

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-04-02**
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COLTEC INDUSTRIES INC

CIK: **201493** | IRS No.: **131846375** | State of Incorpor.: **PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07568** | Film No.: **95535977**
SIC: **3728** Aircraft parts & auxiliary equipment, nec

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act of 1934

For the quarterly period ended April 2, 1995

OR

Transition Report Pursuant To Section 13 Or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-7568

COLTEC INDUSTRIES INC

(Exact name of Registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation
or organization)

13-1846375

(IRS Employer
Identification No.)

430 PARK AVENUE, NEW YORK, N.Y.

(Address of principal executive offices)

10022

(Zip code)

(212) 940-0400

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

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 ()

On April 30, 1995, there were outstanding 69,931,784 shares of common stock, par value \$.01 per share.

PART I FINANCIAL INFORMATION
Item 1 Financial Statements

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	April 2, 1995	December 31, 1994
	(Unaudited)	
	(In thousands)	
A S S E T S		
Current assets -		
Cash and cash equivalents	\$ 2,752	\$ 4,188
Accounts and notes receivable - net	237,153	198,149
Inventories -		
Finished goods	52,023	46,316
Work in process and finished parts	131,780	126,097
Raw materials and supplies	25,083	25,790
	<u>208,886</u>	<u>198,203</u>
Deferred income taxes	14,601	15,222
Other current assets	10,598	13,936
	<u>473,990</u>	<u>429,698</u>
Property, plant and equipment	651,953	652,907
Less accumulated depreciation and amortization	429,954	429,793
	<u>221,999</u>	<u>223,114</u>
Costs in excess of net assets acquired, net of amortization	129,752	131,024
Other assets	63,454	63,614
	<u>\$889,195</u>	<u>\$847,450</u>
	=====	=====

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	April 2, 1995	December 31, 1994
	(Unaudited)	
	(In thousands, except share data)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities -		
Current maturities of long-term debt	\$ 551	\$ 886
Accounts payable	67,410	76,648
Accrued expenses	184,766	159,528
Current portion of liabilities of discontinued operations	3,000	3,000
Total current liabilities	255,727	240,062
Long-term debt	982,631	969,261
Deferred income taxes	8,457	10,533
Other liabilities	117,461	124,159
Liabilities of discontinued operations	28,876	29,036
Shareholders' equity -		
Preferred stock, \$.01 par value, 2,500,000 shares authorized, shares outstanding - none	-	-
Common stock, \$.01 par value, 100,000,000 shares authorized, 70,016,384 shares issued (excluding 25,000,000 shares		

held by a wholly owned subsidiary)	700	700
Capital in excess of par value	638,505	638,407
Retained earnings (deficit)	(1,135,544)	(1,158,948)
Unearned compensation - restricted stock awards	(2,902)	(3,480)
Foreign currency translation adjustments	(2,940)	(681)
	<u>(502,181)</u>	<u>(524,002)</u>
Less: Cost of 109,600 and 98,862 shares of common stock in treasury at April 2, 1995 and December 31, 1994, respectively	(1,776)	(1,599)
	<u>(503,957)</u>	<u>(525,601)</u>
	<u>\$ 889,195</u>	<u>\$ 847,450</u>
	=====	=====

The accompanying notes to financial statements are an integral part of this statement.

3.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

	Three Months Ended	
	<u>April 2,</u> 1995	<u>April 3,</u> 1994
	(In thousands, except per share data)	
Net sales	\$356,344	\$331,850
	<u> </u>	<u> </u>
Costs and expenses -		
Cost of sales	246,489	227,641
Selling and administrative	51,722	49,530
	<u> </u>	<u> </u>
Total costs and expenses	298,211	277,171
	<u> </u>	<u> </u>
Operating income	58,133	54,679

Interest and debt expense, net	22,001	22,424
	<hr/>	<hr/>
Earnings before income taxes and extraordinary item	36,132	32,255
Provision for income taxes	12,646	11,612
	<hr/>	<hr/>
Earnings before extraordinary item	23,486	20,643
Extraordinary item	(82)	-
	<hr/>	<hr/>
Net earnings	\$ 23,404	\$ 20,643
	<hr/>	<hr/>
Earnings per common share -		
Before extraordinary item	\$.34	\$.30
Extraordinary item	-	-
	<hr/>	<hr/>
Net earnings	\$.34	\$.30
	<hr/>	<hr/>
Weighted average number of common and common equivalent shares	69,822	69,797
	<hr/>	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

4.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	April 2, 1995	April 3, 1994
	<hr/>	
	(In thousands)	
Cash flows from operating activities		
Net earnings	\$ 23,404	\$ 20,643
Adjustments to reconcile net earnings to cash used in operating activities		
Extraordinary item	82	-
Depreciation and amortization	10,711	10,921
Deferred income taxes	(2,076)	1,929

Receivable from insurance carriers	(14,146)	(3,089)
Payment of liabilities of discontinued operations	(160)	(726)
Other operating items	(4,273)	(2,521)
	<u>13,542</u>	<u>27,157</u>
Changes in assets and liabilities		
Accounts and notes receivable	(18,153)	(15,989)
Inventories	(10,683)	(1,011)
Deferred income taxes	621	763
Other current assets	3,338	(85)
Accounts payable	(9,238)	(4,710)
Accrued expenses	13,278	(16,886)
	<u>(20,837)</u>	<u>(37,918)</u>
Cash used in operating activities	<u>(7,295)</u>	<u>(10,761)</u>
Cash flows from investing activities		
Capital expenditures	(7,564)	(7,146)
Other - net	369	(1,029)
	<u>(7,195)</u>	<u>(8,175)</u>
Cash flows from financing activities		
Issuance of long-term debt	23,142	329,000
Payment of long-term debt	(10,088)	(310,516)
	<u>13,054</u>	<u>18,484</u>
Cash and cash equivalents -		
Decrease	(1,436)	(452)
At beginning of period	4,188	5,749
At end of period	<u>\$ 2,752</u>	<u>\$ 5,297</u>
	=====	=====

The accompanying notes to financial statements are an integral part of this statement.

5.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
Notes to Financial Statements
April 2, 1995
(Unaudited)

1. SUMMARY OF ACCOUNTING POLICIES

Financial Information: The unaudited financial statements, included herein, reflect in the opinion of Coltec Industries Inc ("Coltec") all normal recurring adjustments necessary to present fairly the financial position and results of operations for the periods indicated. The unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The consolidated balance sheet as of December 31, 1994 has been derived from the audited financial statements as of that date. For further information, refer to the financial statements and footnotes included in Coltec's annual report to shareholders for the year ended December 31, 1994.

Consolidated Statement of Cash Flows: Interest paid and federal and state income taxes paid and refunded were as follows:

	Three Months Ended	
	April 2, 1995	April 3, 1994
	(In thousands)	
Interest paid	\$ 6,852	\$29,718
Income taxes:		
Paid	14,179	12,512
Refunded	521	285

2. EXTRAORDINARY ITEM

During the first quarter of 1995, Coltec incurred an extraordinary charge of \$82,000, net of a tax benefit of \$44,000, in connection with the early retirement of debt.

3. COMMITMENTS AND CONTINGENCIES

Coltec and certain of its subsidiaries are defendants in various lawsuits, including actions involving asbestos-containing products and certain environmental proceedings. With respect to asbestos product liability and related litigation costs, as of April 2, 1995, two subsidiaries of Coltec were among a number of defendants (typically 15 to 40) in approximately 81,600 actions (including approximately 5,600 actions, in advanced stages of processing) filed in various states by plaintiffs alleging injury or death as a result of exposure to asbestos fibers. Through April 2, 1995, approximately 113,300 of the approximately 194,900 total actions brought have been settled or otherwise disposed of.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
Notes to Financial Statements
April 2, 1995
(Unaudited)

The damages claimed for personal injury or death vary from case to case and in many cases plaintiffs seek \$1,000,000 or more in compensatory damages and \$2,000,000 or more in punitive damages. Although the law in each state differs to some extent, it appears, based on advice of counsel, that liability for compensatory damages would be shared among all responsible defendants, thus limiting the potential monetary impact of such judgments on any individual defendant.

Following a decision of the Pennsylvania Supreme Court, in a case in which neither Coltec nor any of its subsidiaries were parties, that held insurance carriers are obligated to cover asbestos-related bodily injury actions if any injury or disease process, from first exposure through manifestation, occurred during a covered policy period (the "continuous trigger theory of coverage"), Coltec settled litigation with its primary and most of its first-level excess insurance carriers, substantially on the basis of the Court's ruling. Coltec is currently negotiating with its remaining excess carriers to determine, on behalf of its subsidiaries, how payments will be made with respect to such insurance coverage for asbestos claims. Coltec is currently receiving payments pursuant to an interim agreement with certain of its excess carriers. Coltec believes that a final agreement can be achieved without litigation, and on substantially the same basis that it has resolved the issues with its primary and first-level excess carriers. Settlements are generally made on a group basis with payments made to individual claimants over periods of one to four years. During the first three months of 1995, two subsidiaries of Coltec received approximately 9,600 new actions, compared with approximately 4,000 actions received during the first three months of 1994. Payments were made with respect to asbestos liability and related costs aggregating \$20,785,000 and \$10,136,000 in the first three months of 1995 and 1994, respectively, substantially all of which were covered by insurance. In accordance with Coltec's internal procedures for the processing of asbestos product liability actions and due to the proximity to trial or settlement, certain outstanding actions have progressed to a stage where Coltec can reasonably estimate the cost to dispose of these actions. As of April 2, 1995, Coltec estimates that the aggregate remaining cost of the disposition of the settled actions for which payments remain to be made and actions in advanced stages of processing, including associated legal costs, is approximately \$56,830,000 and Coltec expects that this cost will be substantially covered by insurance.

With respect to the 76,000 outstanding actions as of April 2, 1995 which are in preliminary procedural stages, Coltec lacks sufficient information upon which judgments can be made as to the validity or ultimate disposition of such actions, thereby making it difficult to estimate with reasonable certainty the potential liability or costs to Coltec. When asbestos actions are received they are typically forwarded to local counsel to ensure that the appropriate preliminary procedural response is taken. The complaints typically do not contain sufficient information to permit a

7.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
Notes to Financial Statements
April 2, 1995
(Unaudited)

reasonable evaluation as to their merits at the time of receipt, and in jurisdictions encompassing a majority of the outstanding actions, the practice has been that little or no discovery or other action is taken until several months prior to the date set for trial. Accordingly, Coltec generally does not have the information necessary to analyze the actions in sufficient detail to estimate the ultimate liability or costs to Coltec, if any, until the actions appear on a trial calendar. A determination to seek dismissal, to attempt to settle or to proceed to trial is typically not made prior to the receipt of such information.

It is also difficult to predict the number of asbestos lawsuits that Coltec's subsidiaries will receive in the future. Coltec has noted that, with respect to recently settled actions or actions in advanced stages of processing, the mix of the injuries alleged and the mix of the occupations of the plaintiffs have been changing from those traditionally associated with Coltec's asbestos-related actions. Coltec is not able to determine with reasonable certainty whether this trend will continue. Based upon the foregoing, and due to the unique factors inherent in each of the actions, including the nature of the disease, the occupation of the plaintiff, the presence or absence of other possible causes of a plaintiff's illness, the availability of legal defenses, such as the statute of limitations or state of the art, and whether the lawsuit is an individual one or part of a group, management is unable to estimate with reasonable certainty the cost of disposing of outstanding actions in preliminary procedural stages or of actions that may be filed in the future. However, Coltec believes that its subsidiaries are in a favorable position compared to many other defendants because, among other things, the asbestos fibers in its asbestos-containing products were encapsulated. Considering the foregoing, as well as the experience of Coltec's subsidiaries and other defendants in asbestos

litigation, the likely sharing of judgments among multiple responsible defendants, and the significant amount of insurance coverage that Coltec expects to be available from its solvent carriers, Coltec believes that pending and reasonably anticipated future actions are not likely to have a material effect on Coltec's results of operations and financial condition.

Although the insurance coverage which Coltec has is substantial, it should be noted that insurance coverage for asbestos claims is not available to cover exposures initially occurring on and after July 1, 1984. Coltec's subsidiaries continue to be named as defendants in new cases, some of which allege initial exposure after July 1, 1984.

In addition to claims for personal injury, Coltec's subsidiaries have been involved in an insignificant number of property damage claims based upon asbestos-containing materials found in schools, public facilities and private commercial buildings. Based upon proceedings to date, the overwhelming majority of these claims have been resolved without a material adverse impact on Coltec. Likewise, the insignificant number of claims

8.

COLTEC INDUSTRIES INC AND SUBSIDIARIES

Notes to Financial Statements

April 2, 1995

(Unaudited)

remaining to be resolved are not expected to have a material effect on Coltec's results of operations and financial condition.

Coltec has recorded an accrual for its liabilities for asbestos-related matters that are deemed probable and can be reasonably estimated (settled actions and actions in advanced stages of processing), and has separately recorded an asset equal to the amount of such liabilities that is expected to be recovered by insurance. In addition, Coltec has recorded a receivable for that portion of payments previously made for asbestos product liability actions and related litigation costs that is recoverable from its insurance carriers. Liabilities for asbestos related matters and the receivable from insurance carriers included in the Consolidated Balance Sheet are as follows:

(In thousands)	April 2, 1995	Dec. 31, 1994
Accounts and notes receivable - other	\$89,030	\$68,179
Other assets	15,561	13,119
Accrued expenses - other	46,103	34,099
Other liabilities	10,727	8,155

With respect to environmental proceedings, Coltec has been notified that it is among the Potentially Responsible Parties ("PRPs") under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), or similar state laws, for the costs of investigating and in some cases remediating contamination by hazardous materials at several sites. CERCLA imposes joint and several liability for the costs of investigating and remediating properties contaminated by hazardous materials. Liability for these costs can be imposed on present and former owners or operators of the properties or on parties who generated the wastes that contributed to the contamination. The process of investigating and remediating contaminated properties can be lengthy and expensive. The process is also subject to the uncertainties occasioned by changing legal requirements, developing technological applications and liability allocations among PRPs. Based on the progress to date in the investigation, cleanup and allocation of responsibility for these sites, Coltec has estimated that its costs in connection with these sites approximates \$20,000,000 at April 2, 1995, and has accrued for this amount in the Consolidated Balance Sheet as of April 2, 1995. Although Coltec is pursuing insurance recovery in connection with certain of these matters, Coltec has not recorded a receivable with respect to any potential recovery of costs in connection with any environmental matter.

9.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 2, 1995

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table shows financial information by industry segment for the three months ended April 2, 1995 and April 3, 1994.

	Three Months Ended	
	April 2, 1995	April 3, 1994
Sales:		
Aerospace/Government	\$114.9	\$ 99.1

(In millions)

Automotive	132.3	128.4
Industrial	109.5	104.7
Intersegment elimination	(.4)	(.3)

Total	<u>\$356.3</u>	<u>\$331.9</u>
	=====	=====

Operating income:

Aerospace/Government	\$ 15.0	\$ 13.6
Automotive	27.9	28.3
Industrial	24.7	22.3

Total segments	<u>67.6</u>	<u>64.2</u>
Corporate unallocated	(9.5)	(9.5)

Operating income	<u>\$ 58.1</u>	<u>\$ 54.7</u>
	=====	=====

Results of Operations

Three Months Ended April 2, 1995 Compared With Three Months Ended April 3, 1994.

Earnings before extraordinary item in the 1995 first quarter increased 14% to \$23.5 million, equal to 34 cents per share, from \$20.6 million, or 30 cents per share, in the first quarter of 1994. Sales for the quarter ended April 2, 1995, increased 7% to \$356.3 million compared with \$331.9 million in the like quarter last year. Operating income improved 6% to \$58.1 million, and the operating margin was 16.3%. This compared with operating income of \$54.7 million and an operating margin of 16.5% in the 1994 first quarter.

In the Aerospace/Government segment, operating income improved 10% on a 16% sales increase. The Aerospace/Government segment benefited from

10.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 2, 1995

strong performances by Fairbanks Morse Engine, Chandler Evans Control Systems and Delavan Gas Turbine Products. The earnings improvement for the Aerospace/Government segment was partially offset by continuing production inefficiencies at Walbar. Operating income in the Automotive segment declined 1% on a 3% sales increase. The Automotive

segment was negatively affected by a leveling of domestic vehicle sales as well as the pricing environment in the original equipment market. Improved aftermarket results were experienced by Holley Performance Products in the first quarter of 1995. The Industrial segment reported an 11% improvement in operating income on a 5% sales increase. However, excluding Central Moloney, which was sold in January 1994, sales in the Industrial segment increased 10%. Higher sales and earnings were reported by all divisions in the Industrial segment reflecting the continuing improvement in the markets served and the success of new product introductions. Orders for the Industrial segment were up 16% in the first quarter led by strong performances by Garlock Mechanical Packing, Quincy Compressor and Garlock Bearings.

Following is a discussion of the results of operations for the three months ended April 2, 1995 compared with the three months ended April 3, 1994.

Sales. In the Aerospace/Government segment, sales were \$114.9 million compared with \$99.1 million a year ago. Fairbanks Morse Engine reported higher shipments of engines for U.S. Navy programs and began the initial deliveries of Alco engines. Higher sales at Chandler Evans were due to increased shipments of fuel pumps to original equipment manufacturers and spare parts to the commercial aftermarket. Sales were up at Delavan Gas Turbine Products on increased demand for fuel nozzles and overhaul services to regional airlines.

Sales for the Automotive segment were \$132.3 million for the three months ended April 2, 1995, compared with \$128.4 million last year. Shipments were negatively affected by a leveling of domestic vehicle sales as well as the pricing environment in the original equipment market. Holley Performance Products reported higher sales on strong demand in the automotive aftermarket for performance carburetors.

In the Industrial segment, sales were \$109.5 million compared with \$104.7 million last year, or \$99.8 million excluding Central Moloney. All divisions within the Industrial segment reported increased sales in the first quarter of 1995. Sales were higher at Quincy Compressor on increased shipments of both reciprocating and rotary screw air compressors and on strong demand for compressor parts and accessories. Garlock Bearings reported higher sales on strong demand for bearings from the automotive and truck markets. At Garlock Mechanical Packing sales were higher on increased demand for the GYLON and KLOSURE product lines and on improved pricing.

Cost of Sales. Cost of sales increased 8% in the first quarter of 1995. The increase is related to the increased volume of business, production inefficiencies at Walbar and start up costs at Fairbanks Morse Engine. As a percent of sales, cost of sales increased to 69.2% from 68.6% last year.

Selling and Administrative Expense. Selling and administrative expense, including other income and expense, increased 4% due primarily to higher sales. As a percent of sales, selling and administrative expense declined to 14.5% from 14.9% in the first three months of 1993.

Interest and Debt Expense, Net. Interest and debt expense, net declined \$.4 million, or 2%.

Provision for Income Taxes. The provision for income taxes for the first three months of 1995 results in an effective income tax rate of 35% compared with 36% for last year.

Extraordinary Item. The extraordinary charge for the first quarter of 1995 resulted from early extinguishment of debt.

Liquidity and Financial Position

At April 2, 1995, cash and cash equivalents were \$2.8 million compared with \$4.2 million at year-end 1994. Working capital was \$218.3 million and the current ratio was 1.85. This compares with working capital of \$189.6 million and a current ratio of 1.79 at December 31, 1994.

In the first three months of 1995, \$7.3 million of cash was used in operating activities compared with \$10.8 million last year. The lower level of cash used in 1995 was due mainly to higher interest payments in 1994 as well as to payments in 1994 covering the restructuring plan announced in 1993. Partially offsetting this improvement was the net payment in the first quarter of 1995 of \$14.1 million for asbestos-related matters compared to a \$3.1 million net payment last year. The receivable from insurance carriers for asbestos-related matters was \$104.6 million and \$81.3 million at April 2, 1995 and December 31, 1994, respectively, (including the current portion of \$89.0 million and \$68.2 million, respectively). Excluding the current receivable due from insurance carriers, receivables increased 14% to \$148.1 million, reflecting the higher sales volume, and receivables days outstanding were 38 days at April 2, 1995 compared with 36 days at year-end 1994. Inventories of \$208.9 million at April 2, 1995 were 5% higher than the level at year-end 1994.

At April 2, 1995, total debt was \$983.2 million compared with \$970.1

million at year-end 1994. The negative balance in shareholders' equity of \$504.0 million compares with a negative balance of \$525.6 million at December 31, 1994.

12.

COLTEC INDUSTRIES INC AND SUBSIDIARIES
April 2, 1995

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Coltec and certain of its subsidiaries are defendants in various lawsuits involving asbestos-containing products. In addition, Coltec has been notified that it is among the Potentially Responsible Parties under the federal Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, or similar state laws, for the costs of investigating and in some cases remediating contamination by hazardous materials at several sites. See Note 3 of the Notes to Financial Statements.

Item 6. Exhibits and Reports on Form 8-K.

- (b) No reports on Form 8-K were filed during the quarter ended April 2, 1995 by Coltec Industries Inc.

S I G N A T U R E

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

COLTEC INDUSTRIES INC
(Registrant)

by Paul G. Schoen

Paul G. Schoen
Executive Vice President,
Finance
Treasurer and Chief Financial
Officer

Date: May 10, 1995

14.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE APRIL 2, 1995 CONSOLIDATED BALANCE SHEET AND STATEMENT OF EARNINGS FOR THE THREE MONTHS ENDED APRIL 2, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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