FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 1999 Commission File Number 1-13179

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

NEW YORK
(State or other jurisdiction of incorporation or organization)

31-0267900
(I.R.S. Employer Identification Number)

222 W. LAS COLINAS BLVD., SUITE 1500, IRVING, TEXAS 75039
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

SHARES OF COMMON STOCK, $1.25 PAR VALUE, OUTSTANDING AS OF SEPTEMBER 30, 1999	37,323,714

FLOWSERVE CORPORATION
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FLOWSERVE CORPORATION
(UNAUDITED)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	Three Months Ended September 30,	
	1999	1998
Sales	$ 253,973	$ 264,776
Cost of sales	165,658	165,196

Gross profit	88,315	99,580
Selling and administrative expense	69,689	63,077
Research, engineering and development expense	5,905	6,431
Merger integration expense	2,984	4,154
Operating income	9,737	25,918
Interest expense	3,940	3,141
Other income, net	(1,564)	(173)
Earnings before income taxes	7,361	22,950
Provision for income taxes	2,503	8,033
Earnings before cumulative effect of accounting change	4,858	14,917
Cumulative effect of accounting change	--	(1,220)
Net earnings	$ 4,858	$ 16,137
Earnings per share (diluted and basic):		
Before cumulative effect of accounting change	$ 0.13	$ 0.37
Cumulative effect of accounting change	--	0.03
Net earnings per share	$ 0.13	$ 0.40
Average shares outstanding	37,739	40,497

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Three Months Ended September 30,	
	1999	1998
Net earnings	$ 4,858	$ 16,137
Foreign currency translation adjustments	4,737	4,341
Comprehensive income	$ 121	$ 11,796

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(UNAUDITED)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	1999	1998
Sales	$ 798,556	$ 803,821
Cost of sales	519,561	497,051
Gross profit	278,995	306,770

Selling and administrative expense	203,002	194,623
Research, engineering and development expense	19,103	18,870
Merger integration expense	10,821	23,705
Operating income	46,069	69,572
Interest expense	11,143	9,844
Other income, net	(1,036)	(2,545)
Earnings before income taxes	35,962	62,273
Provision for income taxes	12,227	21,796
Earnings before cumulative effect of accounting change	23,735	40,477
Cumulative effect of accounting change	--	(1,220)
Net earnings	$ 23,735	$ 41,697
Earnings per share (diluted and basic):		
Before cumulative effect of accounting change	$ 0.63	$ 1.00
Cumulative effect of accounting change	--	0.03
Net earnings per share	$ 0.63	$ 1.03
Average shares outstanding	37,844	40,497

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Nine Months Ended September 30,	
	1999	1998
Net earnings	$ 23,735	$ 41,697
Foreign currency translation adjustments	8,615	10,234
Comprehensive income	$ 15,120	$ 31,463

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share data)

	SEPTEMBER 30, 1999 (UNAUDITED)	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,917	$ 24,928
Accounts receivable, net	231,588	234,191
Inventories	183,497	199,286
Prepaids and other current assets	25,163	28,885

Total current assets	458,165	487,290
Property, plant and equipment, net	214,679	209,032
Intangible assets, net	97,747	91,384
Other assets	61,228	82,491
Total assets	$ 831,819	$ 870,197
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 73,873	$ 76,745
Notes payable	950	3,488
Income taxes	6,137	17,472
Accrued liabilities	95,877	107,028
Long-term debt due within one year	2,588	14,393
Total current liabilities	179,425	219,126
Long-term debt due after one year	212,758	186,292
Postretirement benefits and deferred items	101,216	120,015
Commitments and contingencies		
Shareholders' equity:		
Serial preferred stock, $1.00 par value		
Shares authorized - 1,000		
Shares issued and outstanding - None		
Common stock, $1.25 par value		
Shares authorized - 120,000		
Shares issued and outstanding - 41,484	51,856	51,856
Capital in excess of par value	70,700	70,698
Retained earnings	361,109	353,249
	483,665	475,803
Treasury stock at cost - 4,161 and 3,817 shares	(95,995)	(90,404)
Accumulated other comprehensive expense	(49,250)	(40,635)
Total shareholders' equity	338,420	344,764
Total liabilities and shareholders' equity	$ 831,819	$ 870,197

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Nine Months Ended September 30,	
	1999	1998
CASH FLOWS - OPERATING ACTIVITIES:		
Net earnings	$ 23,735	$ 41,697
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	23,482	22,583
Amortization	3,427	3.598
Loss on the sale of fixed assets	170	13
Cumulative effect of accounting change	--	(1,220)
Change in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	5,485	5,185
Inventories	20,206	(20,957)
Prepaid expenses	3,088	1,112
Other assets	10,335	(2,551)
Accounts payable	(5,814)	(1,623)

Accrued liabilities	(17,183)	(22,476)
Income taxes	(10,092)	564
Postretirement benefits and deferred items	(19,909)	(11,166)
Net deferred taxes	3,331	612
Net cash flows provided by operating activities	40,261	15,371
CASH FLOWS - INVESTING ACTIVITIES:		
Capital expenditures, net of disposals	(28,402)	(23,747)
Payment for acquisitions, net of cash acquired	(6,365)	(12,190)
Net cash flows used by investing activities	(34,767)	(35,937)
CASH FLOWS - FINANCING ACTIVITIES:		
Net (repayments) borrowings under lines of credit	(10,684)	1,564
Payments on long-term debt	(11,404)	(10,543)
Proceeds from long-term debt	32,467	67,557
Treasury share purchases	(5,249)	(56,486)
Other stock activity	(1,232)	(1,787)
Dividends paid	(15,877)	(16,926)
Net cash flows used by financing activities	(11,979)	(16,621)
Effect of exchange rate changes	(526)	(606)
Net change in cash and cash equivalents	(7,011)	(37,793)
Cash and cash equivalents at beginning of year	24,928	58,602
Cash and cash equivalents at end of period	$ 17,917	$ 20,809
Taxes paid	$ 23,563	$ 22,232
Interest paid	$ 10,985	$ 7,501

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(UNAUDITED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

1. ACCOUNTING POLICIES - BASIS OF PRESENTATION

The accompanying consolidated balance sheet as of September 30, 1999, the related consolidated statements of income and comprehensive income for the three months and nine months ended September 30, 1999 and 1998, and the statements of cash flows for the nine months ended September 30, 1999 and 1998, are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such financial statements have been made. The accompanying consolidated financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X and do not contain certain information included in the Company's annual financial statements and notes to the financial statements. Accordingly, the accompanying consolidated financial information should be read in conjunction with the Company's 1998 Annual Report. Interim results are not necessarily indicative of results to be expected for a full year.

2. INVENTORIES

Inventories are stated at lower of cost or market. Cost is determined for certain inventories by the last-in, first-out (LIFO) method and for other inventories by the first-in, first-out (FIFO) method.

Inventories and the method of determining costs were:

	SEPTEMBER 30, 1999	December 31, 1998
Raw materials	$ 30,761	$ 26,088
Work in process and finished goods	200,343	226,843
Less: Progress billings	(8,402)	(15,024)
	222,702	237,907
LIFO reserve	(39,205)	(38,621)
Net inventory	$ 183,497	$ 199,286
Percent of inventory accounted for by LIFO	62%	61%
Percent of inventory accounted for by FIFO	38%	39%

3. EARNINGS PER SHARE

The Company's potentially dilutive common stock equivalents have been immaterial for all periods presented. Accordingly, basic earnings per share is equal to diluted earnings per share and is presented on the same line for income statement presentation.

4. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 1998, the Financial Accounting Standards Board issued Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Software Developed or Obtained for Internal Use." SOP 98-1 is effective for fiscal periods beginning after December 15, 1998, and establishes guidelines to determine whether software-related costs should be capitalized or expensed. The Company is currently accounting for software costs in accordance with these guidelines.

In 1998, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard was to be effective for fiscal years beginning after June 15, 1999; however, the SFAS has recently issued an exposure draft that would delay the effective date by one year. It establishes accounting and reporting standards for derivative instruments and hedging activities and is not expected to materially impact Flowserve's reported financial position, results of operations or cash flows.

5. MERGER

On July 22, 1997, shareholders of Durco International Inc. (Durco) and BW/IP, Inc. (BW/IP) voted to approve a merger of the companies in a stock-for-stock merger of equals that was accounted for as a pooling of interests transaction (the merger). As part of the merger agreement, the Company changed its name from Durco to Flowserve Corporation. The Company issued approximately 16,914,000 shares of common stock in connection with the merger. BW/IP shareholders received 0.6968 shares of the Company's common stock for each previously owned share of BW/IP stock.

In 1997, the Company developed a merger integration program that included facility rationalizations in North America and Europe, organizational realignments at the corporate and divisional levels, procurement initiatives, investments in training and support for service operations. In the fourth quarter of 1997, the Company recognized a one-time restructuring charge of $32,600 related to this program. During the first six months of 1999, remaining severance costs of $2,700 were paid and charged against the restructuring reserve. The Company paid severance to approximately 331 employees.

As of June 30, 1999, the restructuring portion of the merger integration had been completed. Since the inception of the merger integration program, the Company has incurred costs related to the program of $56,130. Of this amount, $2,984 was incurred during the third quarter of 1999, compared with $4,154 during the third quarter of 1998. Effective January 1, 1999, merger integration costs relate solely to the Company's business process improvement program, "Flowserver."

The Company's Board of Directors approved a $120 million investment in Flowserver. This business process improvement program has costs and benefits incremental to the initial merger integration program. Flowserver includes the standardization of the Company's processes and the implementation of a global information system to facilitate common best practices. The Company is in the process of re-evaluating its implementation plan for Flowserver. As a result, the Company expects to reduce its Year 2000 investment in Flowserver. The overall duration of the program also may extend beyond its originally planned five years. During the first nine months of 1999, the Company incurred costs associated with this project of $10,821 recorded as merger integration expense. During 1999, it is estimated that the expense associated with this program will be approximately $13 million. In addition, about $10 million of related capital is expected to be incurred in 1999. Since the inception of the Flowserver initiative, the Company has capitalized costs totaling $7,682 relating to this program.

6. SEGMENT INFORMATION

The Company has three divisions, each of which constitutes a business segment. Each division manufactures different products and is defined by the type of products and services provided. Each division has a President, who reports directly to the Office of the Chief

Executive, and a Division Controller. For decision-making purposes, the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and other members of upper management use financial information generated and reported at the division level. The Company also has a corporate headquarters that does not constitute a separate division or business segment. Amounts classified as All Other include Corporate Headquarter costs and other minor entities that are not considered separate segments.

The Company evaluates segment performance and allocates resources based on operating income or loss before special items and taxes. Intersegment sales and transfers are recorded at cost plus a profit margin. Minor reclassifications have been made to certain previously reported information to conform to the current business configuration.

NINE MONTHS ENDED SEPTEMBER 30, 1999	ROTATING EQUIPMENT	FLOW CONTROL	FLOW SOLUTIONS	ALL OTHER	CONSOLIDATED TOTAL
SALES TO EXTERNAL CUSTOMERS	$267,945	$212,442	$312,910	$ 5,259	$798,556
INTERSEGMENT SALES	4,497	10,207	11,361	(26,065)	--
SEGMENT OPERATING INCOME (BEFORE SPECIAL ITEMS)	16,484	20,671	42,032	(22,297)	56,890
IDENTIFIABLE ASSETS	$243,723	$211,894	$297,213	$ 78,989	$831,819

Nine months ended September 30, 1998	Rotating Equipment	Flow Control	Flow Solutions	All Other	Consolidated Total
Sales to external customers	$271,890	$219,318	$307,258	$ 5,355	$803,821
Intersegment sales	4,853	10,651	12,195	(27,699)	--
Segment operating income (before special items)	27,059	31,866	47,775	(13,423)	93,277
Identifiable assets	$301,821	$233,703	$259,022	$ 67,682	$862,228

Reconciliation of the total segment operating income before special items (merger-related expenses) to consolidated earnings before income taxes follows:

	Nine Months Ended September 30, 1999	1998
Total segment operating income (before special items and corporate expenses)	$ 79,187	$ 106,700
Corporate expenses and other	22,297	13,423
Merger integration expense	10,821	23,705
Interest expense	11,143	9,844
Other expense (income)	(1,036)	(2,545)
Earnings before income taxes	$ 35,962	$ 62,273

7. SHARE REPURCHASE PROGRAM

During the second quarter of 1998, the Company initiated a $100 million share repurchase program. In 1998, the Company spent approximately $64.5 million to repurchase approximately 2.8 million, or 7.1% of its outstanding shares. During the nine months ended September 30, 1999, the Company spent about $5.3 million to repurchase an additional 325,300 shares. During the third quarter, 118,600 of the shares were repurchased at a price of $1.9 million. The Company generally used credit facilities to fund the purchases.

8. ACQUISITION

During September 1999, the Company agreed to acquire certain assets and liabilities of Honeywell's industrial control-valve product line and production equipment located near Frankfurt, Germany. The Company expects to complete the phased move of this operation to its existing control-valve manufacturing facilities in Europe by the middle of 2000. This business generated revenues of about $10 million in 1998.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 1999

In general, results for the third quarter of 1999 were lower than the corresponding period in the previous year due to weaker market conditions and a resultant increasingly competitive environment. Sales decreased 4.1% to $254.0 million for the three months ended September 30, 1999, compared with $264.8 million for the same period in 1998. The change in sales is discussed further in the following section on business segments. Net sales to international customers, including export sales from the U.S., were approximately 51% during the third quarter of 1999, compared with 50% during the third quarter of 1998. Bookings (incoming orders for which there are purchase commitments) were $259.0 million, 2.1% higher than the third quarter of 1998 when bookings were $253.8 million.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Rotating Equipment Division (RED) for petroleum, nuclear and chemical process centrifugal pumps; Flow Control Division (FCD) for automated and manual quarter-turn valves, control valves and nuclear valves and valve actuators; and Flow Solutions Division (FSD) for precision mechanical seals and flow management services.

Each business segment has been negatively impacted, to a greater or lesser degree, by unfavorable market conditions for the Company's chemical and petroleum customers. The unfavorable market conditions have resulted in a highly competitive environment in which flow control companies' customers pursue a more limited amount of spending. This has lowered selling prices that have reduced margins. Margins are also lower year-over-year due to an unfavorable product mix and reduced volumes in certain operations.

Sales and operating income before special items (merger-related expenses) for each of the three business segments are:

	ROTATING EQUIPMENT DIVISION	
	Three Months Ended September 30,	
(In millions of dollars)	1999	1998
Sales	$ 82.7	$ 90.1
Operating income	4.9	8.4

The sales decrease in 1999 was generally due to reduced backlog and lower chemical process pump bookings.

Operating income before special items, as a percentage of sales, declined to approximately 5.9% in 1999 from about 9.3% in the prior-year period. The segment's results were negatively affected by unfavorable mix, lower volumes and reduced selling prices, all of which were only partially offset by a reduction in operating expenses. The product mix between standard chemical-process and petroleum pumps continues to be unfavorable, and parts sales were lower than the comparable prior-year period.

FLOW CONTROL DIVISION

(In millions of dollars)	Three Months Ended September 30, 1999	1998
Sales	$ 71.0	$ 77.0
Operating income	5.6	9.2

The decrease in sales was due to reduced backlog and lower book-to-build volume during the quarter.

Operating income before special items, as a percentage of sales, was 7.9% in the third quarter of 1999, compared with 11.9% in 1998. The decline in 1999 was generally due to lower selling prices, an unfavorable product mix and lower volumes.

FLOW SOLUTIONS DIVISION

(In millions of dollars)	Three Months Ended September 30, 1999	1998
Sales	$ 106.4	$ 104.7
Operating Income	14.1	14.8

Sales were slightly higher than the prior-year period due to acquisitions made since the third quarter of 1998.

Operating income before special items, as a percentage of sales, decreased to 13.3% from 14.1% in 1998. The lower margins were generally due to reduced selling prices, lower "same store" service center volumes and unfavorable mix.

CONSOLIDATED RESULTS

The gross profit margin was 34.8% for the three months ended September 30, 1999, compared with 37.6% for the same period in 1998. The decrease was due to lower selling prices and unfavorable product and market mix, as well as reduced business in volume-sensitive operations.

Selling and administrative expense as a percentage of net sales was 27.4% for the three-month period ended September 30, 1999, compared with 23.8% for the corresponding 1998 period. The increase was generally due to expenses related to the implementation of a consolidated benefit program and other personnel-related costs in 1999. In addition, the comparable period in 1998 was unusually low due to lower sales commissions, lower accruals for performance incentives and other cost control initiatives.

Research, engineering and development expense was $5.9 million for the third quarter of 1999, compared with $6.4 million during the same period last year. The lower level of spending was generally the result of cost control initiatives.

Interest expense during the third quarter of 1999 was $3.9 million, up $0.8 million from the same period in 1998 due to higher interest rates and increased borrowing levels due to the share repurchase program.

Tax savings initiatives that were part of the merger integration tax planning project reduced the effective tax rate to 34.0% during the third quarter of 1999, compared with 35.0% during the same period in 1998.

Earnings before special items for the third quarter of 1999 were $6.8 million, or $0.18 per share. This was 58.5% below earnings before special items of $17.6 million, or $0.44 per share, for the same period in 1998. The reduction was generally due to a lower gross margin and higher selling and administrative expenses. Net earnings after special items were $4.9 million, or $0.13 per share, for the three months ended September 30, 1999, compared with $16.1 million, or $0.40 per share, for the same period in 1998. Special items were lower due to the completion of the initial phase of the merger integration program with current spending limited to Flowserver.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 1999

In general, results for the first nine months of 1999 were lower than the corresponding period in the previous year due to weaker market conditions and an increasingly competitive environment. Sales decreased slightly to $798.6 million for the nine months ended September 30, 1999,

compared with $803.8 million for the same period in 1998. The change in sales is discussed further in the following section on business segments. Net sales to international customers, including export sales from the U.S., were approximately 52% during the first nine months of 1999, compared with 50% during the first nine months of 1998. Bookings (incoming orders for which there are purchase commitments) were $763.2 million, 6.4% lower than the first nine months of 1998 when bookings were $815.5 million.

BUSINESS SEGMENTS

Each business segment has been negatively impacted, to a greater or lesser degree, by unfavorable market conditions for the Company's chemical and petroleum customers. This has resulted in a highly competitive environment in which flow control companies' customers pursue a more limited amount of spending. This has lowered selling prices which have reduced margins. Margins are also lower year-over-year due to unfavorable product mix and reduced volumes in certain operations.

Sales and operating income before special items (merger-related expenses) for each of the three business segments are:

	ROTATING EQUIPMENT DIVISION	
	Nine Months Ended September 30,	
(In millions of dollars)	1999	1998
Sales	$ 272.4	$ 276.7
Operating income	16.5	27.1

Sales in 1999 were slightly below the prior year period. Lower volumes of chemical process pumps and parts were partially offset by reduced backlog.

Operating income before special items, as a percentage of sales, declined to approximately 6.1% in 1999 from about 9.8% in the prior-year period. The decline was due to reduced sales and lower margins resulting from an unfavorable product and market mix and lower selling prices.

	FLOW CONTROL DIVISION	
	Nine Months Ended September 30,	
(In millions of dollars)	1999	1998
Sales	$ 222.6	$ 230.0
Operating income	20.7	31.9

The decrease in sales was due to lower bookings and sales volumes.

Operating income before special items, as a percentage of sales, was 9.3% in the first nine months of 1999, compared with 13.9% in 1998. The decline in 1999 was generally due to lower volumes, reduced selling prices, an unfavorable product mix--including a decline in replacement-parts business--and a slight increase in selling and administrative expense primarily due to the Valtek Engineering acquisition.

	FLOW SOLUTIONS DIVISION	
	Nine Months Ended September 30,	
(In millions of dollars)	1999	1998
Sales	$ 324.3	$ 319.5
Operating Income	42.0	47.8

Sales increased generally due to a fourth quarter 1998 acquisition.

Operating income before special items, as a percentage of sales, decreased to 13.0% from 15.0% in 1998. The lower margins were generally due an unfavorable mix, lower selling prices, and higher selling and administrative expenses related to additional personnel to support the growth of service operations.

CONSOLIDATED RESULTS

The gross profit margin was 34.9% for the nine months ended September 30, 1999,

compared with 38.2% for the same period in 1998. The decrease was due to lower selling prices, unfavorable product and market mix and lower volumes.

Selling and administrative expense as a percentage of net sales was 25.4% for the nine-month period ended September 30, 1999, compared with 24.2% for the corresponding 1998 period. The increase in selling and administrative expenses was primarily due to 1998 acquisitions, increased expenses associated with some organizational changes and additional investments in personnel to support the growth of service operations. These factors were mitigated somewhat by cost-containment measures and merger benefits that reduced selling and administrative expense year-over-year by about $2.6 million.

Research, engineering and development expense was $19.1 million for the first nine months of 1999, compared with $18.9 million during the same period last year.

Interest expense during the first nine months of 1999 was $11.1 million, an increase of $1.3 million over the prior-year period, primarily the result of higher interest rates and increased borrowing levels due to the share repurchase program.

Tax savings initiatives that were part of the merger integration tax planning project reduced the effective tax rate to 34.0% during the first nine months of 1999, compared with 35.0% during the same period in 1998.

Earnings before special items for the first nine months of 1999 were $30.9 million, or $0.82 per share. This was 44.8% below earnings before special items of $55.9 million, or $1.38 per share, for the same period in 1998. The reduction was generally due to the lower gross margin. Net earnings after special items were $23.7 million, or $0.63 per share, for the nine months ended September 30, 1999, compared with $41.7 million, or $1.03 per share, for the same period in 1998. Special items were lower due to the completion of the initial phase of the merger integration program with current spending limited to Flowserver.

MERGER INTEGRATION PROGRAM

In 1997, the Company developed a program designed to achieve the synergies planned for the merger of BW/IP and Durco. The program included facility rationalizations in North America and Europe, organizational realignments at the corporate and divisional levels, procurement initiatives, investments in training and support for service operations. In the fourth quarter of 1997, the Company recognized a one-time restructuring charge of $32,600 related to this program. As of June 30, 1999, the restructuring portion of the merger integration had been completed. Since the inception of the program, the Company has incurred costs related to the program of $56,130. Of this amount, $2,984 was incurred during the third quarter of 1999, compared with $4,154 during the third quarter of 1998. Effective January 1, 1999, merger integration costs relate solely to the Company's business process improvement program "Flowserver."

The Company's Board of Directors approved a $120 million investment in Flowserver. This business process improvement program has costs and benefits incremental to the initial merger integration program. Flowserver includes the standardization of the Company's processes and the implementation of a global information system to facilitate common best practices. The Company is in the process of re-evaluating its implementation plan for Flowserver. As a result, the Company expects to reduce its Year 2000 investment in Flowserver. The overall duration

of the program also may extend beyond its originally planned five years. During 1999, it is estimated that expense associated with this program will be approximately $13 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities for the first nine months of 1999 of $40.3 million were significantly above the $15.4 million during the same period in 1998. The increase in cash flows in 1999 was primarily due to a lower level of incentive payouts and reduced merger related payments.

Capital expenditures, net of disposals, were $28.4 million during the first nine months of 1999, compared with $23.7 million in the first nine months of 1998. Capital expenditures were funded primarily by operating cash flows. Capital expenditures in 1999 included about $6.1 million related to Flowserver.

During the second quarter of 1998, the Company initiated a $100 million share repurchase program. In 1998, the Company spent approximately $64.5 million to repurchase approximately 2.8 million, or 7.1% of its outstanding shares. The Company generally used credit facilities to fund the purchases. The timing of future repurchases depends on market conditions, the market price of Flowserve's common stock and management's assessment of the Company's liquidity and cash flow needs. During the first nine months of 1999, the Company spent about $5.3 million to repurchase an additional 325,300 shares. During the third quarter, 118,600 of the shares were repurchased at a price of $1.9 million.

At September 30, 1999, total debt was 39.0% of the Company's capital structure, compared with 37.2% at December 31, 1998. The interest coverage ratio of the Company's indebtedness was 6.6 times interest at September 30, 1999, compared with 9.5 times interest at December 31, 1998.

Effective October 7, 1999, the Company entered into new revolving credit facilities that provide borrowing capabilities up to $460 million with the ability to increase borrowings to $600 million in the future.

The Company believes that internally generated funds, together with access to external capital resources, will be sufficient to satisfy existing commitments and plans and will provide adequate financial flexibility to take advantage of potential strategic business opportunities should they arise.

YEAR 2000 COSTS

Flowserve Corporation began preparing for the Year 2000 almost two years ago. The Company assessed how it might be impacted by the Year 2000 issue and formulated and substantially completed implementation of a comprehensive plan to address all known concerns. The plan has not changed significantly since the end of the most recent fiscal year. To the best of the Company's knowledge, all mission critical business and non-IT systems will now support its ability to provide products and services into the next century. The Year 2000 issue is briefly described below and is more fully described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer systems that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary

inability to process transactions, send invoices or engage in normal business activities.

With regard to information systems, production, and other equipment and products, the Company is 100% complete with the assessment and plan development phase. Planned remediation efforts, testing and implementation are also 100% complete and the Company is not currently aware of any current material system issues that remain unresolved. The Company will continue its diligent efforts to identify and remedy potential Year 2000 issues through the end of the year.

The Company is also working with its vendors and customers to ensure Year 2000 compliance throughout its supply chain. An important component of Year 2000 activities has been to survey suppliers regarding compliance and to communicate with them on an on-going basis to do everything feasible to ensure that production and delivery plans can be achieved. In addition, the Company has prepared a standard letter outlining the importance of and commitment to resolving the Year 2000 issue in a timely manner, and this letter is used to respond to inquiries from customers. Although the review is continuing, the Company is not currently aware of any vendor or customer circumstances that may have a material adverse impact on the Company. The Company can provide no assurance that Year 2000 compliance plans will be successfully completed by suppliers and customers in a timely manner. The Company believes it has no significant exposure to contingencies related to the Year 2000 issue for the products it has sold.

The Company's estimate of the total cost for Year 2000 compliance was originally approximately $7.0 million. To date, approximately $6.1 million has been incurred and no major additional significant expenditures are expected. Costs are being funded through operating cash flows. Virtually all of the amounts spent to date relate to the cost to repair or replace software and associated hardware. The Company's cost estimates include the amount specifically related to addressing Year 2000 issues, as well as costs for improved systems that are Year 2000 compliant. These systems would have been acquired in the ordinary course of business, but their acquisition was accelerated to ensure compliance by the Year 2000.

Incremental spending in addition to the $6.1 million is not expected to be material because most Year 2000 compliance costs include items that are part of the standard procurement and maintenance of the Company's information systems and production and facilities equipment. Other non-Year 2000 efforts have not been materially delayed or impacted by the Company's Year 2000 initiatives.

The Company continues to investigate and analyze potential operational problems and related costs that would likely result from the failure by the Company and certain third parties to complete efforts necessary to achieve Year 2000 compliance on a timely basis. In addition, the Company continues to monitor particular risks including non-delivery of goods and services from suppliers and vendors and the potential unavailability of utilities in international locations where the Company manufactures products.

The Company believes that its most reasonably likely worst case scenario would relate to problems with the systems of third parties, rather than with the Company's internal operating systems. To mitigate potential non-compliance by vendors or customers, the Company is poised to seek alternative suppliers and purchase additional inventory prior to the end of the current year where circumstances warrant. If the lack of utilities or other adverse operational issues occur at any facility, the

Company believes it would be able to transfer the manufacturing of its products to a functioning facility.

The Company currently believes that the Year 2000 issue will not pose significant operational problems for the Company but will continue to evaluate the situation closely. There can be no assurance that the Year 2000 issues of other entities will not have a material adverse impact on the Company's systems or results of operations. As the Year 2000 approaches, the Company will continue to monitor the situation closely internally and externally and take the necessary course of action to insure minimal disruption to its operations. The Company expects that its early and thorough preparation will enable it to meet the needs of its customers and stakeholders without significant interruption on and after January 1, 2000.

FORWARDING-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This Report on Form 10-Q and other written reports and oral statements made from time to time by the Company contain various forward-looking statements and includes assumptions about Flowserve's future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: further changes in the already competitive environment for the Company's products or competitors' responses to Flowserve's strategies; political risks or trade embargoes affecting important country markets; the health of the petroleum, chemical and power industries; economic turmoil in areas outside the United States; continued economic growth within the United States; unanticipated difficulties or costs or reduction in benefits associated with the implementation of the Company's "Flowserver" business process improvement initiative, including software; the impact of the "Year 2000" computer issue; and the recognition of significant expenses associated with adjustments to realign the combined Company's facilities and other capabilities with its strategic and business conditions. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

There have been no material changes in reported market risk since the end of 1998.

PART II OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) During the third quarter of 1999, the Company issued 167,500 shares of restricted common stock pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Shares were issued for the benefit of certain officers.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 10.1 Loan agreement between Flowserve Corporation and C. Scott Greer.

(b) Exhibit 10.2 Flowserve Corporation Executive Equity Incentive Plan amended and restated effective July 21, 1999.

(c) Exhibit - 27. Financial Data Schedule.

(d) There were no reports on Form 8-K filed during the quarter ended September 30, 1999.

SIGNATURE

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

FLOWSERVE CORPORATION
(Registrant)

/s/ Renee J. Hornbaker

Renee J. Hornbaker
Vice President and Chief Financial Officer

Date: November 12, 1999

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
10.1	Loan Agreement between Flowserve Corporation and C. Scott Greer
10.2	Flowserve Corporation Executive Equity Incentive Plan amended and restated effective July 21, 1999
27	Financial Data Schedule

EXHIBIT 10.1

LOSS ON EQUITY LOAN AGREEMENT
FOR
C. SCOTT GREER

As an exception to the Flowserve Executive Relocation Policy, I, C. Scott Greer am being offered an interest-free loan from Flowserve Corporation (the Company) in payment for the loss on equity that I experienced in the sale of my home at 160 Chesterfield; Bloomfield, MI 48304. Prior to receiving the loan, which will be made effective November 1, 1999, in the amount of $325,738.76, I agree to and understand the following repayment schedule:

For each full year I maintain my employment with the Company, 20% of the loan will be forgiven by the Company. Repayment of the note will be per the following schedule:

If I maintain my employment for a period of five years from the date the loan is made to me, the entire amount will be forgiven. If my employment terminates for any reason after this date, I will have no repayment obligation to the Company.

If I maintain my employment for a period of more than four years but less than five years from the date the loan is made, 80% of the entire loan will be forgiven. If I voluntarily elect to terminate my employment, or I am terminated for just cause, after four years but less than five years from the date the loan is provided to me, I will be obligated to repay the Company 20%, or $65.147.75, of the loan. My repayment obligation will be pro-rated for each full month of the year that I work. Any repayment obligation will be forgiven if my employment is terminated due to a reduction-in-force or change-in-control.

If I maintain my employment for a period of more than three years but less than four years from the date the loan is made, 60% of the entire loan will be forgiven. If I voluntarily elect to terminate my employment, or I am terminated for just cause, after three years but less than four years from the date the loan is provided to me, I will be obligated to repay the Company 40%, or $130.295.50, of the loan. My repayment obligation will be pro-rated for each full month of the year that I work. Any repayment obligation will be forgiven if my employment is terminated due to a reduction-in-force or change-in-control.

If I maintain my employment for a period of more than two years but less than three years from the date the loan is made, 40% of the entire loan will be forgiven. If I voluntarily elect to terminate my employment, or I am terminated for just cause, after two years but less than three years from the date the loan is provided to me, I will be obligated to repay the Company 60%, or $195,443.25, of the loan. My repayment obligation will be pro-rated for each full month of the year that I work. Any repayment obligation will be forgiven if my employment is terminated due to a reduction-in-force or change-in-control.

If I maintain my employment for a period of more than one year but less than two years after the loan is made, 20% of the entire loan will be forgiven. If I voluntarily elect to terminate my employment, or I am terminated for just cause, after one year but less than two years from the date the loan is provided to me, I will be obligated to repay the Company 80%, or $260,591.00, of the loan. My repayment obligation will be pro-rated for each full month of the year that I work. Any repayment obligation will be forgiven if my employment is terminated due to a reduction-in-force or change-in-control.

If I voluntarily elect to terminate my employment, or I am terminated for just cause, within one year from the date the loan is provided to me, I will be obligated to repay the Company 100%, or $325,738.76, of the loan. Any repayment obligation will be forgiven if my employment is terminated due to a reduction-in-force or change-in-control.

Any portion of the loan that is forgiven will be considered taxable income to me. The amount of the loan that is forgiven will be added to that year's annual earnings and I will be responsible for any and all taxes associated with this forgiven portion of the loan.

Any repayment that I am obligated to provide the Company will be made within 30 days of my last day of employment. Flowserve may garnish my wages and withhold any expense reports due to me prior to my repayment of this loan in full.

This repayment agreement covers only the requirement that I repay this loan provided to me by Flowserve should I voluntarily terminate my employment or if I am terminated for just cause and does not constitute an employment contract or a guarantee of employment. For purposes of clarification, termination for just cause is defined as termination for violation of my fiduciary duty to the Company.

Signed by: /s/ C. Scott Greer	/s/ Cheryl D. McNeal
C. Scott Greer	Flowserve Corporation

EXHIBIT 10.2

Flowserve Corporation Executive Equity Incentive Plan amended and restated effective July 21, 1999

I. PURPOSE

The purpose of the Flowserve Corporation Executive Equity Incentive Plan ("Plan") is as follows:

A. To provide a significant incentive to executive officers to remain in key leadership roles in Flowserve Corporation (the "Company") by more closely tying the interests of such officers to the creation of increased share value and meeting shareholder goals.

B. To require each executive officer to make a personal capital investment in the Company's common stock.

C. To ensure that each executive officer has a significant personal stake in the performance of the Company's stock both for the "downside risk" and the "upside potential" as do other shareholders.

D. To encourage each executive officer to work with his or her peers to create an effective leadership team benefiting the Company through leveraging their collective understanding of the business and know-how to meet the requirements for its success.

II. ELIGIBILITY

A. Executive officers of the Company shall normally be invited to participate in the Plan upon their appointment by the Board of Directors to a position rated at least 1600 Hay points or the equivalent level in another management evaluation system.

In addition, notwithstanding current position level, the following executive officers shall retain their prior status as Plan participants as long as they remain active employees in Flowserve.

1. W.M. Jordan. Plan participation effective February 1991.

2. G. A. Shedlarski. Plan participation effective February 1991.

3. R.F. Shuff. Plan participation effective February 1991.

B. Officers recommended for inclusion in the Plan must be confirmed and approved by the Compensation Committee before any Plan benefit may be accrued by them.

III. SUMMARY OF PLAN TERMS AND CONDITIONS

The Plan contains three basic components which apply to executive officers based on their position.

A. Personal Investment Requirement

1. Plan participants must acquire shares of Flowserve common stock equal to 10% of the restricted stock granted to them prior to the first anniversary of their grants noted below.

2. Plan participants must receive at least one-half of any earnings from the Company's long-term incentive plan in the form of Flowserve common stock during the 10 years after their grants noted below.

B. Stock Option Grant

1. Plan participants will receive a stock option grant in the amount of shares applicable to their position, as shown in the chart below, under the stock option plan in effect at the time of their joining the Plan.

2. These grants will be subject to all applicable terms and conditions described in greater detail in this document.

C. Restricted Stock Grant

1. Plan participants will receive a grant of restricted stock in the amount of shares applicable to their position, as shown in the chart below, under the restricted stock plan in effect at the time of their joining the Plan.

2. These grants will be subject to all applicable terms and conditions described in greater detail in this document.

D. Grant Chart

POSITION	DESCRIPTION	RESTRICTED SHARES	STOCK OPTIONS	INVESTMENT REQUIREMENT
Senior Executive Officer	Minimum 2500 Hay points or equivalent	15,000	15,000	1,500 shares
Executive Officer Direct Report	Minimum 1800 Hay points or equivalent	7,500	7,500	750 shares
All Other Board-Appointed Executive Officers	Minimum 1600 Hay points or equivalent	5,000	5,000	500 Shares

IV. PURCHASE AND PAYMENT OF SHARES

A. As a condition of Plan participation, participants must acquire shares of Flowserve common stock for themselves or immediate family members within one year of entry into the Plan equal to 10% of their restricted stock grant. This acquisition may be made on the open market or from existing stock options, at the participant's election.

B. All payments from any long-term incentive plan are made to Plan participants in the following form for ten years after initial participation in the Plan.

1. Participants must take one-half of any payout from the long-term incentive plan in the form of Flowserve common

stock, which may be deferred by the Plan participant until retirement.

2. Participants may elect to take the other half as cash, stock, deferred cash, or deferred stock.

3. The Compensation Committee may elect, in any year, to provide the portion of the long-term incentive award payable that year, which would otherwise be required to be paid out in stock, as payment in cash to any designated Plan participant or Plan participants.

C. The one-half long-term incentive payout which is awarded in common stock as a requirement of the Plan will be valued as follows:

1. The fair market value of Company stock at the time of issuance will be equal to the amount of cash value of one-half of the long-term incentive payout.

2. The number of shares due to the Plan participants will not be determined until the payout date.

3. These shares will not be registered at issuance and may not be resold for at least two years after issuance and only then under Rule 144.

D. If a Plan participant sells any of the common stock received as payment under the long-term incentive plan or sells any of his or her holdings of common stock, except when approved in advance by the Compensation Committee, he or she will forfeit an equal amount of unexercised stock options and restricted stock granted under the Plan as described hereafter. This forfeiture does not apply to the bonafide gift of common stock; the use of stock to pay the exercise price or withholding tax of exercised stock options; or the use of stock to otherwise increase the net holdings of common stock by the participant. All of these actions are permitted to continue without penalty.

V. STOCK OPTION GRANT

A. Plan participants will receive a stock option grant from the Company in the amount of shares shown on the Grant Chart at the time they enter the Plan. The option shares will be granted under the stock option program in place at the time the participants enter the Plan.

B. The options are priced at their current market value on the date of the grant.

C. The options are not exercisable for one year, but are then exercisable only to the extent that the Plan participant has acquired beneficial ownership of shares of common stock subsequent to this grant.

D. The options granted are nonqualified, with the accompanying tax consequences, including deductibility of the "spread" (between current value and purchase price at exercise) for the Company and corresponding income to the participant.

E. The options are for a 10 year term and expire at that date to the extent unexercised.

F. Any option is forfeited within 30 days after the participant leaves the Company for any reason except death, disability, normal retirement at age 65 or early retirement with the consent of the Compensation Committee. In such cases, the non-forfeited options shall be prorated based upon the number of full calendar quarters of participation in the Plan.

G. Except for certain transfers that may be permitted to immediate family members pursuant to terms of the stock option plan, all options are personal to the participant and non-assignable other than by designation of beneficiary, or if none, by will or the laws of descent and distribution upon the participant's death.

H. The options are granted without any accompanying stock appreciation rights.

I. Any other applicable general terms and conditions of the stock option plan in effect at the time of the grant will apply.

VI. RESTRICTED STOCK GRANT

A. Plan participants will receive a grant of restricted stock from the Company in the amount of shares shown on the Grant Chart at the time they enter the Plan. The restricted stock will be granted under the restricted stock program in place at the time the participants enter the Plan.

B. One-half of the shares of this restricted stock grant (2,500, 3,750, or 7,500 shares, as the case may be) will vest on the fifth anniversary of the restricted stock grant. The remaining half of the shares will vest on the tenth anniversary of the restricted stock grant.

C. The restricted shares are forfeited if the Plan participant leaves the employment of the Company prior to the vesting date for any reason other than death, disability, normal retirement at age 65 or early retirement with the consent of the Compensation Committee. If a Plan participant leaves the Plan for any of the reasons just stated, the restricted shares will vest on a pro rata basis using actual service in increments no less than a full calendar quarter.

D. The Restricted Stock will be nonassignable. The Company will retain the certificate covering the shares until the vesting date, except as it applies to "deferred shares," as defined in Section VI. H below.

E. Pursuant to the restricted stock plan, the Plan participant will have dividend and voting rights, regardless of his or her vesting status, except for any restricted stock deferred under Section VI. H below. Applicable restrictions will automatically lapse in the event of a change of control of the Company, notwithstanding the deferral status of any shares.

F. Except for deferred shares, the taxes resulting from the restricted stock grant will apply upon the vesting of the stock. If a tax liability does occur upon vesting of the undeferred restricted stock granted under the Plan, the Company will provide the Plan participant sufficient money to pay federal, state, and local taxes arising from the vesting through a five-year loan, assuming the maximum net statutory federal, state and local income tax rates apply to the participant. In addition, to help offset this tax liability Plan participants will receive an annual bonus equal to the principal and interest due on the loan that year. This bonus will be payable for a period of five years provided the participant is still actively employed by the Company.

G. If the Equity Incentive Plan restricted stock grant vests on a pro rata basis for any of the reasons outlined in Section VI (c), the Company will pay a one-time bonus to the affected Plan participant (or the Plan participant's estate) which is equivalent to the tax liability for the vested restricted shares, notwithstanding the deferral status of those shares. This payment will be made at or around the end of the calendar year of such pro rata vesting.

H. Plan participants may elect to defer receipt and payment of the restricted shares granted through this Plan until their active service with the Company has terminated. This restricted stock will be treated as "deferred shares" in accordance with the provisions of the restricted stock plan in effect at the time of the participants' entry into the Plan. As a condition for electing deferral, Plan participants must take all required actions deemed to be necessary by the

Company's General Counsel to effect the deferral including, but not limited to, completion of deferral election forms satisfactory to the Company and complying with the provisions of the restricted stock plan governing deferred shares. In order to be valid, all deferral elections must be appropriately filed with the Secretary of the Company on or before August 31 of the year preceding the vesting of the restricted shares.

I. In order to assist the Plan participants in the payment of taxes arising from the distribution of deferred shares after their active employment has ended with the Company, the Company will make the following payment to the Plan participant as determined through the following procedure.

1. The Company will calculate the total federal, state, and local income taxes that the Plan participant would have owed upon the vesting of the restricted shares if they had not been deferred shares, assuming the maximum net federal, state and local income tax rates apply to the participant.

2. The Company will accrue an amount equal to one-fifth of this tax liability calculation.

3. The benefit, equal to this one-fifth calculation, will be accrued to the Plan participant's account on each anniversary of the vesting (not to exceed five), provided the Plan participant is still actively employed by the Company on each of these anniversary dates.

4. The Company, simultaneous with each accrual, will also accrue an amount equal to the interest which would be accrued to a participant's account under the Rabbi Trust if such total tax liability amount were funded into the participant's cash account in the Trust on the day of the restricted share vesting. The amount of the aforementioned cash payment to the Plan participant electing deferred shares is the amount of this accrual including the applicable interest credits. This payment is also to be made within thirty (30) days after the Plan participant terminates service with the Company. However, the Plan participant will have no further accrual nor resulting rights to payment after he or she leaves the service of the Company.

VII. MISCELLANEOUS

A. The commitment of the Company to enter an eligible executive officer into this Plan is only effective upon Compensation Committee`s approval of the executive officer's participation. No other employee of the Company may participate in any benefit of this Plan without Compensation Committee approval.

B. The stock option grant and restricted stock grant are effective within one full working day after the date of approval by the Compensation Committee to become a Plan participant.

C. Appropriate legal documentation will be prepared and executed by the Company and the Plan participants to affirm their respective rights and obligations. This legal documentation is subject to ratification by either the Chairman of the Compensation Committee or by the Company's Chief Executive Officer, where applicable.

D. The Plan is administered by the Compensation Committee of the Board.

E. All applicable legal requirements governing the Plan are also to be met, including applicable proxy statement disclosures, SEC filings and other matters.

F. The Plan participants' participation in other Company compensation programs is not affected by the Plan, provided that an officer shall not be eligible to receive any other stock option or restricted stock grants during the calendar year in which he or she begins Plan participation, unless otherwise specially approved by the Compensation Committee.

G. A participant's exercise of stock appreciation rights, which were granted with options outside the Plan, shall have no effect on the Plan.

H. The number of shares granted under the stock option and restricted stock provisions of the Plan, or which are required to be purchased by the participant under Section III. A shall be automatically adjusted for any stock dividends, stock splits, or similar recapitalizations affecting the common stock in general.

I. All duties and obligations of a participant under the Plan expire on the tenth anniversary of his or her initial participation in the Plan, except with regard to the officer's need to maintain continued employment with the Company to receive the tax reimbursement funding described in Section VI. F or its functional equivalent covering deferred shares described in Section VI. I, whichever is applicable.

J. This amendment and restatement of the Plan supercedes and controls the prior version of the Plan. However, the Plan rights of any participant who terminated employment prior to September 1, 1999 shall be governed by the terms of the Plan in effect prior to this restatement.

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