ENPRO INDUSTRIES, INC
Form 10-Q
August 03, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-31225

ENPRO INDUSTRIES, INC.
(Exact name of registrant, as specified in its charter)

North Carolina (State or other jurisdiction of incorporation)	01-0573945 (I.R.S. Employer Identification No.)
5605 Carnegie Boulevard, Suite 500, Charlotte, North Carolina	28209
(Address of principal executive offices)	(Zip Code)

(704) 731-1500
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of August 1, 2016, there were 21,510,084 shares of common stock of the registrant outstanding, which does not include 194,517 shares of common stock held by a subsidiary of the registrant and accordingly are not entitled to be voted. There is only one class of common stock.

PART I
FINANCIAL INFORMATION
Item 1. Financial Statements
ENPRO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
Quarters and Six Months Ended June 30, 2016 and 2015
(in millions, except per share amounts)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$313.2	$298.4	$608.1	$575.9
Cost of sales	205.3	197.1	402.6	384.8
Gross profit	107.9	101.3	205.5	191.1
Operating expenses:				
Selling, general and administrative	75.2	74.1	160.8	151.4
Goodwill and other intangible asset impairment	—	47.0	—	47.0
Asbestos settlement	—	—	80.0	—
Other	3.6	0.5	8.0	1.6
Total operating expenses	78.8	121.6	248.8	200.0
Operating income (loss)	29.1	(20.3)	(43.3)	(8.9)
Interest expense	(14.1)	(13.1)	(27.4)	(26.1)
Interest income	0.2	0.2	0.4	0.3
Other expense	(2.5)	(0.2)	(4.1)	(4.3)
Income (loss) before income taxes	12.7	(33.4)	(74.4)	(39.0)
Income tax benefit (expense)	(9.1)	(3.9)	31.2	0.1
Net income (loss)	$3.6	$(37.3)	$(43.2)	$(38.9)
Comprehensive loss	$(5.3)	$(29.2)	$(45.2)	$(47.0)
Basic earnings (loss) per share	$0.17	$(1.66)	$(1.99)	$(1.68)
Diluted earnings (loss) per share	$0.17	$(1.66)	$(1.99)	$(1.68)

See notes to consolidated financial statements (unaudited).

ENPRO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Six Months Ended June 30, 2016 and 2015
(in millions)

	2016	2015
OPERATING ACTIVITIES		
Net loss	$(43.2)	$(38.9)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	15.0	14.8
Amortization	13.1	14.1
Loss on exchange and repurchase of convertible debentures	—	2.8
Goodwill and other intangible asset impairment	—	47.0
Asbestos settlement	80.0	—
Deferred income taxes	(37.9)	(5.6)
Stock-based compensation	3.4	1.4
Other non-cash adjustments	2.0	0.8
Change in assets and liabilities, net of effects of acquisitions and sale of businesses:		
Accounts receivable, net	(16.9)	(5.1)
Inventories	(0.5)	(12.2)
Accounts payable	(11.7)	(5.7)
Other current assets and liabilities	(1.7)	(10.9)
Other non-current assets and liabilities	(4.6)	(4.9)
Net cash used in operating activities	(3.0)	(2.4)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(17.3)	(16.2)
Payments for capitalized internal-use software	(2.0)	(2.3)
Acquisitions, net of cash acquired	(28.3)	(30.6)
Other	0.8	0.1
Net cash used in investing activities	(46.8)	(49.0)
FINANCING ACTIVITIES		
Proceeds from debt	214.4	113.2
Repayments of debt	(110.7)	(66.0)
Repurchase of common stock	(17.7)	(80.0)
Dividends paid	(9.1)	(9.4)
Repurchase of convertible debentures conversion option	—	(21.6)
Other	(3.1)	(2.1)
Net cash provided by (used in) financing activities	73.8	(65.9)
Effect of exchange rate changes on cash and cash equivalents	(8.9)	0.6
Net increase (decrease) in cash and cash equivalents	15.1	(116.7)
Cash and cash equivalents at beginning of period	103.4	194.2
Cash and cash equivalents at end of period	$118.5	$77.5
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$29.2	$27.6
Income taxes, net	$15.0	$11.4
Non-cash investing and financing activities:		
Non-cash acquisitions of property, plant, and equipment	$3.1	$5.9

See notes to consolidated financial statements (unaudited).

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ENPRO INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in millions, except share amounts)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$118.5	$ 103.4
Accounts receivable, net	231.7	212.5
Inventories	181.4	178.4
Prepaid expenses and other current assets	24.6	23.6
Total current assets	556.2	517.9
Property, plant and equipment, net	214.6	211.5
Goodwill	202.8	195.9
Other intangible assets, net	190.3	190.4
Investment in GST	236.9	236.9
Deferred income taxes and income tax receivable	153.4	109.3
Other assets	37.7	36.9
Total assets	$1,591.9	$ 1,498.8
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings from GST	$27.6	$ 24.3
Notes payable to GST	295.9	12.2
Current maturities of long-term debt	0.1	0.1
Accounts payable	93.3	101.5
Accrued expenses	116.0	140.6
Total current liabilities	532.9	278.7
Long-term debt	455.9	356.2
Notes payable to GST	—	271.0
Asbestos liability	110.0	30.0
Other liabilities	104.3	103.1
Total liabilities	1,203.1	1,039.0
Commitments and contingencies		
Shareholders’ equity		
Common stock – $.01 par value; 100,000,000 shares authorized; issued, 21,758,193 shares in 2016 and 22,046,647 shares in 2015	0.2	0.2
Additional paid-in capital	355.9	372.5
Retained earnings	90.1	142.5
Accumulated other comprehensive loss	(56.1)	(54.1)
Common stock held in treasury, at cost – 195,068 shares in 2016 and 196,593 shares in 2015	(1.3)	(1.3)
Total shareholders’ equity	388.8	459.8
Total liabilities and equity	$1,591.9	$ 1,498.8

See notes to consolidated financial statements (unaudited).

ENPRO INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
1. Overview, Basis of Presentation and Recently Issued Authoritative Accounting Guidance
Overview
EnPro Industries, Inc. ("we," "us," "our," "EnPro" or the "Company") is a leader in the design, development, manufacture and marketing of proprietary engineered industrial products that primarily include: sealing products; heavy-duty truck wheel-end component systems; self-lubricating non-rolling bearing products; precision engineered components and lubrication systems for reciprocating compressors; and heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines, including parts and services.
Basis of Presentation
The accompanying interim consolidated financial statements are unaudited, and certain related information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted in accordance with Rule 10-01 of Regulation S-X. They were prepared following the same policies and procedures used in the preparation of our annual financial statements and reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of results for the periods presented. The Consolidated Balance Sheet as of December 31, 2015 was derived from the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2015. The results of operations for the interim periods are not necessarily indicative of the results for the fiscal year. These consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2015 included within our annual report on Form 10-K.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amount of assets and liabilities and the disclosures regarding contingent assets and liabilities at period end and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.
All intercompany accounts and transactions between our consolidated operations have been eliminated.
In the first quarter of 2016, we adopted a standard that amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. As a result of adopting this standard retrospectively, $4.7 million of debt issuance costs previously presented in other assets on the Consolidated Balance Sheet as of December 31, 2015 were reclassified as a reduction of long-term debt. In addition, we have revised our December 31, 2015 Condensed Consolidating Balance Sheet that is presented in our supplemental guarantor financial information. Refer to Note 18, "Supplemental Guarantor Financial Information" for more details about this revision.
Recently Issued Authoritative Accounting Guidance

In June 2016, a standard was issued that significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income, including trade receivables. The standard requires an entity to estimate its lifetime "expected credit loss" for such assets at inception, and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The standard is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. We are currently evaluating the new guidance to determine the impact it will have on our consolidated financial statements.

In March 2016, a standard was issued to modify and simplify several aspects of accounting for share-based payment transactions. Changes to the current guidance primarily pertain to the income tax consequences of share-based payment transactions. Under the standard, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur, regardless of whether the benefit reduces taxes payable in the current period. The full amount of excess tax benefits should be classified along with other income tax cash flows as an operating activity. When awards are settled, cash paid to the taxing authorities by an employer when directly withholding shares for tax withholding purposes will be classified as a financing activity. Additionally, with respect to forfeitures of awards, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The amendments in this standard are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. We are currently evaluating the new guidance to determine the impact it will have on our consolidated financial statements.

In February 2016, a standard was issued to establish principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The standard will require lessees to recognize the lease assets and lease liabilities that arise from all leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The standard retains a distinction between finance leases and operating leases. As a result, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged. Additionally, the guidance provides clarification on the definition of a lease, including alignment of the concept of control of an asset with principles in other authoritative guidance around revenue recognition and consolidation. The amendments in this guidance are effective for financial statements issued for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the new guidance to determine the impact it will have on our consolidated financial statements.

In January 2016, a standard was issued that amends existing guidance around classification and measurement of certain financial assets and liabilities. Changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. For equity investments without readily determinable fair values, the cost method is also eliminated. However, most entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. The standard also requires that financial assets and liabilities be disclosed separately in the notes to the financial statements based on measurement principle and form of financial asset. The amendments in this guidance are effective for financial statements issued for interim and annual periods beginning after December 15, 2017. This standard is not expected to have a significant impact on our consolidated financial statements or disclosures.

In July 2015, a standard was issued that simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. This will not apply to the portion of our inventory that is measured using the last-in, first-out method. The amendments in this guidance are effective for fiscal years beginning after December 15, 2016 and for interim periods therein, but early application is permitted. This standard is not expected to have a significant impact on our consolidated financial statements or disclosures.

In August 2014, a standard was issued that requires management of entities to assess the entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term "substantial doubt," (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued. The new standard will be effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This standard is not expected to have an impact on our consolidated financial statements or disclosures.

In May 2014, a comprehensive new revenue recognition standard was issued that will supersede nearly all existing revenue recognition guidance. The new guidance introduces a five-step model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The new standard will become effective for us beginning with the first quarter 2018. We are currently evaluating the new guidance, including possible transition alternatives, to determine the impact it will have on our consolidated financial statements.

2. Acquisitions

On April 29, 2016, we acquired certain assets and assumed certain liabilities of Rubber Fab Gasket & Molding, Inc. ("Rubber Fab"), a privately-held company offering a full range of high performance sanitary gaskets, hoses and fittings for the hygienic process industries with annual revenues of approximately $17 million. Rubber Fab is managed as part of EnPro’s Garlock division within the Sealing Products segment.

In July 2015, we purchased the Veyance North American air spring business (the "Air Spring Business") through the purchase of 100% of the stock of Veyance's Mexico business and of all of the assets of its U.S. business. In the second quarter of 2016, we finalized and agreed upon the acquisition date balance sheet of the Air Spring Business with the seller and made an additional cash payment for the final agreed-upon acquisition date working capital balance.

In total, we paid $28.3 million in the six months ended June 30, 2016 for these businesses.

Because the assets, liabilities and results of operations for these acquisitions are not significant to our consolidated financial position or results of operations, pro forma financial information and additional disclosures are not presented.

3. Income Taxes

Our income tax expense and resulting effective tax rate are based upon the estimated annual effective tax rates applicable for the respective periods adjusted for the effect of items required to be treated as discrete interim period items, including losses generated in countries where we are projecting annual losses for which a deferred tax asset is not anticipated to be recognized. This effective tax rate is generally lower than U.S. statutory tax rates primarily due to the earnings in lower rate foreign jurisdictions where a significant portion of our income is taxed, and fluctuates based on the portion of our profits earned in each jurisdiction. In addition, the rate can by magnified by the near break-even pre-tax loss affected by normal permanent book and tax differences.

We recorded income tax benefit of $31.2 million on pre-tax loss of $74.4 million in the six months ended June 30, 2016, resulting in an effective tax rate of 41.9%. This rate generally fluctuates based on the portion of our profits earned within the U.S. versus lower rate foreign jurisdictions. During the six months ended June 30, 2016, significant pre-tax losses were benefited in the U.S. at a higher annual effective tax rate. Pre-tax profits outside the U.S. resulted in proportionally lower tax expense, thus skewing the overall rate. Additionally, because the year-to-date ordinary loss exceeds the anticipated ordinary loss for the full year, the tax benefit recognized for the year-to-date loss is limited to the amount that would be recognized if the year-to-date ordinary loss were the anticipated ordinary loss for the full year.

During the first six months of 2015, our effective tax rate was 0.3% as we recorded an income tax benefit of $0.1 million on pre-tax loss of $39.0 million. The volatility in the tax rate is primarily the result of significant discrete items that were recorded during the first six months of 2015. We released a valuation allowance in France where an entity had demonstrated sustained earnings to overcome a history of negative evidence. The full $3.2 million benefit of this valuation allowance release was recorded as a discrete item in the first quarter of 2015. In the second quarter of 2015, we recorded a discrete tax benefit of only $0.8 million on the $47.0 million goodwill and other intangible asset impairment.

During the second quarter of 2016, our effective tax rate was 71.6% as we recorded an income tax expense of $9.1 million on pre-tax income of $12.7 million. The volatility in the quarterly tax rate is the result of using annual tax rates derived from a geographic mix of pre-tax losses and income, as applied to a year-to-date ordinary loss that exceeds the anticipated ordinary loss for the full year. The combination of mix, overall loss limitations, and small denominators result in a high effective quarterly rate. During the second quarter of 2015, our effective tax rate was negative 11.7% as we recorded an income tax expense of $3.9 million on pre-tax loss of $33.4 million. The unusual tax expense in the prior year primarily resulted from our inability to record tax benefits related to the largely nondeductible goodwill impairment charge, all of which was recorded in the second quarter as a discrete item.

4. Earnings (Loss) Per Share

	Quarters Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
	(in millions, except per share amounts)			
Numerator (basic and diluted):				
Net income (loss)	$3.6	$(37.3)	$(43.2)	$(38.9)
Denominator:				
Weighted-average shares – basic	21.7	22.5	21.7	23.1
Share-based awards	0.2	—	—	—
Weighted-average shares – diluted	21.9	22.5	21.7	23.1
Earnings (loss) per share:				
Basic	$0.17	$(1.66)	$(1.99)	$(1.68)
Diluted	$0.17	$(1.66)	$(1.99)	$(1.68)

In the six months ended June 30, 2016 and the quarter and six months ended June 30, 2015, there were losses attributable to common shares. There were 1.1 million of potentially dilutive shares excluded from the calculation of diluted earnings per share for the quarter ended June 30, 2015 and 0.2 million and 1.4 million, respectively, excluded for the six months ended June 30, 2016 and 2015 since they were antidilutive.

5. Inventories

	June 30, 2016	December 31, 2015
	(in millions)	
Finished products	$111.3	$ 110.2
Work in process	25.9	25.6
Raw materials and supplies	49.9	49.0
	187.1	184.8
Reserve to reduce certain inventories to LIFO basis	(11.3)	(11.3)
Manufacturing inventories	175.8	173.5
Incurred costs relating to long-term contracts	13.0	10.9
Progress payments related to long-term contracts	(7.4)	(6.0)
Net balance associated with completed-contract inventories	5.6	4.9
Total inventories	$181.4	$ 178.4

Incurred costs related to long-term contracts in the table above represent inventoried work in process and finished products related to engine contracts accounted for under the completed-contract method, where costs incurred exceed customer billings.

Refer to Note 6, “Long-Term Contracts” for additional information about incurred costs and progress payments related to long-term contracts.

We use the last-in, first-out (“LIFO”) method of valuing certain of our inventories. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs, which are subject to change until the final year-end LIFO inventory valuation.

6. Long-Term Contracts

Additional information regarding engine contracts accounted for under the percentage-of-completion (“POC”) method is as follows:

	June 30, 2016	December 31, 2015
	(in millions)	
Cumulative revenues recognized on uncompleted POC contracts	$303.6	$ 215.0
Cumulative billings on uncompleted POC contracts	267.7	198.2
	$35.9	$ 16.8

These amounts were included in the accompanying Consolidated Balance Sheets under the following captions:

	June 30, 2016	December 31, 2015
	(in millions)	
Accounts receivable, net (POC revenue recognized in excess of billings)	$40.2	$ 23.5
Accrued expenses (billings in excess of POC revenue recognized)	(4.3)	(6.7)
	$35.9	$ 16.8

Additional information regarding engine contracts accounted for under the completed-contract method is as follows:

	June 30, 2016	December 31, 2015
	(in millions)	
Incurred costs relating to long-term contracts	$0.2	$ 0.1
Progress payments related to long-term contracts	(1.2)	(1.0)
Net balance associated with completed-contract inventories	$(1.0)	$ (0.9)

Incurred costs related to long-term contracts in the table above represent inventoried work in process and finished products related to engine contracts accounted for under the completed-contract method, where customer billings exceed costs incurred.

Progress payments related to long-term contracts in the table above are either advanced billings or milestone billings to the customer on contracts accounted for under the completed-contract method. Upon shipment of the completed engine, revenue associated with the engine is recognized, and the incurred inventoried costs and progress payments are relieved.

At June 30, 2016 and December 31, 2015, progress payments related to long-term contracts shown above were in excess of incurred costs resulting in net liability balances. As such, the net liability balances are reflected in accrued expenses on the accompanying Consolidated Balance Sheets. Refer to Note 5, “Inventories” for additional information about incurred costs and progress payments related to long-term contracts for which the incurred costs exceeded the progress payments.

In addition to inventoried costs, we also make deposits and progress payments to certain vendors for long lead time manufactured components associated with engine projects. At June 30, 2016 and December 31, 2015, deposits and progress payments for long lead time components totaled $1.9 million and $1.8 million, respectively. These deposits and progress payments are classified in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets.

7. Goodwill and Other Intangible Assets

The changes in the net carrying value of goodwill by reportable segment for the six months ended June 30, 2016, are as follows:

	Sealing Products	Engineered Products	Power Systems	Total
	(in millions)			
Goodwill as of December 31, 2015	$179.7	$ 9.1	$ 7.1	$195.9
Change due to acquisitions	7.1	—	—	7.1
Change due to foreign currency translation	(0.2)	—	—	(0.2)
Goodwill as of June 30, 2016	$186.6	$ 9.1	$ 7.1	$202.8

The goodwill balances reflected above are net of accumulated impairment losses of $27.8 million for the Sealing Products segment and $154.8 million for the Engineered Products segment as of June 30, 2016 and December 31, 2015.

Identifiable intangible assets are as follows:

	As of June 30, 2016		As of December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in millions)			
Amortized:				
Customer relationships	$222.2	$ 118.5	$212.5	$ 112.0
Existing technology	62.7	28.9	63.0	26.9
Trademarks	36.0	19.3	35.3	18.4
Other	24.1	22.2	24.1	21.9
	345.0	188.9	334.9	179.2
Indefinite-Lived:				
Trademarks	34.2	—	34.7	—
Total	$379.2	$ 188.9	$369.6	$ 179.2

Amortization expense for the quarters ended June 30, 2016 and 2015 was $5.3 million and $5.7 million, respectively. Amortization expense for the six months ended June 30, 2016 and 2015 was $10.5 million and $11.0 million, respectively.

8. Accrued Expenses

	June 30, 2016	December 31, 2015
	(in millions)	
Salaries, wages and employee benefits	$37.0	$ 42.8
Interest	21.7	36.7
Customer advances	7.8	8.9
Income and other taxes	13.3	10.3
Other	36.2	41.9
	$116.0	$ 140.6

9. Related Party Transactions

The historical business operations of Garlock Sealing Technologies LLC (“GST LLC”) and The Anchor Packing Company (“Anchor”) resulted in a substantial volume of asbestos litigation in which plaintiffs alleged personal injury or death as a result of exposure to asbestos fibers. Those subsidiaries manufactured and/or sold industrial sealing products, predominately gaskets and packing, that contained encapsulated asbestos fibers. Anchor is an inactive and insolvent indirect subsidiary of Coltec Industries Inc (“Coltec”), our direct subsidiary. Our subsidiaries’ exposure to asbestos litigation and their relationships with insurance carriers have been managed through another Coltec subsidiary, Garrison Litigation Management Group, Ltd. (“Garrison”). GST LLC, Anchor and Garrison are collectively referred to as “GST.”

On June 5, 2010 (the "Petition Date"), GST commenced an asbestos claims resolution process under Chapter 11 of the United States Bankruptcy Code, which is ongoing. The resulting deconsolidation of GST from our financial results, discussed more fully in Note 16, "Garlock Sealing Technologies LLC and Garrison Litigation Management Group, Ltd." required certain intercompany indebtedness described below to be reflected on our Consolidated Balance Sheets.

As of June 30, 2016 and December 31, 2015, Coltec Finance Company Ltd., a wholly-owned subsidiary of Coltec, had aggregate, short-term borrowings of $27.6 million and $24.3 million, respectively, from GST’s subsidiaries in Mexico and Australia. These unsecured obligations were denominated in the currency of the lending party, and bear interest based on the applicable one-month interbank offered rate for each foreign currency involved.

Effective as of January 1, 2010, Coltec entered into an original issue amount $73.4 million Amended and Restated Promissory Note due January 1, 2017 (the “Coltec Note”) in favor of GST LLC, and our subsidiary Stemco LP entered into an original issue amount $153.8 million Amended and Restated Promissory Note due January 1, 2017, in favor of

GST LLC (the “Stemco Note”, and together with the Coltec Note, the “Notes Payable to GST”). The Notes Payable to GST amended and replaced promissory notes in the same principal amounts which were initially issued in March 2005, and which matured on January 1, 2010. We are currently in the process of attempting to extend the maturity of the Notes Payable to GST.

The Notes Payable to GST bear interest at 11% per annum, of which 6.5% is payable in cash and 4.5% is added to the principal amount of the Notes Payable to GST as payment-in-kind ("PIK") interest, with interest due on January 31 of each year. In conjunction with the interest payments in 2016 and 2015, $18.4 million and $17.6 million, respectively, was paid in cash and PIK interest of $12.7 million and $12.2 million, respectively, was added to the principal balance of the Notes Payable to GST. If GST LLC is unable to pay ordinary course operating expenses, under certain conditions, it can require Coltec and Stemco to pay in cash the accrued PIK interest necessary to meet such ordinary course operating expenses, subject to certain caps. The interest due under the Notes Payable to GST may be satisfied through offsets of amounts due under intercompany services agreements pursuant to which we provide certain corporate services, make available access to group insurance coverage to GST, make advances to third party providers related to payroll and certain benefit plans sponsored by GST, and permit employees of GST to participate in certain of our benefit plans.

The Coltec Note is secured by Coltec's pledge of certain of its equity ownership in specified U.S. subsidiaries. The Stemco Note is guaranteed by Coltec and secured by Coltec's pledge of its interest in Stemco. The Notes Payable to GST are subordinated to any obligations under our senior secured revolving credit facility described in Note 10, "Long-Term Debt - Revolving Credit Facility" under existing subordination agreements which subordinate GST LLC's right to receive payment of principal on the Notes Payable to GST to the prior payment in full of all obligations under such senior secured revolving credit facility.

We regularly transact business with GST through the purchase and sale of products. We also provide services for GST including information technology, supply chain, treasury, accounting and tax administration, legal, and human resources under a support services agreement. GST is included in our consolidated U.S. federal income tax return and certain state combined income tax returns. As the parent of these consolidated tax groups, we are liable for, and pay, income taxes owed by the entire group. We have agreed with GST to allocate group taxes to GST based on the U.S. consolidated tax return regulations and current income tax accounting guidance. This method generally allocates taxes to GST as if it were a separate taxpayer. As a result, we carry an income tax receivable from GST related to this allocation.

Amounts included in our consolidated financial statements arising from transactions with GST include the following:

Description	Consolidated Statements of Operations Caption	Quarters Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
		(in millions)			
Sales to GST	Net sales	$6.9	$7.3	$13.6	$13.4
Purchases from GST	Cost of sales	$4.6	$5.4	$9.2	$10.7
Interest expense to GST	Interest expense	$8.3	$7.9	$16.6	$15.7

Description	Consolidated Balance Sheets Caption	June 30, 2016	December 31, 2015
		(in millions)	
Due from GST	Accounts receivable, net	$12.5	$ 16.5
Income tax receivable from GST	Deferred income taxes and income tax receivable	$111.7	$ 100.6
Due from GST	Other assets	$1.4	$ 1.3
Due to GST	Accounts payable	$7.8	$ 8.0
Accrued interest to GST	Accrued expenses	$16.2	$ 31.2

10. Long-Term Debt

Senior Notes

In September 2014, we completed an offering of $300 million aggregate principal amount of our 5.875% Senior Notes due 2022 (the "Senior Notes"). We issued the notes net of an original issue discount of $2.4 million.

The Senior Notes are unsecured, unsubordinated obligations of EnPro and mature on September 15, 2022. Interest on the Senior Notes accrues at a rate of 5.875% per annum and is payable semi-annually in cash in arrears on March 15 and September 15 of each year. The debt discount is being amortized through interest expense until the maturity date resulting in an effective interest rate of 6.0%. The Senior Notes are required to be guaranteed on a senior unsecured basis by each of

EnPro's existing and future direct and indirect domestic subsidiaries that is a borrower under, or guarantees, our indebtedness under the Revolving Credit Facility or guarantees any other Capital Markets Indebtedness (as defined in the indenture governing the Senior Notes) of EnPro or any of the guarantors.

On or after September 15, 2017, we may, on any one or more occasions, redeem all or a part of the Senior Notes at specified redemption prices plus accrued and unpaid interest. In addition, we may redeem a portion of the aggregate principal amount of the Senior Notes before September 15, 2017 with the net cash proceeds from certain equity offerings at a specified redemption price plus accrued and unpaid interest, if any. We may also redeem some or all of the Senior Notes before September 15, 2017 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, plus a "make whole" premium.

Each holder of the Senior Notes may require us to repurchase some or all of the Senior Notes for cash upon the occurrence of a defined "change of control" event. Our ability to redeem the Senior Notes prior to maturity is subject to certain conditions, including in certain cases the payment of make-whole amounts.

The indenture governing the Senior Notes includes covenants that restrict our ability to engage in certain activities, including incurring additional indebtedness and paying dividends, subject in each case to specified exceptions and qualifications set forth in the indenture.

Revolving Credit Facility

We have a $300 million senior secured revolving credit facility (the "Revolving Credit Facility"). Borrowings under the Revolving Credit Facility bear interest at an annual rate of LIBOR plus 2.00% or base rate plus 1.00%, although the interest rates under the Revolving Credit Facility are subject to incremental increases or decreases based on a consolidated total leverage ratio. In addition, a commitment fee accrues with respect to the unused amount of the Revolving Credit Facility.

EnPro and Coltec are the permitted borrowers under the Revolving Credit Facility. Each of our domestic, consolidated subsidiaries (other than GST and their respective subsidiaries, until they become consolidated subsidiaries in the future) are required to guarantee the obligations of the borrowers under the Revolving Credit Facility, and each of our existing domestic, consolidated subsidiaries (which does not include the domestic entities of GST) has provided such a guarantee.

Borrowings under the Revolving Credit Facility are secured by a first priority pledge of certain of our assets. The Revolving Credit Facility contains financial covenants and required financial ratios, including a maximum consolidated total net leverage and a minimum consolidated interest coverage as defined in the agreement. It also contains affirmative and negative covenants which are subject to customary exceptions and qualifications. We were in compliance with all such covenants as of June 30, 2016.

The borrowing availability under our Revolving Credit Facility at June 30, 2016 was $128.4 million after giving consideration to $10.1 million of outstanding letters of credit and $161.5 million of outstanding revolver borrowings.

11. Pensions and Postretirement Benefits

The components of net periodic benefit cost for the Company's U.S. and foreign defined benefit pension and other postretirement plans for the quarters and six months ended June 30, 2016 and 2015, are as follows:

	Quarters Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2016	2015	2016	2015	2016	2015	2016	2015
	(in millions)							
Service cost	$0.9	$1.6	$0.1	$0.1	$2.2	$3.2	$0.2	$0.2
Interest cost	3.2	3.1	0.1	—	6.3	6.1	0.2	0.1
Expected return on plan assets	(4.0)	(4.7)	—	—	(8.4)	(9.4)	—	—
Amortization of net loss	1.7	1.7	—	—	3.4	3.6	—	—
Deconsolidation of GST	(0.4)	(0.2)	—	—	(0.5)	(0.4)	—	—
Net periodic benefit cost	$1.4	$1.5	$0.2	$0.1	$3.0	$3.1	$0.4	$0.3

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Based on currently available data, which is subject to change, we have estimated we will contribute approximately $14 million to our U.S. defined benefit pension plans in the year ending December 31, 2016, which we anticipate contributing in the third quarter.

12. Shareholders' Equity

In 2015, we adopted a policy under which we intend to declare regular quarterly cash dividends on our common stock, as determined by our board of directors, after taking into account our cash flows, earnings, financial position, debt covenants and other relevant matters. In accordance with this policy, total dividend payments of $9.1 million were made during the six months ended June 30, 2016. Cash dividends declared per common share for the quarter and six months ended June 30, 2016 were $0.21 and $0.42, respectively.

On July 27, 2016, our board of directors authorized a dividend of $0.21 per share, payable on September 15, 2016 to all shareholders of record as of September 1, 2016.

In October 2015, our board of directors authorized the repurchase of up to $50.0 million of our outstanding common shares. During the six months ended June 30, 2016, we repurchased 0.4 million shares for $17.7 million. Subsequent to June 30, 2016, we repurchased additional shares for $2.8 million through August 2, 2016.

13. Business Segment Information

We aggregate our operating businesses into three reportable segments. The factors considered in determining our reportable segments are the economic similarity of the businesses, the nature of products sold or services provided, the production processes and the types of customers and distribution methods. Our reportable segments are managed separately based on these differences.

Our Sealing Products segment designs, manufactures and sells sealing products, including: metallic, non-metallic and composite material gaskets, dynamic seals, compression packing, resilient metal seals, elastomeric seals, hydraulic components, expansion joints, flange sealing and isolation products, pipeline casing spacers/isolators, casing end seals, modular sealing systems for sealing pipeline penetrations, sanitary gaskets, hoses and fittings for the hygienic process industries, hole forming products, manhole infiltration sealing systems, bellows and bellows assemblies, pedestals for semiconductor manufacturing, PTFE products, and heavy duty truck parts used in the wheel-end, braking, suspension, and tire & mileage optimization systems.

Our Engineered Products segment includes operations that design, manufacture and sell self-lubricating, non-rolling metal-polymer, solid polymer and filament wound bearing products, aluminum blocks for hydraulic applications, and precision engineered components and lubrication systems for reciprocating compressors.

Our Power Systems segment designs, manufactures, sells and services heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines and ancillary products.

Segment profit is total segment revenue reduced by operating expenses, restructuring and other costs identifiable with the segment. Corporate expenses include general corporate administrative costs. Expenses not directly attributable to the segments, corporate expenses, net interest expense, asset impairments, gains and losses related to the sale of assets, and income taxes are not included in the computation of segment profit. The accounting policies of the reportable segments are the same as those for EnPro.

Segment operating results and other financial data for the quarters and six months ended June 30, 2016 and 2015 were as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)			
Sales				
Sealing Products	$185.1	$173.0	$357.3	$333.9
Engineered Products	74.1	78.5	147.8	155.7
Power Systems	54.7	47.9	104.7	88.1
	313.9	299.4	609.8	577.7
Intersegment sales	(0.7)	(1.0)	(1.7)	(1.8)
Net sales	$313.2	$298.4	$608.1	$575.9
Segment Profit				
Sealing Products	$24.6	$21.2	$39.3	$39.2
Engineered Products	5.4	4.0	7.5	7.4
Power Systems	7.0	6.3	8.2	6.9
Total segment profit	37.0	31.5	55.0	53.5
Corporate expenses	(6.5)	(3.4)	(15.5)	(13.2)
Asbestos settlement	—	—	(80.0)	—
Goodwill and other intangible asset impairment	—	(47.0)	—	(47.0)
Interest expense, net	(13.9)	(12.9)	(27.0)	(25.8)
Other expense, net	(3.9			