facilitating a more efficient exercise of the Board's fiduciary duties in the current structure. We also believe the non-executive Chairman further enhances independent oversight by being responsible for establishing the Board's annual schedule and collaborating with the Chief Executive Officer on the agendas for all Board meetings. The separation of Chairman and Chief Executive Officer also allows the non-executive Chairman to provide support and advice to the Chief Executive Officer, reinforcing the reporting relationship, and accountability, of the Chief Executive Officer to the Board.

The Company's Chief Executive Officer and other members of senior management are responsible for the ongoing assessment and management of the risks the Company faces, including risks relating to capital structure, liquidity and credit, financial reporting and public disclosure, operations and governance. The Board and each of the Board's four committees (the Audit Committee, Finance Committee, Corporate Governance and Nominating Committee and Organization and Compensation Committee) oversee senior management's policies and procedures in addressing these and other risks that fall within the scope of the Board's and the committees' respective areas of oversight responsibility. For example, the Board directly oversees risk management relating to strategic planning, the Finance Committee directly oversees risk management relating to capital structure and liquidity, the Corporate Governance and Nominating Committee directly oversees risk management relating to director independence and corporate governance and the Organization and Compensation Committee directly oversees risk management relating to employee compensation and succession planning. Additionally, the Audit Committee directly oversees risk management relating to financial reporting and public disclosure and legal and regulatory compliance and, in accordance with provisions of the NYSE Listed Company Manual, reviews and discusses, in a general manner, the process by which the Board and its committees oversee senior management's exercise of risk management responsibilities. The Board is regularly informed through committee reports of each committee's activities in overseeing risk management within their respective areas of oversight responsibility.

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Meetings of the Board

The Board held eight regular meetings and four special meetings in 2013. 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. Darner, who joined the Board in August 2013, all Board members attended the Company's 2013 annual meeting of shareholders. In 2013, each director attended at least 75% of the meetings of the Board and the committees on which he or she served during the period for which he or she has been a director.

Shareholder Communications with the Board

Shareholders and other interested parties may communicate with the Board directly by writing to: James O. Rollans, 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. Rollans.

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](http://www.flowserve.com) under the "Investor Relations — Governance" caption.

Committee Membership and Number of Meetings

The following table identifies the current members of each of the Board's committees and the number of meetings held in 2013:

Name	Audit <sup>(1)</sup>	Corporate Governance & Nominating <sup>(2)</sup>	Finance <sup>(2)</sup>	Organization & Compensation <sup>(2)</sup>
Leif E. Darner	X		X	
Gayla J. Delly	X	X		
Roger L. Fix			X	X
John R. Friedery		X		Chair
Joe E. Harlan			Chair	X
Rick J. Mills	Chair	X		
Charles M. Rampacek	X		X	
David E. Roberts			X	X
James O. Rollans <sup>(3)</sup>				
William C. Rusnack	X	Chair		
<b>Number of Meetings Held</b>	<b>8</b>	<b>3</b>	<b>4</b>	<b>6</b>

*The Board has determined that Mr. Mills qualifies as an audit committee financial expert under SEC rules and has accounting or related financial management expertise for purposes of the NYSE corporate governance listing*

*(1) 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 required by the NYSE.*

*(2) The Board has determined that all members of the committee meet the independence standards of the NYSE.*

*(3) As the Non-Executive Chairman of the Board of Directors, Mr. Rollans serves as an alternate director of all committees for any committee member not in attendance at a committee meeting.*

#### Audit Committee

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 also reviews and discusses, in a general manner, the process by which the Board and the other Board committees oversee senior management's exercise of risk management responsibilities.

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.

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Finance Committee

The Finance Committee advises the Board on all corporate financing and related treasury matters regarding capital structure and major corporate transactions. The Finance Committee also approves major capital expenditures made by the Company and also advises the Board on the Company's pension fund performance.

Corporate Governance and Nominating Committee

The CG&N Committee is responsible for making recommendations to the Board for the positions of Chairman of the Board, President and Chief Executive Officer. The CG&N Committee is also responsible for recommending candidates for membership to the Board. Prior to considering nominee director candidates, the CG&N Committee assesses the appropriateness of the Board's current size and composition and whether any vacancies on the Board are expected due to retirement or other factors. If additional directors are needed or vacancies are anticipated or otherwise arise, the CG&N Committee utilizes a variety of methods for identifying and evaluating nominee director candidates.

The identification and evaluation of director candidates begins with the Board's Corporate Governance Guidelines, which establish the criteria for Board membership. As a starting point under the Guidelines, all prospective Board members must possess the highest professional and personal ethics. Board members should have varied professional expertise in fields of accounting and finance, engineering, industrial sales, manufacturing, international operations, human resources and field service. Additionally, all existing and prospective Board members should have a broad strategic view, possess a global business perspective and demonstrate relevant and successful career experience. A Board member's 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 and effectively represent the interests of the shareholders.

The Guidelines further articulate the Board's firm belief that, underlying the aforementioned criteria, the Board's members should have a diversity of backgrounds, which is viewed in comprehensive terms. In evaluating diversity of backgrounds, the Board considers individual qualities and attributes, such as educational background, professional skills, business experience and cultural viewpoint, as well as more categorical diversity metrics, such as race, age, gender and nationality. This consideration is implemented through the selection process for director nominees, and the Board assesses its effectiveness in promoting diversity through an annual self-assessment process that solicits feedback concerning the appropriateness of the Board's diversity, among other critical performance factors.

The CG&N Committee considers various potential director candidates 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.

A shareholder desiring to recommend a candidate for election to the Board should submit a written 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.

All identified candidates, including shareholder-recommended candidates, 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.

The CG&N Committee is also responsible for preparing materials for the Chief Executive Officer's annual 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.

#### Organization and Compensation Committee

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 our shareholders, while adhering to and promoting the Company's risk management objectives. The O&C Committee is the administrator of the Company's various equity 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, Chief Administrative Officer, 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 management succession plans 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.

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## Board of Directors Compensation

The following table sets forth certain information with respect to our non-employee director compensation for the fiscal year ended December 31, 2013. Compensation information for Mr. Blinn is set forth below under “Executive Compensation—Summary Compensation Table.” Mr. Blinn did not receive any compensation solely for service as a director.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(1)(2)</sup>	Total (\$)
Leif E. Darner	28,736	–	28,736
Gayla J. Delly	80,625 <sup>(3)</sup>	124,947	205,572
Roger L. Fix	86,250 <sup>(3)</sup>	124,947	211,197
John R. Friedery	97,750 <sup>(3)</sup>	124,947	222,697
Joe E. Harlan	85,000	124,947	209,947
Michael F. Johnston <sup>(5)</sup>	33,626	–	33,626
Rick J. Mills	97,750 <sup>(3)</sup>	124,974	222,697
Charles M. Rampacek	75,000	124,947	199,947
David E. Roberts	86,250 <sup>(3)</sup>	124,947	211,197
James O. Rollans	224,250 <sup>(3)(4)</sup>	124,947	349,197
William C. Rusnack	80,000	124,947	204,947

*Eligible directors received an annual equity grant of 2,232 shares of restricted common stock (as adjusted for our three-for-one forward stock split) on May 23, 2013, the date of the Company’s 2013 annual meeting of shareholders. The amounts shown in this column reflect the grant date fair value of the awards computed in accordance with Financial Accounting Standards Board Accounting Standards Codification 718, “Compensation –*

*Stock Compensation”, and are calculated using a price per share of \$55.98, the closing market price of the Company’s common stock as reported by the NYSE on the date of grant. Assumptions used in the valuations are discussed in Note 5 to the Company’s audited consolidated financial statements for the year ended December 31, 2013 in the Annual Report on Form 10-K filed on February 18, 2014. Mr. Darner did not receive an equity grant because he joined the Board on August 12, 2013, which was after the May 23, 2013 grant date. Mr. Johnston did not receive an equity grant because he retired from the Board effective May 23, 2013.*

*The current directors, except for Mr. Darner, each had 2,232 shares of restricted common stock outstanding at December 31, 2013; all other shares held are vested. No director had stock option awards outstanding at December 31, 2013.*

*(3) Amount reported includes a 15% premium to actual fees due to the director’s election to defer all or a portion of cash retainer payments in the form of Company common stock under the Company’s director stock deferral plan.*

*(4) Includes an additional cash retainer for services as non-executive Chairman of the Board.*

*(5) Mr. Johnston retired from the Board on May 23, 2013.*



2013 Director Compensation Elements

In 2013, non-employee directors received, as applicable: (a) an annual cash retainer of \$60,000; (b) an annual cash committee service fee of \$7,500 (per committee); (c) an annual cash committee chairman service fee of \$10,000; and (d) equity compensation with a target value of \$125,000. Directors are also eligible to receive special additional compensation when performing services that have been determined by the Board to be well above and beyond the normal director service requirements. The Board has set a compensatory rate of \$3,500 per day for such services, though no fees were paid for this purpose in 2013. The compensation elements and amounts were established by the Board after review of data prepared by Lyons, Benenson & Company Inc., the O&C Committee's independent consultant, showing competitive director compensation levels for the Company's high performance peer group, which is discussed under "Executive Compensation."

Pursuant to the Company's cash and stock director deferral plans and equity compensation plans, directors may elect to defer all or a portion of their annual cash compensation and equity compensation. The annual cash compensation may be deferred in the form of cash or in the form of an equivalent value of Company common stock. Compensation deferred in the form of cash accrues interest while deferred at rates that do not exceed market rates or constitute preferential earnings. If a director elects to defer cash compensation in the form of Company common stock, the director receives a 15% premium on the amount deferred.

The equity portion of non-employee director compensation is provided in the form of restricted common stock of the Company having a \$125,000 fair market valuation at the time of grant, which is established on the date of the annual meeting of shareholders of the applicable year. Voting rights accompany such restricted common stock, which fully vest after the earlier of one year from the date of grant, the termination of the director's service due to death or disability or a change in control. Under the Company's Corporate Governance Guidelines, all non-employee directors must own shares of Company common stock with a value at least five times his or her annual cash retainer (currently valued at \$300,000) by his or her fifth anniversary of Board service. If the stock ownership requirement is not met, the director will receive all future Board compensation in the form of Company common stock until the requirement is satisfied.

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Non-Executive Chairman of the Board Compensation

The non-executive Chairman of the Board receives an annual cash service fee in addition to the annual cash retainer and cash committee service fees. This annual service fee is set at \$125,000. Mr. Rollans receives this additional compensation on a quarterly basis, in accordance with the pre-established director compensation cycles.

Compensation Committee Interlocks and Insider Participation

During 2013, the members of the O&C Committee included Messrs. Friedery, Fix, Harlan, Rampacek, Roberts and Rusnack. None of the members of the O&C Committee were at any time during 2013 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.

**EXECUTIVE OFFICERS**

The following sets forth certain information regarding the Company's executive officers. Information pertaining to Mr. Blinn, who is both a director and executive officer of the Company, is presented above under "Board of Directors—Biographical Information—Directors Serving a Term Expiring at the 2015 Annual Meeting of Shareholders."

<b>Name</b>	<b>Age</b>	<b>Position With the Company</b>
Mark A. Blinn	52	President, Chief Executive Officer and Director
Mark D. Dailey	55	Senior Vice President and Chief Administrative Officer
Thomas L. Pajonas	57	Executive Vice President and Chief Operating Officer
Carey A. O'Connor	42	Senior Vice President, General Counsel and Secretary
Michael S. Taff	51	Senior Vice President and Chief Financial Officer
Dave M. Stephens	52	Senior Vice President and Chief Human Resources Officer

**Mark D. Dailey** has served as Senior Vice President and Chief Administrative Officer since February 2010. Mr. Dailey previously served as Senior Vice President, Human Resources from November 2006 and Chief Compliance Officer from May 2005. He served as Vice President, Supply Chain and Continuous Improvement, from 1999 until 2005. Before joining the Company, 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.

**Thomas L. Pajonas** has served as Executive Vice President since February 2014 and Chief Operating Officer since January 2012. From 2004 to January 2012, he served as President of the Flow Control Division, holding the positions of Vice President from 2004 to December 2006 and Senior Vice President from December 2006. He was previously employed as Managing Director of the U.S. Rail Products Unit 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.

**Carey A. O'Connor** has served as Senior Vice President, General Counsel and Secretary since November 2012. She previously served as Vice President and Corporate Secretary from May 2011 to November 2012, as Vice President, Global Group Counsel from October 2006 to May 2011, and Director, Global Human Resources Counsel from January 2003 to October 2006.

**Michael S. Taff** has served as Senior Vice President and Chief Financial Officer since January 2012. He previously served as Senior Vice President and Chief Financial Officer of The Babcock & Wilcox Company, a leading international provider of energy products and services, from July 2010 to November 2011. Prior to this position, he served as Senior Vice President and Chief Financial Officer of McDermott International, Inc., a leading engineering, procurement, construction and installation company focused on complex offshore oil and gas projects, from April 2007 to July 2010, and as its Vice President and Chief Accounting Officer from June 2005 to April 2007. From September 2010 through December 2011, Mr. Taff served as a director of USEC Inc., a publicly-traded supplier of enriched uranium and nuclear industry-related services to commercial nuclear power plants.

**Dave M. Stephens** has served as Senior Vice President, Chief Human Resources Officer since February 2014. He previously served as Vice President, Human Resources from February 2010 to February 2014, as Vice President, Global Compensation & Benefits from March 2002 to February 2010, and Director, Global Compensation & Benefits from November 1997 to February 2002.

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## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Executive Summary

**Introduction.** The following sections contain our Compensation Discussion and Analysis (“CD&A”). This CD&A provides an overview and analysis of our executive compensation program and policies and the material compensation decisions we have made for our principal executive officer and our other executive officers named in the “Summary Compensation Table” on page 36. We refer to this group of executive officers collectively as our “Named Executive Officers” throughout this document. During 2013, our Named Executive Officers were:

- **Mark A. Blinn**, President and Chief Executive Officer (“CEO”) (principal executive officer);
- **Michael. S. Taff**, Senior Vice President and Chief Financial Officer (“CFO”) (principal financial officer);
- **Thomas L. Pajonas**, Executive Vice President and Chief Operating Officer;
- **Mark D. Dailey**, Senior Vice President and Chief Administrative Officer; and
- **Carey A. O’Connor**, Senior Vice President, General Counsel and Corporate Secretary.

**Pay for Performance.** Each year, the O&C Committee, which is made up entirely of independent directors, determines the total amount and appropriate mix of compensation for our executive officers, including the Named Executive Officers. We believe that our compensation program is designed so that pay is commensurate with the level of performance generated, with incentive compensation representing the majority of total compensation. Accordingly, the President and CEO had 84.8% of his pay “at risk,” or dependent upon both the Company’s and his individual performance, and the other Named Executive Officers had on average 74.4% of their pay “at risk”.

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The following graphs illustrate the directional relationship between our Company performance and the compensation of our President and Chief Executive Officer.

As discussed in more detail under “—Elements of the Executive Compensation Program—Annual Incentive Opportunity”, our Named Executive Officers, as well as other Company employees, are eligible to receive a cash incentive payment based upon the Company’s operating income and operating cash flow performance against pre-established goals. Based on our 2013 results, our operating income performance metric was 100.6% of our pre-established goal, and our operating cash flow metric was 83.2% of our pre-established goal. This resulted in an annual incentive award payout of 93.5% of target for our Named Executive Officers, reflecting our pay for performance philosophy.

#### 2011-2013 TOTAL SHAREHOLDER RETURN

Our Named Executive Officers, as well as other Company employees, receive a portion of their equity incentive compensation in the form of contingent performance shares, which vest, if at all, based on the Company’s average return on net assets (“RONA”) against the performance of a defined peer group. For the 2011-2013 performance period, the Company’s RONA was 17.3%, representing approximately 111.1% of the three year average median RONA of the high performance peer group, which is described in more detail under “—Executive Compensation Program Objectives and Principles”. This resulted in the contingent performance shares awarded for this performance period vesting at 191.6% of target. Additionally, the Company’s total shareholder return (“TSR”) for 2011-2013, which is measured by the change in our stock price from the end of 2010 through the end of 2013, plus reinvestment of dividends paid during the period, was 105.2%.

**2013 Executive Compensation Vote.** At the 2013 annual meeting of shareholders, our shareholders voted 98.7% in favor of the compensation of our named executive officers as described in our 2013 proxy statement. In consideration of the results, the O&C Committee acknowledged the support received from our shareholders and viewed the results as a confirmation of the Company’s existing executive compensation policies and decisions. Accordingly, we did not significantly change our compensation principles and objectives in 2013.

**Compensation Objectives and Core Elements.** Our key executive 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. In pursuing these objectives, the O&C Committee uses certain guiding principles in designing the specific elements of the executive compensation program.

Consistent with these principles, the core elements of our executive compensation program consist of:

- cash compensation, in the form of market competitive base salary and an annual incentive opportunity tied to operating income and operating cash flow performance against pre-established goals; and
- long-term equity compensation, in the form of restricted stock that vests over time and contingent performance shares that vest, if at all, based on the achievement of benchmarked financial performance metrics designed to reinforce our business objectives and values.

Other benefits are provided to the Named Executive Officers that are generally consistent with those provided to other employees of the Company, including health plans and retirement benefits.

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This CD&A 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. To guide the discussion and analysis, we have organized our CD&A after this “Executive Summary” into the following sections:

- ***Oversight of the Executive Compensation Program*** – This section describes the respective roles and responsibilities of the O&C Committee and the O&C Committee’s independent compensation consultant.

- ***Executive Compensation Program Objectives and Principles*** – This section describes the objectives that guide our compensation programs and discusses the individual principles the O&C Committee has established to drive our achievement of those objectives. This includes how our high performance peer group is established and how compensation is benchmarked to market reference points.

- ***Elements of the Executive Compensation Program*** – This section discusses the individual elements of our compensation program for the Named Executive Officers, including base salary, annual cash incentive opportunity, long-term equity incentives (including stock ownership requirements), pension plan, severance benefits, change-in-control plan and certain other benefits.

- ***Additional Executive Compensation Information*** – This section includes an overview of other important executive compensation programs and policies, including employment agreements, tax and accounting implications and specific discussion of the CEO’s compensation in 2013.

#### 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 CEO and for approving the compensation of our other executive officers, including the other 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 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 our executive compensation program, and it provides no other services to the Company. The services it provides include:

- providing and analyzing competitive market compensation data;
- analyzing the effectiveness of executive compensation programs and making recommendations, as appropriate;
- assisting in the design and negotiation of employment agreements, if applicable;
- 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 “—Executive Compensation Program Objectives and Principles.”

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 and Principles

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. While the individual compensation elements may differ, the design of the executive compensation program is generally based on the same objectives as the overall compensation program provided to all of our employees. The O&C Committee has established the following principles, which are meant to effect these compensation objectives and guide the design and administration of specific plans, agreements and arrangements for our executives, including 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 to how well they perform individually and should be “at risk” based on how well their respective divisions (where applicable) and the Company perform relative to applicable financial and non-financial objectives. To accomplish this, 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, build long-term shareholder value and avoid encouraging excessive risk-taking.

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 period, executive officers should be paid more than 100% of the established target award. Conversely, when performance does not meet the established objectives, incentive award payments should be less than 100% of the established target level or eliminated altogether if performance is below threshold performance levels.



***Compensation Should Reinforce Our Business Objectives and Values.*** Our business vision is to become the world's most respected company in flow management through our industry expertise, innovative solutions and community commitment. Eight key strategies for achieving this vision are communicated to all our employees, and are referred to in this proxy statement as our key strategies. These key strategies include: *Disciplined Profitable Growth; Customer Intimacy; Employee Focus; Innovation and Portfolio Management; Strategic Localization; Operational Excellence; Long-Term Value Creation and Sustainable Business Model.* The O&C Committee considers these strategies, as well as the Company's risk tolerance, when identifying the appropriate incentive measures and when assigning individual goals and objectives to the Named Executive Officers.

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**Performance-Based Compensation Should be Benchmarked.** 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" ("HPPG") 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.

For the 2011-2013 and 2012-2014 performance periods, our HPPG consisted of the following companies:

Cameron International	Dresser-Rand Group Inc.	Pall Corp.	Sulzer
Danaher Corp.	Illinois Tool Works Inc.	Parker Hannifin Corp.	Weir Group PLC
Donaldson Co Inc.	Lincoln Electric Holdings Inc.	Rockwell Automation Inc.	Westinghouse Air Brake Tech.Corp.
Dover Corp.	Nordson Corp.	SKF AB	

The process for establishing the prior HPPG began by compiling an initial sample of potential comparator organizations from S&P 1500 and FORTUNE Industrials, current peers and relevant competitors based on Standard Industrial Classification ("SIC") codes and Global Industrial Classification Standards. We then used a top-down, multi-stage filtering approach to distill the comparator sample and establish the HPPG.

In the interest of having a more consistent and functional benchmarking standard, the O&C Committee strives to reevaluate the HPPG at least once every three years, and a detailed process is followed in identifying and evaluating organizations appropriate for inclusion. The last scheduled review of the HPPG was undertaken in late 2012. As a result of this review, the O&C Committee determined certain changes to the HPPG were advisable, primarily to help ensure the continuing high-performance character of the included member organizations and, as the Company has grown and evolved over the last several years, to help ensure the group appropriately reflects the operational and strategic profile of the Company.

As a result, our HPPG for the 2013-2015 performance period and future performance periods consists of the following companies:

Ametek Inc.	Dover Corp.	Parker Hannifin Corp.	Weir Group PLC
Atlas Copco AB	Dresser-Rand Group Inc.	Rockwell Automation Inc.	Woodward Inc.
Cameron International	Joy Global Inc.	SKF AB	
Crane Co.	Lincoln Electric Holdings Inc.	Snap-On Inc.	
Danaher Corp.	Nordson Corp.	Sulzer	
Donaldson Co Inc.	Pall Corp.	Wabtec Corp.	

The process for establishing the current HPPG again began by compiling an initial sample of potential comparator organizations from S&P 1500 and FORTUNE Industrials, current peers and relevant competitors based on SIC codes and Global Industrial Classification Standards. We then used a top-down, multi-stage filtering approach to distill the comparator sample and establish the HPPG. The first filter imposed a revenue requirement of between \$1 billion and \$16 billion. The second filter required that the average of the two, three and four-year TSR be above the industrial median. The third filter focused on core financial criteria relevant to the Company, which included revenue growth, RONA, operating cash flow and operating margin, three of which were required to be above the industrial median. The next filter imposed mandatory standalone criteria that address certain operational and strategic aspects and included an end-to-end supply chain and greater than 60% of revenues derived multinationally.

This filtering approach produced a group of 32 organizations. These organizations were then subjected to additional review to identify key business drivers that the O&C Committee believed would impact an organization's ability to be a fair point of comparison for the Company over the next three years. In this additional review, the O&C Committee examined debt to equity ratios, net property, plant and equipment as a percentage of revenues, goodwill as a percentage of total assets (greater than the 25<sup>th</sup> percentile required) and organic sales growth (greater than the 25<sup>th</sup> percentile required). This process resulted in the final HPPG identified above.

***Compensation Levels Should be Market Competitive.*** To encourage building long-term shareholder value and the attraction and retention of executive talent, at least once each year the O&C Committee reviews market compensation survey data compiled and prepared by management and their executive compensation 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) information for comparable executive positions within the HPPG, as identified above; and (ii) information from a broad group of durable goods manufacturing companies using Hewitt Associates' "Total Compensation Measurement survey" (the "Hewitt Survey"), which we sometimes refer to as the broad or broader market. The O&C Committee recognizes 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. As such, the O&C Committee does not limit its market analysis to only the organizations in our HPPG.

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 at levels approximating the market median balances our interests in maintaining market competitive compensation and organizational efficiency. As such, base salary and target annual incentive opportunity for our executives are both generally set at levels approximating the 50<sup>th</sup> percentile of both the HPPG and the broad market taken from the Hewitt Survey. Long-term incentive compensation is set at levels approximating an average of the 50<sup>th</sup> percentile opportunity of the HPPG and the 75<sup>th</sup> percentile opportunity of the broad market taken from the Hewitt Survey.



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The percentile differences in reference points for the long-term incentive compensation are due to the performance metrics being set in reference to the higher performing members of the HPPG, which generally results in more rigorous performance targets than when compared to the broader market. With these more demanding performance metrics, the O&C Committee believes that it is appropriate to use a higher percentile reference for the broad market when setting long-term incentive compensation targets. In using these compensation benchmarks, the O&C Committee establishes goals for both absolute and relative Company performance, which may be at or above median performance, to objectively determine performance and compensation 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 is "at risk" based on individual, division, function and/or corporate performance should increase in line with the scope and level of the executive's business responsibilities. Accordingly, for 2013, on average 74.4% of the total target-direct compensation of the Named Executive Officers at the time of award was dependent upon our stock price or our performance. The following table presents the percentage of each Named Executive Officer's total target-direct compensation for 2013 that was at risk as of the time of award.

## NAMED EXECUTIVE OFFICERS

## 2013 TOTAL DIRECT COMPENSATION

Named Executive Officer	Percent of Fiscal 2013 Pay "At Risk" <sup>(1)</sup>
<i>Mark A. Blinn</i>	84.8 %
<i>Michael S. Taff</i>	76.2 %
<i>Thomas L. Pajonas</i>	79.2 %
<i>Mark D. Dailey</i>	72.2 %
<i>Carey A. O'Connor</i>	70.1 %

(1) 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, target long-term incentive opportunity and base salary.

***Incentive Compensation Should Balance 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 makes the performance of the Company's common stock a targeted incentive. As discussed in further detail below, we have also established minimum stock ownership requirements for our executives that carry associated penalties if they are not met.

The O&C Committee also recognizes that, while stock prices correlate to corporate performance over the long-term, other factors may significantly affect stock prices at any point in time. These factors include 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. The influence of these factors makes performance of the Company's common stock alone an incomplete measure of the Company's performance. Accordingly, the base salary and annual cash incentive opportunity compensation components emphasize current or short-term corporate performance and the realization of defined business and financial objectives, which tend to be less impacted by short-term fluctuations in the price of the Company's common stock.

Over the past several years, the O&C Committee has maintained a ratio of base salary and annual cash incentive opportunity (short-term focus compensation) to long-term incentive compensation (long-term focus compensation) that is more heavily weighted towards long-term compensation for our Named Executive Officers. The O&C Committee believes that this greater emphasis on long-term compensation appropriately aligns the executives' total compensation with the Company's short-term and long-term performance objectives. This emphasis provides each Named Executive Officer a competitive amount of cash compensation each year (with the opportunity to increase that amount if annual incentive objectives are exceeded), 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. For the CEO, the emphasis on long-term compensation is greater than that for the other Named Executive Officers, which the O&C Committee believes is appropriate in light of the position's strategic focus, global governance and management responsibilities and accompanying risks.

***Long-Term Incentives Should Balance Stock- and Financial-Based Achievements.*** In 2013, our long-term incentive awards for the Named Executive Officers were equally weighted between:

- restricted common stock, which generally vests ratably over time; and
- contingent performance shares, which generally vest at the expiration of a 3-year performance period based on RONA performance compared to that of the HPPG.

The O&C Committee has determined that this long-term incentive mix appropriately 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 the Company's risk profile and the interests of our shareholders. The Company does not currently grant stock options, and no options have been awarded since 2007.

The O&C Committee may in the future adjust the current mix of award types, adjust vesting conditions or approve different types of awards as part of its overall long-term incentive program. Any review of the

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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.

***The Executive Compensation Program Should be Reviewed Annually for Effectiveness.*** At the first regular committee meeting following our fiscal year end, the O&C Committee conducts a comprehensive review of all components of our executive compensation program. This review is done with the input of LB&Co and in light of evolving market practices in the general industry, external regulatory requirements, the competitive market for executives, our risk management objectives and our executive compensation philosophy. In conducting its review, the O&C Committee reviews information related to each executive officer's income and benefits, including base salary, target incentive, retirement income and health and welfare benefits. This review and the resulting compensation program changes for 2013 are described below under "—Annual Executive Compensation Program Review and Compensation Risk."

## Elements of the Executive Compensation Program

### Overview

The primary elements of the Company's executive compensation program in 2013 are shown in the following table and are discussed in detail below:

Category	Compensation Element	Description
Cash	<b>Base Salary</b>	Fixed cash compensation based on responsibilities of the position and set at levels approximating the market median of companies within the HPPG
	<b>Annual Incentive Opportunity</b>	Annual cash incentive for Company achievement of pre-determined financial performance metrics; payment ranges from 0% – 200% of target award
Long-Term Incentives	<b>Restricted Common Stock</b> (50% of total grant value)	Vests ratably over a three-year period, has voting rights and receives dividends from date of grant
	<b>Contingent Performance Units</b> (50% of total grant value)	Cliff vests at end of a three-year period at 0% - 200% of award value based on RONA performance against the HPPG, no voting rights and no dividends paid until vesting
Retirement	<b>Qualified Pension Plan</b>	Qualified pension plan, available to all salaried U.S. employees
	<b>Senior Management Pension Plan</b>	Partially-funded, non-qualified defined benefit restoration plan, available to certain U.S. employees based on salary level
	<b>Supplemental Executive Pension Plan 401(k) Plan</b>	Partially-funded, non-qualified supplemental defined benefit plan, available to eligible U.S. executives to maintain competitive total retirement benefits



<i>Other</i>	<p><b>Severance Plan</b> Qualified 401(k) plan available to all U.S. employees; Company matches 75% of pre-tax contributions up to 6% of salary</p> <p><b>Change-in-Control Plan</b> Sets standard benefits for senior executives in the event of severance</p> <p><b>Other Benefits</b> Sets standard benefits for senior executives upon a change-in-control Physical exam, enhanced vacation; no perquisites offered</p>
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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 CEO’s performance during the year.

Except in years of CEO transition where the incumbent officer has completed less than one year of service in this capacity, the O&C Committee considers the results of the CG&N Committee’s process for reviewing the CEO’s performance with all independent Board members. The CG&N Committee’s process includes the independent Board members individually and collectively presenting their assessment, and the CEO providing his assessment, of his own performance. The O&C Committee uses these results when considering the compensation for the CEO that is then recommended to the independent Board members for approval.

In addition, the CEO annually presents an evaluation of each other 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 CEO also presents compensation recommendations for each Named Executive Officer for the O&C Committee’s consideration. Following this presentation and a benchmarking review for pay, the O&C Committee makes its own 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 market 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 and references 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, and in 2013 did manage, base salary levels to approximate the market median of companies within the HPPG.

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Based on the factors discussed above, the Named Executive Officers' salaries were adjusted in 2013 as shown in the following table.

Named Executive Officer	2013 Base Salary	
	Increase	%
<i>Mark A. Blinn</i>	2.0	%
<i>Michael S. Taff</i>	1.4	%
<i>Thomas L. Pajonas</i>	2.5	%
<i>Mark D. Dailey</i>	1.5	%
<i>Carey A. O'Connor</i>	Not Applicable <sup>(1)</sup>	

(1) Salary increase information for Ms. O'Connor is not shown as her base salary was not under review due to her promotion to Senior Vice President, General Counsel and Corporate Secretary in November 2012.

The base salaries paid to the Named Executive Officers during 2013 are shown in the "Summary Compensation Table" under the "Salary" column. Mr. Blinn's base salary and other compensation components in 2013 are discussed below in further detail under "—Additional Executive Compensation Information—Chief Executive Officer Compensation in 2013."

### 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 ("AIP"). At that time, the O&C Committee approves: (i) the overall Company performance measures for the fiscal year; and (ii) an AIP target opportunity for each Named Executive Officer.

**Setting the AIP Target Opportunity.** Each year, the O&C Committee establishes an AIP target opportunity for each Named Executive Officer, expressed as a percentage of the executive's base salary. The O&C Committee sets these targets in consultation with LB&Co and in adherence to our stated executive compensation objectives and principles. The target annual incentive opportunity for each Named Executive Officer in 2013 is set forth in the following table:

Named Executive Officer	2013	
	AIP	Target
		%
Mark A. Blinn	110	%
Michael S. Taff	70	%
Thomas L. Pajonas	80	%
Mark D. Dailey	60	%
Carey A. O'Connor	60	%

**Setting Company Performance Measures.** The O&C Committee, working with the CEO and LB&Co, evaluates and approves the Company’s AIP performance measures for each fiscal year. The O&C Committee sets each Named Executive Officer’s AIP performance measures based on the results of the Company as a whole to ensure that the Named Executive Officers’ primary focus was on setting the overall strategic direction of the Company and achieving overall Company results aligned to support building shareholder value. As such, the Company’s AIP performance measures and targets, unadjusted for extraordinary events, established for 2013 were as follows:

2013 Performance Measures	2013		
	Weighting	Target	(in millions)
Operating Income (OI)	80.0 %	\$ 740.0	
Operating Cash Flow (OCF)	20.0 %	\$ 541.5	

The metrics presented in the table above were evaluated using pre-defined internal criteria. The O&C Committee selected these performance metrics, with input from management, because they support the key strategies that we believe drive sustainable and profitable Company growth (as discussed under “—Executive Compensation Program Objectives and Principles” above).

On the basis of the foregoing performance metrics, we use the following formula to calculate the AIP payment for a given year:

The Operating Income metric coincides in all material respects with the Company’s audited financial results. The Operating Cash Flow metric is calculated by adding the impact of currency revaluation effects, miscellaneous income and expense items and tax expense to operating income to arrive at an adjusted operating income figure, which is then adjusted for changes in working capital, certain accrued liabilities and depreciation and amortization. In most years, this metric coincides in all material respects with the Company’s audited financial results; for 2013, our Operating Cash Flow metric was approximately \$440 million compared to reported cash flows from operations of approximately \$488 million. Additionally, the O&C Committee may exercise its judgment, within parameters it establishes at the beginning of the year, whether to exclude the effect of certain specified developments that occur during the year in determining the extent to which the performance objectives are met. Such developments may include unanticipated changes in accounting principles or extraordinary, unusual or unplanned events that have been reported in our public filings.

Where applicable, AIP awards are paid in March for the prior year’s performance based upon the O&C Committee’s assessment of actual performance against the pre-established AIP performance objectives, subject to adjustments for individual performance. 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 2013 follows.

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**Measuring Performance and Establishing Payout.** At the same time that the O&C Committee sets AIP performance metrics for a given year, it establishes a payout range for all AIP awards. The payout range ultimately determines the percentage of the target incentive to be paid, with an established upper limitation and a minimum below which no payment will be made. Additionally, the O&C Committee may modify an individual AIP award by up to 25% of calculated payout based on an individual's contribution to our performance, as well as individual performance in relation to any extraordinary events or transactions. In this performance assessment, the O&C Committee considers the recommendations of the CEO as to the other Named Executive Officers. The Company currently uses a four point performance rating scale when determining the adjustments that are made to individual AIP awards. Such adjustments are made pursuant to the following schedule:

<b>AIP Rating System</b>		
<b>Performance Rating</b>	<b>AIP Adjustment</b>	
Failed to Meet	-50.0	%
Needs Improvement	-25.0	%
Met	0.0	%
Exceeded	+20.0	%

The 2013 payout range established for each Named Executive Officer was 0% to 200% of his or her respective target award opportunity. The actual payout percentage is determined using a matrix that compares the Company's actual performance against the established performance targets for the year (referred to as "plan"). The following tables show the percentage of target award that is paid at different levels of Company performance against plan, as well as actual performance and payout percentages for 2013.

**Operating Income Metric****(80% Weight)**

<b>Company Performance</b>	<b>% Payout Score</b>	
<80% of Plan	0.0	%
80% of Plan	50.0	%
100% of Plan	100.0	%