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 June 30, 2000 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 JUNE 30, 2000 37,419,249

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 June 30,	
	2000	1999
Sales	$ 299,153	$ 275,196
Cost of sales	195,990	181,307
Gross profit	103,163	93,889
Selling and administrative expense	70,590	66,204
Research, engineering and development expense	6,198	6,327

Merger integration expense	--	4,406
Operating income	26,375	16,952
Interest expense	7,054	4,120
Other expense, net	56	1
Earnings before income taxes	19,265	12,831
Provision for income taxes	6,647	4,362
Net earnings	$ 12,618	$ 8,469
Earnings per share (basic and diluted):	$ 0.33	$ 0.22
Average shares outstanding	37,809	37,771

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Three Months Ended June 30,	
	2000	1999
Net earnings	$ 12,618	$ 8,469
Foreign currency translation adjustments	6,952	3,099
Comprehensive income	$ 5,666	$ 5,370

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(UNAUDITED)

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

	Six Months Ended June 30,	
	2000	1999
Sales	$ 584,462	$ 544,583
Cost of sales	382,070	353,903
Gross profit	202,392	190,680
Selling and administrative expense	142,220	133,314
Research, engineering and development expense	12,353	13,199
Merger integration expense	--	7,838
Operating income	47,819	36,329
Interest expense	13,576	7,203
Other (income) expense, net	(3,161)	525
Earnings before income taxes	37,404	28,601
Provision for income taxes	12,905	9,724
Net earnings	$ 24,499	$ 18,877
Earnings per share (basic and diluted):	$ 0.65	$ .50
Average shares outstanding	37,810	37,771

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Six Months Ended June 30, 2000	1999
Net earnings	$ 24,499	$ 18,877
Foreign currency translation adjustments	16,202	3,878
Comprehensive income	$ 8,297	$ 14,999

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION

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

	JUNE 30, 2000 (UNAUDITED)	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,495	$ 30,463
Accounts receivable, net	246,331	213,625
Inventories	210,617	168,356
Prepaids and other current assets	37,094	41,344
Total current assets	508,537	453,788
Property, plant and equipment, net	221,336	209,976
Intangible assets, net	151,352	96,435
Other assets	80,851	77,952
Total assets	$ 962,076	$ 838,151

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 76,802	$ 72,103
Notes payable	531	734
Income taxes	8,904	7,878
Accrued liabilities	96,957	111,820
Long-term debt due within one year	44	3,125
Total current liabilities	183,238	195,660
Long-term debt due after one year	315,348	198,010
Postretirement benefits and deferred items	146,963	136,207
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	67,697	67,963
Retained earnings	368,754	344,254
	488,307	464,073
Treasury stock at cost - 4,065 and 4,071 shares	(93,226)	(93,448)
Accumulated other comprehensive expense	(78,554)	(62,351)
Total shareholders' equity	316,527	308,274
Total liabilities and shareholders' equity	$ 962,076	$ 838,151

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION
(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Six Months Ended June 30,	
	2000	1999
CASH FLOWS - OPERATING ACTIVITIES:		
Net earnings	$ 24,499	$ 18,877
Adjustments to reconcile net earnings to net cash (used) provided by operating activities:		
Depreciation	16,474	19,187
Amortization	3,902	2,008
Net (Gain) Loss on the sale of fixed assets	(148)	55
Change in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(7,773)	757
Inventories	(19,651)	12,570
Prepaid expenses	9,191	925
Other assets	(6,935)	(1,148)
Accounts payable	(6,537)	(7,485)
Accrued liabilities	(30,946)	(12,140)
Income taxes	5,071	(7,794)
Postretirement benefits and deferred items	6,773	(3,636)
Net deferred taxes	(474)	(31)
Net cash flows (used) provided by operating activities	(6,554)	22,145
CASH FLOWS - INVESTING ACTIVITIES:		
Capital expenditures, net of disposals	(12,434)	(20,201)
Payment for acquisitions, net of cash acquired	(21,703)	--
Net cash flows used by investing activities	(34,137)	(20,201)
CASH FLOWS - FINANCING ACTIVITIES:		
Net (repayments) borrowings under short-term debt	(3,079)	729
Payments on long-term debt including revolving credit facility	(96,405)	(9,256)
Proceeds from long-term debt including revolving credit facility	125,134	11,890
Treasury share purchases	--	(3,333)
Other stock activity	239	(679)
Dividends paid	--	(10,575)
Net cash flows provided (used) by financing activities	25,889	(11,224)
Effect of exchange rate changes	(1,166)	(952)
Net change in cash and cash equivalents	(15,968)	(10,232)
Cash and cash equivalents at beginning of year	30,463	24,928
Cash and cash equivalents at end of period	$ 14,495	$ 14,696
Taxes paid	$ 8,205	$ 17,905
Interest paid	$ 12,107	$ 8,276

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION

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 June 30, 2000, and the related consolidated statements of income and comprehensive income for the three months and six months ended June 30, 2000 and 1999, and the statements of cash flows for the six months ended June 30, 2000 and 1999, 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 1999 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:

	JUNE 30, 2000	December 31, 1999
Raw materials	$ 31,839	$ 29,674
Work in process and finished goods	230,810	182,493
Less: Progress billings	(14,213)	(5,746)
	248,436	206,421
LIFO reserve	(37,819)	(38,065)
Net inventory	210,617	$168,356
Percent of inventory accounted for by LIFO	62%	64%
Percent of inventory accounted for by FIFO	38%	36%

3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 1999, the Financial Accounting Standards Board issued one Statement of Financial Accounting Standard (SFAS) that was applicable to the Company - SFAS No. 137, "Deferral of the Effective Date of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is now effective for fiscal years beginning after June 15, 2000. In June 2000, in conjunction with this standard, the Board also issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 138 amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities which have caused implementation difficulties. These standards are not expected to materially impact Flowserve's reported financial position, results of operations or cash flows.

In addition, in December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial

Statements. This SAB does not change any of the existing rules on revenue recognition. Rather, the SAB provides additional guidance for transactions not addressed by existing rules. The Company is required to review its revenue recognition policies by the fourth quarter of fiscal year 2000 to determine that its recognition criteria is in compliance with the SAB interpretations. Any change in accounting principle required in order to comply with the SAB may be reported as a cumulative catch-up adjustment at that time. The Company is currently reviewing its revenue recognition policies and does not feel that any change in accounting required would have a material impact Flowserve's reported financial position, results of operations or cash flows.

4. RESTRUCTURING

In the fourth quarter of 1999, the Company initiated a restructuring program that included a one-time charge of $15,860 recorded as restructuring expense. The restructuring charge related to the planned closure of 10 facilities and a corresponding reduction in workforce at those locations, as well as at other locations that are part of the restructuring.

The restructuring program is expected to result in a net reduction of approximately 300 employees at a cost of $12,900. In addition, exit costs associated with the facilities closings are estimated at $2,960. As of June 30, 2000, the program had resulted in a net reduction of 149 employees.

Expenditures charged to the 1999 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at December 24, 1999	$12,900	$2,960	$15,860
Cash expenditures	(102)	--	(102)
Balance at December 31, 1999	12,798	2,960	15,758
Cash expenditures	(1,693)	(583)	(2,276)
Balance at March 31, 2000	11,105	2,377	13,482
CASH EXPENDITURES	(1,311)	(1,013)	(2,324)
BALANCE AT JUNE 30, 2000	$ 9,794	$1,364	$11,158

5. ACQUISITION

On January 13, 2000, the Company acquired Innovative Valve Technologies, Inc. (Invatec), a company which is principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers.

The purchase involved acquiring all of the outstanding stock of Invatec and assuming Invatec's existing debt and related obligations. The transaction was accounted for under the purchase method of accounting and was financed by utilizing funds from the Company's working capital. The results of operations for Invatec are included in the Company's condensed consolidated financial statements from the date of acquisition. The purchase price

was approximately $18.3 million in cash. Liabilities of $94.9 million were simultaneously paid off through borrowings under Flowserve's revolving credit agreement.

The purchase price has been allocated to the net assets acquired based primarily on information furnished by management of the acquired company.

The following unaudited pro forma information presents the consolidated results of operations as if the acquisition occurred on January 1, 1999, after giving effect to certain adjustments, including, goodwill amortization, interest and related income tax effects. The pro forma information does not purport to represent what the Company's results of operations actually would have been had such transactions or events occurred on the dates specified, or to project the Company's results of operations for any future period. Pro forma information has not been presented for 2000 as results prior to the acquisition, (January 1, 2000 to January 12, 2000), are not material.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 1999
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Historical			
	Flowserve Corp.	Innovative Valve Technologies	Pro Forma Adjustments	Pro Forma Combined Company
Net Sales	$ 544,583	$ 87,103	$ --	$ 631,686
Cost of Sales	353,903	60,902	--	414,805
Gross Profit	190,680	26,201	--	216,881
Selling and administrative expense	133,314	22,062	(28)(a)	155,348
Research, engineering and development expense	13,199	--	--	13,199
Merger integration expense	7,838	--	--	7,838
Operating Income	36,329	4,139	28	40,496
Interest expense	7,203	6,197	(3,464)(b)	9,936
Loss on assets held for sale	--	3,810		3,810
Other expense (income), net	525	(60)	--	465
Earnings before income taxes	28,601	(5,808)	3,492	26,285
Provision for income taxes	9,724	(547)	(109)(c)	9,068
Net income (loss)	$ 18,877	$ (5,261)	$ 3,601	$ 17,217
Earnings per share (basic and diluted)	$ 0.50	$ --	$ --	$ 0.46
Weighted average shares outstanding (basic and diluted)	37,771	9,665	--	37,771

Pro Forma Adjustments

Selling and administrative expense:		
(a)	Represents incremental decrease in annual goodwill amortization based on decrease of $4,279 in estimated goodwill originating from the acquisition and the reduction of the amortization period from 40 to 20 years.	(28)
Interest expense:		
(b)	Represents reduction in consolidated interest expense related to debt financing prior to the acquisition date	(3,464)
Provision for income taxes:		
(c)	Represents income tax adjustment required to arrive at a combined company pro forma effective tax rate of 34.5%	(109)

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 Chief Executive Officer, and a Division Controller. For decision-making purposes, the Chief Executive 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 Headquarters costs and other minor entities that are not considered separate segments. The Company evaluates segment performance and allocates resources based on profit or loss excluding merger integration, interest expense, other income or expense and income 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.

SIX MONTHS ENDED JUNE 30, 2000	ROTATING EQUIPMENT	FLOW CONTROL	FLOW SOLUTIONS	ALL OTHER	CONSOLIDATED TOTAL
SALES TO EXTERNAL CUSTOMERS	$152,854	$129,754	$298,732	$ 3,122	$584,462
INTERSEGMENT SALES	2,891	5,448	9,700	(18,039)	--
SEGMENT OPERATING INCOME	10,108	16,195	35,350	(13,834)	47,819
IDENTIFIABLE ASSETS	$238,745	$210,143	$428,899	$84,289	$962,076

Six months ended June 30, 1999	Rotating Equipment	Flow Control	Flow Solutions	All Other	Consolidated Total
Sales to external customers	$187,077	$143,694	$210,341	$ 3,471	$544,583
Intersegment sales	2,632	7,998	7,573	(18,203)	--
Segment operating income (before special items)	11,548	15,094	27,945	(10,420)	44,167
Identifiable assets	$248,850	$212,684	$271,506	$111,968	$845,008

Reconciliation of the total segment operating income before special items to consolidated earnings before income taxes follows:

	Six Months Ended June 30, 2000	1999
Total segment operating income (before special items)	$ 61,653	$ 54,587
Corporate expenses and other	13,834	10,420
Merger integration expense	--	7,838
Interest expense	13,576	7,203
Other (income) expense	(3,161)	525
Earnings before income taxes	$ 37,404	$ 28,601

7 SUBSEQUENT EVENT

On February 10, 2000, the Company announced that it had signed a definitive agreement to acquire Ingersoll-Dresser Pumps (IDP) from the Ingersoll-Rand Company for $775 million in cash. On August 8, 2000, the Company announced the completion of the acquisition. The transaction, which was accounted for as a purchase, was financed with a combination of bank financing and senior subordinated notes. Upon closing of the transaction, the existing Flowserve debt was repaid. Flowserve has received $1,425 million of financing to pay for the acquisition and pay off existing debt as well as provide for a $300 million revolving credit facility in connection with the acquisition. The financing consists of approximately $375 million of 12.25% Senior Subordinated Notes and $1.05 billion of senior credit facilities. The credit facilities consist of a $275 million term loan with a final maturity of six years and an initial interest rate of LIBOR plus 2.75%, a $475 million term loan with a final maturity of eight years and an initial interest rate of LIBOR plus 3.50%, and a $300 million revolving credit facility with a term of six years and an initial interest rate of LIBOR plus 2.75%

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

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2000

In general, results for the second quarter of 2000 were higher than the corresponding period in the previous year due to the Company's acquisition of Innovative Valve Technologies, Inc. (Invatec) on January 12, 2000. The acquisition of Invatec is discussed in further detail in the Liquidity and Capital Resources section of this Management Discussion and Analysis.

Sales increased 8.7% to $299.2 million for the three months ended June 30, 2000, compared with $275.2 million for the same period in 1999. Sales for the quarter would have been $256.4 million without the acquisition of Invatec, 6.8% below the second quarter of 1999. 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 44% during the second quarter of 2000, compared with 55% during the second quarter of 1999. The lower 2000 percentage is due to Invatec's markets being principally U.S. Bookings (incoming orders for which there are purchase commitments) were $309.4 million, 23.0% higher than the second quarter of 1999 when bookings were $251.6 million. Excluding Invatec, bookings also showed year-on-year improvement of 4.7%.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Rotating Equipment Division (RED) for engineered 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.

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

	ROTATING EQUIPMENT DIVISION	
	Three Months Ended June 30,	
(In millions of dollars)	2000	1999
Sales	$82.3	$ 98.2
Operating income	6.2	5.0

The sales decrease in 2000 was generally due to a lower shipable beginning backlog of highly engineered pumps. Unfavorable currency translation also reduced sales by about 4%.

Operating income before special items, as a percentage of sales, increased to approximately 7.5% in 2000 from about 5.1% in the prior-year period. The operating income margin increased as a result of an improved gross margin due to an improved product mix including parts, and ongoing cost reduction efforts.

FLOW CONTROL DIVISION

Three Months Ended

(In millions of dollars)	June 30, 2000	1999
Sales	$ 67.4	$ 76.1
Operating income	8.4	7.2

The decrease in sales was due to reduced backlog at the beginning of the quarter and lower book-to-build volume during the quarter. Unfavorable currency translation also reduced sales by about 4%.

Operating income before special items, as a percentage of sales, was 12.5% in the second

quarter of 2000, compared with 9.4% in 1999. The improved operating margin in 2000 was generally due to improved gross margins and lower operating expenses. These improvements were generally due to reduced costs principally related to the Company's restructuring program initiated in the fourth quarter of 1999.

FLOW SOLUTIONS DIVISION

(In millions of dollars)	Three Months Ended June 30, 2000	1999
Sales	$ 159.6	$ 109.2
Operating Income	18.7	13.1

Sales were higher than the prior-year period generally due to the acquisition of Invatec. The increase in sales was offset slightly by an unfavorable currency translation which reduced sales by about 3%.

Operating income before special items, as a percentage of sales, decreased to 11.7% from 12.0% in 1999. The lower margins were generally due to the acquisition of Invatec, as Invatec's gross margins are historically lower than the balance of FSD operations, and period integration expenses relating to the Company's 1999 restructuring program.

CONSOLIDATED RESULTS

The gross profit margin was 34.5% for the three months ended June 30, 2000, compared with 34.1% for the same period in 1999. The increase was due to cost reductions and a more favorable parts mix in pumps. Excluding period costs of $0.7 million related to the 1999 restructuring program, the adjusted gross margin excluding Invatec was the highest since the fourth quarter of 1998.

Selling and administrative expense as a percentage of net sales was 23.6% for the three- month period ended June 30, 2000, compared with 24.1% for the corresponding 1999 period. The decrease was due to the Company's cost reduction initiatives.

Research, engineering and development expense was $6.2 million for the second quarter of 2000, compared with $6.3 million during the same period last year.

Interest expense during the second quarter of 2000 was $7.1 million, up $2.9 million from the same period in 1999 due to higher interest rates and the increased borrowing levels required to acquire Invatec stock and retire debt obtained in the acquisition.

The Company's effective tax rate for the second quarter of 2000 was 34.5%

compared to 34.0% in the second quarter of 1999. The increase was due to the acquisition of Invatec.

Net earnings for the second quarter of 2000 were $12.6 million or $0.33 per share. This was 49.0% above net earnings of $8.5 million, or $0.22 per share, for the same period in 1999. Excluding special items, net earnings for the second quarter of 1999 were $11.4 million or $0.30 per share.

RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 2000

In general, results for the first half of 2000 were higher than the corresponding period in the previous year due to the Company's acquisition of Invatec on January 12, 2000. The acquisition of Invatec is discussed in further detail in the Liquidity and Capital Resources section of this Management Discussion and Analysis.

Sales increased 7.3% to $584.5 million for the six months ended June 30, 2000, compared with $544.6 million for the same period in 1999. Sales for the period would have been $501.2 million

without the acquisition of Invatec, 8.0% below the same period of 1999. 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 44% during the first half of 2000, compared with 55% during the first half of 1999. The lower 2000 percentage is primarily due to Invatec's markets being principally U.S. Bookings (incoming orders for which there are purchase commitments) were $620.1 million, 23.0% higher than the first half of 1999 when bookings were $504.2 million. Excluding Invatec, bookings also showed year-on-year improvement of 5.3%.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Rotating Equipment Division (RED) for engineered 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.

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

	ROTATING EQUIPMENT DIVISION	
	Six Months Ended June 30,	
(In millions of dollars)	2000	1999
Sales	$155.7	$189.7
Operating income	10.1	11.5

The sales decrease in 2000 was generally due to a reduced opening backlog of highly engineered pumps. Unfavorable currency translation also reduced sales by about 3%.

Operating income before special items, as a percentage of sales, increased to approximately 6.5% in 2000 from about 6.1% in the prior-year period. The operating income margin increased due to an improved gross margin resulting from an improved product mix and ongoing cost reduction efforts.

	FLOW CONTROL DIVISION	
	Six Months Ended June 30,	
(In millions of dollars)	2000	1999
Sales	$ 135.2	$ 151.7
Operating income	16.2	15.1

The decrease in sales was due to reduced backlog at the beginning of the year and lower book-to-build volume during the period. Unfavorable currency translation also reduced sales by about 4%.

Operating income before special items, as a percentage of sales, was 12.0% in the first half of 2000, compared with 10.0% in 1999. The improved operating margin in 2000 was generally due to improved gross margins and lower operating expenses. These improvements were generally due to a favorable product mix and reduced costs principally related to the Company's restructuring program initiated in the fourth quarter of 1999.

	FLOW SOLUTIONS DIVISION	
	Six Months Ended June 30,	
(In millions of dollars)	2000	1999
Sales	$ 308.4	$ 217.9
Operating Income	35.4	27.9

Sales were higher than the prior-year period generally due to the acquisition of Invatec. The increase in sales was offset slightly by an unfavorable currency translation which reduced sales by about 2%.

Operating income before special items, as a percentage of sales, decreased to 11.5% from 12.8% in 1999. The lower margins were generally due to the acquisition of Invatec, as Invatec's gross margins are historically lower than the balance of FSD operations, and period integration expenses relating to the Company's 1999 restructuring program.

CONSOLIDATED RESULTS

The gross profit margin was 34.6% for the six months ended June 30, 2000, compared with 35.0% for the same period in 1999. The slight decrease was due to the lower margins associated with Invatec. Excluding Invatec, margins are 0.7 percentage points above the prior year.

Selling and administrative expense as a percentage of net sales was 24.3% for the six-month period ended June 30, 2000, compared with 24.5% for the corresponding 1999 period. The slight decrease was due to the Company's cost reduction initiatives which more than offset period costs incurred as a result of the Company's 1999 restructuring program and costs associated with Flowserver, the Company's global business process improvement initiative. Flowserver expenses totaled $2.5 million in the first half of 2000. In 1999, Flowserver expenses were $7.8 million and were identified and disclosed separately as merger integration expense.

Research, engineering and development expense was $12.4 million for the first six months of 2000, compared with $13.2 million during the same period last year. The lower level of spending was generally the result of cost control initiatives and the reallocation of resources to assist in project engineering.

Interest expense during the first half of 2000 was $13.6 million, up $6.4 million from the same period in 1999 due to higher interest rates and the increased borrowing levels required to acquire Invatec stock and retire debt obtained in the acquisition.

The Company recorded other income of $3.2 million during the six months ended June 30, 2000 primarily as a result of two factors. Income of $1.1 million was realized due to the quarterly mark-to-market adjustments requirement under the provisions of EITF No. 97-14 "Accounting for Deferred Compensation Agreements Where Amounts Earned are Held in a Rabbi Trust and Invested". In addition, $1.0 million of income was recorded as a result of the Company reaching an agreement and receiving payment on an outstanding promissory note which had previously been fully reserved.

The Company's effective tax rate for the first half of 2000 was 34.5% compared to 34.0% in the first half of 1999. The increase was due to the acquisition of Invatec.

Net earnings for the first half of 2000 were $24.5 million or $0.65 per share. This was 30.0% above net earnings of $18.9 million, or $0.50 per share, for the same period in 1999. Excluding special items, net earnings for the first half of 1999 were $24.1 million or $0.64 per share.

RESTRUCTURING

In the fourth quarter of 1999, the Company initiated a restructuring program designed to streamline the Company for better value and improve asset utilization. This $26.7 million program consisted of a one-time charge of $15.9 million recorded as restructuring expense and $10.8 million of other special items. The restructuring charge related to the planned closure of 10 facilities and a corresponding reduction in workforce at those locations, as well as at other locations that are part of the restructuring. The other special items related to

inventory impairments, a fixed asset impairment, and executive separation contracts and certain costs related to fourth-quarter 1999 facility closures.

The Company currently expects to realize ongoing annual operating income benefits of approximately $20 million per year effective in 2001 from this program. Approximately $10 million of savings are expected to be realized in selling and administrative expense, while the remainder is expected in costs of sales.

In 2000, period integration costs related to the implementation of the program are expected to offset a majority of the potential benefit. Current estimates are that planned savings of approximately $10 million will be offset by period integration costs.

Additionally, in 2000, a majority of the costs associated with the restructuring program will be incurred and charged against the restructuring reserve.

The restructuring program is expected to result in a net reduction of approximately 300 employees. As of June 30, 2000, the program had resulted in a net reduction of 149 employees.

Expenditures charged to the 1999 restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at December 24, 1999	$12,900	$2,960	$15,860
Cash expenditures	(102)	--	(102)

Balance at December 31, 1999	12,798	2,960	15,758
Cash expenditures	(1,693)	(583)	(2,276)
Balance at March 31, 2000	11,105	2,377	13,482
CASH EXPENDITURES	(1,311)	(1,013)	(2,324)
BALANCE AT JUNE 30, 2000	$9,794	$1,364	$11,158

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities for the first six months of 2000 were significantly below the same period in 1999. The decrease in cash flows in 2000 was primarily due to payments relating to the restructuring program and Invatec acquisition.

Capital expenditures, net of disposals, were $12.4 million during the first six months of 2000, compared with $20.2 million in the first six months of 1999. The reduction reflects a concerted effort by the Company to reduce capital spending. Capital expenditures were funded primarily by operating cash flows.

On January 13, 2000, the Company acquired Invatec, a company which is principally engaged in providing comprehensive maintenance, repair, replacement and value-added distribution services for valves, piping systems, instrumentation and other process-system components for industrial customers.

The purchase involved acquiring all of the outstanding stock of Invatec and assuming Invatec's existing debt and related obligations.

The transaction was accounted for under the purchase method of accounting and was financed through borrowings under the revolving credit facility. The results of operations for Invatec are included in the Company's condensed consolidated financial statements from the date of acquisition. The purchase price was approximately $18.3 million in cash. Liabilities of $94.9 million were simultaneously paid through borrowing under Flowserve's revolving credit agreement.

The purchase price has been allocated to the net assets acquired based primarily on information furnished by management of the acquired company.

On February 10, 2000, the Company announced it had reached a definitive agreement to acquire Ingersoll-Dresser Pumps (IDP) from Ingersoll-Rand Company for $775 million in cash. On August 8, 2000, the Company announced the completion of the acquisition. The transaction, which was accounted for as a purchase, was financed with a combination of bank financing and senior subordinated notes.

Upon closing of the transaction, the existing Flowserve debt was repaid. Flowserve has received $1,425 million of financing to pay for the acquisition and pay off existing debt as well as provide for a $300 million revolving credit facility in connection with the acquisition. The financing consists of approximately $375 million of 12.25% Senior Subordinated Notes and $1.05 billion of senior credit facilities. The credit facilities consist of a $275 million term loan with a final maturity of six years and an initial interest rate of LIBOR plus 2.75%, a $475 million term loan with a final maturity of eight years and an initial interest rate of LIBOR plus 3.50%, and a $300 million revolving credit facility with a term of six years and an initial interest rate of LIBOR plus 2.75%. During the first quarter of 2000, the Company also announced it was suspending the payment of its cash dividend which is required by the financing. The Company believes that internally generated funds, including synergies from the IDP acquisition, will be adequate to service the debt.

At June 30, 2000, total debt was 50.0% of the Company's capital structure, compared with 39.6% at December 31, 1999. The interest coverage ratio of the Company's indebtedness was 5.3 times interest at June 30, 2000, compared with 4.3 times interest at December 31, 1999.

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 include 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; the Company's ability to integrate IDP and Invatec into its management and operations; 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; 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 including, without limitation, expenses incurred in restructuring the Company's operations to incorporate IDP facilities, and the cost of financing to be assumed in acquiring IDP. 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 1999.

PART II OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) During the second quarter of 2000, the Company issued 24,645 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 directors, one officer and certain employees, subject to restrictions on transfer and vesting.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Shareholders of the Company was held on April 20, 2000.

(c) (b) A proposal to approve re-election of three Directors to the Board of Directors, in each case for a term of three years, was approved as follows with respect to each nominee for office:

	Votes For	Votes Withheld
C. Scott Greer	30,729,759	2,302,279
Diane C. Harris	32,416,056	615,982
James O. Rollans	32,407,438	624,600

The other directors, whose terms continued after the Annual Meeting, were Hugh K. Coble, George T. Haymaker, Michael F. Johnston, Charles M. Rampacek, Williams C. Rusnack and Kevin E. Sheehan.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit - 27. Financial Data Schedule.

(b) Reports on Form 8-K

None

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: August 11, 2000

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
27	Financial Data Schedule

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