ENPRO INDUSTRIES, INC
Form 10-Q
November 05, 2014

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 September 30, 2014

¨ 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	01-0573945
(State or other jurisdiction of incorporation)	(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 October 31, 2014, there were 23,987,081 shares of common stock of the registrant outstanding, which does not include 200,022 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 Nine Months Ended September 30, 2014 and 2013
(in millions, except per share amounts)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	$302.6	$276.0	$902.9	$868.7
Cost of sales	196.4	183.9	592.1	573.2
Gross profit	106.2	92.1	310.8	295.5
Operating expenses:				
Selling, general and administrative	77.4	71.4	239.8	219.6
Other	1.2	2.4	1.9	6.1
Total operating expenses	78.6	73.8	241.7	225.7
Operating income	27.6	18.3	69.1	69.8
Interest expense	(10.8)	(11.3)	(32.3)	(33.7)
Interest income	0.3	0.2	0.8	0.6
Other expense	(4.0)	—	(10.7)	(6.3)
Income before income taxes	13.1	7.2	26.9	30.4
Income tax expense	(4.5)	(1.6)	(8.7)	(8.2)
Net income	$8.6	$5.6	$18.2	$22.2
Comprehensive income (loss)	$(3.2)	$15.8	$7.4	$27.5
Basic earnings per share	$0.36	$0.27	$0.80	$1.06
Diluted earnings per share	$0.33	$0.23	$0.71	$0.96

See notes to consolidated financial statements (unaudited).

ENPRO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Nine Months Ended September 30, 2014 and 2013
(in millions)

	2014	2013
OPERATING ACTIVITIES		
Net income	$18.2	$22.2
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	22.2	22.3
Amortization	20.8	20.4
Accretion of debt discount	3.9	5.6
Loss on exchange of debt	10.0	—
Deferred income taxes	(22.4)	(5.8)
Stock-based compensation	7.8	(1.2)
Other non-cash adjustments	0.9	(2.0)
Change in assets and liabilities, net of effects of acquisitions of businesses:		
Accounts receivable, net	(27.2)	(15.3)
Inventories	(9.8)	(5.8)
Accounts payable	(2.8)	(8.4)
Other current assets and liabilities	10.4	11.9
Other non-current assets and liabilities	(41.9)	(5.8)
Net cash provided by (used in) operating activities	(9.9)	38.1
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(20.4)	(21.9)
Payments for capitalized internal-use software	(7.1)	(6.4)
Acquisitions, net of cash acquired	(4.3)	(2.0)
Other	0.1	0.3
Net cash used in investing activities	(31.7)	(30.0)
FINANCING ACTIVITIES		
Net proceeds from short-term borrowings	1.9	10.8
Proceeds from debt	637.0	143.9
Repayments of debt	(399.0)	(143.9)
Debt issuance costs	(5.2)	—
Repurchase of convertible debentures conversion option	(53.6)	—
Other	(4.2)	2.0
Net cash provided by financing activities	176.9	12.8
Effect of exchange rate changes on cash and cash equivalents	(1.3)	0.3
Net increase in cash and cash equivalents	134.0	21.2
Cash and cash equivalents at beginning of period	64.4	53.9
Cash and cash equivalents at end of period	$198.4	$75.1
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$22.3	$21.2
Income taxes, net	$31.1	$14.0

See notes to consolidated financial statements (unaudited).

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

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$198.4	$64.4
Accounts receivable, net	218.3	193.1
Inventories	158.2	149.1
Prepaid expenses and other current assets	61.1	50.1
Total current assets	636.0	456.7
Property, plant and equipment, net	180.3	187.5
Goodwill	217.8	220.2
Other intangible assets	185.8	200.1
Investment in GST	236.9	236.9
Other assets	125.9	96.9
Total assets	$1,582.7	$1,398.3
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings from GST	$24.1	$22.0
Notes payable to GST	11.7	11.2
Current maturities of long-term debt	22.3	156.6
Accounts payable	84.3	86.8
Accrued expenses	134.6	140.8
Total current liabilities	277.0	417.4
Long-term debt	298.5	8.5
Notes payable to GST	259.3	248.1
Pension liability	9.1	47.4
Other liabilities	69.1	63.5
Total liabilities	913.0	784.9
Commitments and contingencies		
Temporary equity	1.3	15.9
Shareholders' equity		
Common stock – $.01 par value; 100,000,000 shares authorized; issued, 24,187,103 shares in 2014 and 21,153,389 shares in 2013	0.2	0.2
Additional paid-in capital	474.4	410.9
Retained earnings	191.5	173.3
Accumulated other comprehensive income	3.6	14.4
Common stock held in treasury, at cost – 200,708 shares in 2014 and 202,269 shares in 2013	(1.3)	(1.3)
Total shareholders' equity	668.4	597.5
Total liabilities and equity	$1,582.7	$1,398.3

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, 2013 was derived from the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2013. 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, 2013 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.

We have revised our December 31, 2013 Consolidated Balance Sheet to correct the classification of deferred tax assets and liabilities and conform to the current period presentation. The impact on the previously issued Consolidated Balance Sheet as of December 31, 2013 is an increase to prepaid expenses and other current assets of $9.1 million, a decrease to other assets of $3.5 million, a decrease to accrued expenses of $0.1 million and an increase to other liabilities of $5.7 million. These adjustments were not considered to be material individually or in the aggregate to previously issued financial statements. The adjustments had no impact on the Consolidated Statement of Operations, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows or Consolidated Statement of Changes in Shareholders' Equity for the year ended December 31, 2013.

Effective the first quarter of 2014, we changed the name of what had previously been called the Engine Products and Services segment to the Power Systems segment to more accurately reflect that the segment's products are the principal components of systems that generate electrical power and other types of energy. There was no change to the composition of this segment and there is no impact on the sales, segment profit, assets or cash flows of the previously reported segment.

Recently Issued Authoritative Accounting Guidance

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. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. We are currently evaluating the new guidance, including possible transition alternatives, to determine the impact it will have on our consolidated financial statements.

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In April 2014, accounting guidance was amended to change the requirements for reporting discontinued operations and require additional disclosures about those operations. To qualify as a discontinued operation the guidance requires a disposal to represent a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The guidance also expands the disclosures for discontinued operations and requires new disclosures related to individually material dispositions that do not qualify as discontinued operations. The guidance is effective prospectively for fiscal years beginning after December 15, 2014, with early adoption permitted. The implementation of this guidance is not expected to have a material impact on our consolidated financial statements, but will impact the reporting of any future dispositions.

2. Acquisitions

In March 2014, we acquired the remaining interest of the Stemco Crewson LLC joint venture. We now own all of the ownership interests in Stemco Crewson LLC. The joint venture was formed in 2009 with joint venture partner Tramec, LLC to expand our brake product offering to include automatic brake adjusters. The purchase of the remaining interest in the joint venture will allow us to accelerate investment in new product development and commercial strategies focused on market share growth for these products.

In March 2014, we acquired the business of Strong-Tight Co. Ltd., a Taiwanese manufacturer and seller of gaskets and industrial sealing products, by acquiring certain assets and assuming certain liabilities of the business. This acquisition adds an established Asian marketing presence and manufacturing facilities from which we can serve the Asian market.

Both of the acquired businesses are included in our Sealing Products segment. We paid $4.3 million in 2014, net of cash acquired, 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. Earnings Per Share

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions, except per share amounts)			
Numerator (basic and diluted):				
Net income	$8.6	$5.6	$18.2	$22.2
Denominator:				
Weighted-average shares – basic	24.0	20.9	22.7	20.9
Share-based awards	0.1	0.2	0.1	0.2
Convertible debentures and related warrants	2.0	3.2	2.9	2.1
Weighted-average shares – diluted	26.1	24.3	25.7	23.2
Earnings per share:				
Basic	$0.36	$0.27	$0.80	$1.06
Diluted	$0.33	$0.23	$0.71	$0.96

As discussed further in Note 9, we previously issued Convertible Senior Debentures (the “Convertible Debentures”). Under the terms of the Convertible Debentures, upon conversion, we will settle the par amount of our obligations in cash and the remaining obligations, if any, in common shares. Pursuant to applicable accounting guidelines, we include the conversion option effect in diluted earnings per share during such periods when our average stock price exceeds the stated conversion price of $33.79 per share. As discussed further in Note 9, we exchanged a portion of our outstanding Convertible Debentures for shares of EnPro common stock in March 2014 and June 2014, and in September 2014 we repurchased a significant portion of the remaining outstanding convertible Debentures.

We used a portion of the net proceeds from the original sale of the Convertible Debentures to enter into call options, consisting of hedge and warrant transactions, which entitle us to purchase shares of our stock from a financial institution at $33.79 per share and entitle the financial institution to purchase shares of our stock from us at $46.78 per share. The warrant

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transactions have a dilutive effect during such periods that the average price per share of our common stock exceeds the $46.78 per share strike price of the warrants.

4. Inventories

	September 30, 2014	December 31, 2013
	(in millions)	
Finished products	$99.1	$84.3
Work in process	24.8	36.0
Raw materials and supplies	48.3	42.8
	172.2	163.1
Reserve to reduce certain inventories to LIFO basis	(14.0)	(14.0)
Total inventories	$158.2	$149.1

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.

5. Long-Term Contracts

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

	September 30, 2014	December 31, 2013
	(in millions)	
Cumulative revenues recognized on uncompleted POC contracts	$187.6	$141.1
Cumulative billings on uncompleted POC contracts	176.1	146.6
	$11.5	$(5.5)

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

	September 30, 2014	December 31, 2013
	(in millions)	
Accounts receivable, net (POC revenue recognized in excess of billings)	$18.8	$4.3
Accrued expenses (POC billings in excess of revenue recognized)	(7.3)	(9.8)
	$11.5	$(5.5)

At September 30, 2014 and December 31, 2013, deposits and progress payments for long lead time components accounted for under the POC method totaled $6.2 million and $4.5 million, respectively, and are reflected in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets.

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

	September 30, 2014	December 31, 2013
	(in millions)	
Incurred costs relating to long-term contracts	$30.3	$14.2
Progress payments related to long-term contracts	(36.0)	(25.6)
Net balance associated with completed-contract inventories	$(5.7)	$(11.4)

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. In addition to inventoried costs, we also incur costs associated with deposits and progress payments to our vendors for long lead time manufactured components

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associated with engine projects that are reflected in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets. At September 30, 2014 and December 31, 2013, deposits and progress payments for these long lead time components accounted for under the completed-contract method totaled $4.3 million and $6.1 million, respectively.

Progress payments related to long-term contracts in the table above are either advanced billings or milestone billings to the customer accounted for under the completed-contract method which have not yet been earned. Upon shipment of the completed engine and receipt by the customer, revenue associated with the engine is recognized, and the incurred inventoried costs and progress payments are relieved.

At September 30, 2014 and December 31, 2013, progress payments related to long-term contracts 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.

6. Goodwill and Other Intangible Assets

The changes in the net carrying value of goodwill by reportable segment for the nine months ended September 30, 2014, are as follows:

	Sealing Products	Engineered Products	Power Systems	Total
	(in millions)			
Gross goodwill as of December 31, 2013	$181.5	$168.1	$7.1	$356.7
Accumulated impairment losses	(27.8)	(108.7)	—	(136.5)
Goodwill as of December 31, 2013	153.7	59.4	7.1	220.2
Change due to foreign currency translation	(1.4)	(1.0)	—	(2.4)
Gross goodwill as of September 30, 2014	180.1	167.1	7.1	354.3
Accumulated impairment losses	(27.8)	(108.7)	—	(136.5)
Goodwill as of September 30, 2014	$152.3	$58.4	$7.1	$217.8

Identifiable intangible assets are as follows:

	As of September 30, 2014		As of December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in millions)			
Amortized:				
Customer relationships	$192.2	$95.6	$191.2	$85.0
Existing technology	53.9	22.1	53.9	18.8
Trademarks	34.6	16.8	33.7	16.9
Other	23.5	20.3	23.4	17.9
	304.2	154.8	302.2	138.6
Indefinite-Lived:				
Trademarks	36.4	—	36.5	—
Total	$340.6	$154.8	$338.7	$138.6

Amortization expense for the quarters ended September 30, 2014 and 2013, was $5.8 million and $6.0 million, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013, was $17.6 million and $18.3 million, respectively.

7. Accrued Expenses

	September 30, 2014	December 31, 2013
	(in millions)	
Salaries, wages and employee benefits	$44.5	$45.3
Interest	23.5	30.0
Customer advances	20.1	23.7
Income and other taxes	11.2	10.7
Other	35.3	31.1
	$134.6	$140.8

8. 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 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 15, required certain intercompany indebtedness described below to be reflected on our Consolidated Balance Sheets.

As of September 30, 2014 and December 31, 2013, Coltec Finance Company Ltd., a wholly-owned subsidiary of Coltec, had aggregate, short-term borrowings of $24.1 million and $22.0 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.

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 2014 and 2013, $16.9 million and $16.2 million, respectively, was paid in cash and PIK interest of $11.7 million and $11.2 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, they 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 9.

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 September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
		(in millions)			
Sales to GST	Net sales	$7.5	$5.9	$23.3	$18.3
Purchases from GST	Cost of sales	$7.3	$5.8	$19.5	$19.7
Interest expense to GST	Interest expense	$7.7	$7.4	$22.8	$21.8

Description	Consolidated Balance Sheets Caption	September 30, 2014	December 31, 2013
		(in millions)	
Due from GST	Accounts receivable, net	$15.7	$18.3
Income tax receivable from GST	Other assets	$66.3	$46.9
Due from GST	Other assets	$1.1	$—
Due to GST	Accounts payable	$8.0	$6.7
Accrued interest to GST	Accrued expenses	$22.3	$28.5

Additionally, we had outstanding foreign exchange forward contracts with GST LLC involving the Australian dollar, Canadian dollar, Mexican peso and U.S. dollar with a notional amount of $3.2 million as of December 31, 2013. These related party contracts were eliminated in consolidation prior to the deconsolidation of GST. There were none outstanding at September 30, 2014.

9. Long-Term Debt

Convertible Debentures

In October 2005, we issued $172.5 million in aggregate principal amount of Convertible Debentures, net of an original issue discount of $61.3 million. The Convertible Debentures that remain outstanding bear interest at the annual rate of 3.9375%, with interest due on April 15 and October 15 of each year, and will mature on October 15, 2015, unless they are converted prior to that date. The Convertible Debentures are direct, unsecured and unsubordinated obligations and rank equal in priority with all unsecured and unsubordinated indebtedness and senior in right of payment to all subordinated indebtedness. They do not contain any financial covenants.

Holders may convert the Convertible Debentures into cash and shares of our common stock, under certain circumstances. As of October 1, 2014, the Convertible Debentures remained convertible by holders of the Convertible Debentures. This conversion right was triggered because the closing price per share of EnPro’s common stock exceeded $43.93, or 130% of the conversion price of $33.79, for at least twenty (20) trading days during the thirty (30) consecutive trading day period ending on September 30, 2014. The Convertible Debentures will be convertible until December 31, 2014, and may be convertible thereafter if one or more of the conversion conditions is satisfied during future measurement periods. Because the Convertible Debentures are currently convertible, the outstanding principal balance less the remaining unamortized debt discount was reflected in current maturities of long-term debt as of September 30, 2014. In addition, we classified the excess cash required to redeem the Convertible Debentures over their carrying value as temporary equity.

In March 2014, we entered into privately negotiated transactions with certain holders of approximately $56.1 million in aggregate principal amount of the Convertible Debentures to exchange them for an aggregate of approximately 1.7 million shares of EnPro's common stock, plus cash payments of accrued and unpaid interest and for fractional shares. We recognized a $3.6 million pre-tax loss on the exchange ($2.3 million net of tax) which is included in other (non-operating) expense in the accompanying Consolidated Statements of Operations. There was also a $0.8 million additional tax benefit recorded directly to equity.

In June 2014, we entered into an additional privately negotiated transaction with certain holders of approximately $41.6 million in aggregate principal amount of the Convertible Debentures to exchange them for an aggregate of

approximately 1.3 million shares of EnPro’s common stock, plus cash payments of accrued and unpaid interest and for fractional shares. We recognized a $2.4 million pre-tax loss on the exchange ($1.5 million net of tax) which is included in other (non-operating)

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expense in the accompanying Consolidated Statements of Operations. In addition, there was a $0.6 million tax benefit recorded directly to equity.

In September 2014, we completed a cash tender to purchase any and all of the remaining Convertible Debentures at a price based on the volume-weighted average price of our common stock over a measurement period plus a premium and accrued and unpaid interest. We purchased approximately $51.3 million in aggregate principal amount of Convertible Debentures validly tendered and not validly withdrawn in the tender offer. Including transaction costs, we paid $105.6 million to complete the transaction of which $52.0 million was allocated to the extinguishment of the liability component and the remaining $53.6 million was allocated to the reacquisition of the associated conversion option. We funded the purchase of the Convertible Debentures in the tender offer from borrowings under our senior secured revolving credit facility. We recognized a $4.0 million pre-tax loss on the transaction ($2.5 million net of tax) which is included in other (non-operating) expense in the accompanying Consolidated Statements of Operations. In addition, there was a $0.8 million tax benefit recorded directly to equity.

The March, June and September transactions reduced the aggregate principal amount of the Convertible Debentures outstanding to approximately $23.4 million. The transactions did not reduce the respective obligations under the hedge and warrant transactions entered into in connection with the original sale of the Convertible Debentures, which remain in force with respect to the original amount of the Convertible Debentures.

The debt discount, $1.3 million as of September 30, 2014, is being amortized through interest expense until the maturity date of October 15, 2015, resulting in an effective interest rate of approximately 9.5%. Interest expense related to the Convertible Debentures for the quarters ended September 30, 2014 and 2013 includes $0.5 million and $1.7 million, respectively, of contractual interest coupon and $0.7 million and $1.9 million, respectively, of debt discount amortization. Interest expense related to the Convertible Debentures for the nine months ended September 30, 2014 and 2013 includes $3.3 million and $5.1 million, respectively, of contractual interest coupon and $3.9 million and $5.6 million, respectively, of debt discount amortization.

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”). The offer was made in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. We issued the notes net of an original issue discount of $2.4 million.

A portion of the net proceeds of the offering of the Senior Notes was used to repay outstanding borrowings under the Revolving Credit Facility, including borrowings made to fund the purchase of the Convertible Debentures in the tender offer described above.

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, commencing March 15, 2015. 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, to, but not including, the redemption date. 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, to, but not including, the redemption date, 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

On August 28, 2014, we amended and restated the agreement governing our senior secured revolving credit facility (the “Credit Facility Amendment”). The Credit Facility Amendment provides for a five year, $300 million senior secured revolving credit facility (the “Revolving Credit Facility”). Unlike our prior credit facility, borrowing availability under the Revolving Credit Facility established by the Credit Facility Amendment is not limited by reference to a borrowing base. Initially, borrowings under the Revolving Credit Facility bear interest at an annual rate of LIBOR plus 1.75% or base rate plus 0.75%, although the interest rates under the Revolving Credit Facility are subject to incremental increases 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, unless they elect to guarantee upon becoming 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 entered into the Credit Facility Amendment to provide such a guarantee.

Borrowings under the Revolving Credit Facility are secured by a first priority pledge of certain of our assets. The Credit Facility Amendment 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. The Credit Facility Amendment contains affirmative and negative covenants which are subject to customary exceptions and qualifications.

The borrowing availability under our Revolving Credit Facility at September 30, 2014 was $294.3 million after giving consideration to $5.7 million of outstanding letters of credit.

Debt Issuance Costs

During 2014, we capitalized $7.2 million of debt issuance costs in connection with the amendment to the Revolving Credit Facility and the issuance of the Senior Notes. As of September 30, 2014, $5.2 million of these costs had been paid with the remainder being included in accrued expenses. The capitalized debt issuance costs are amortized to interest expense over the respective lives of the debt instruments.

10. 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 nine months ended September 30, 2014 and 2013, are as follows:

	Quarters Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2014	2013	2014	2013	2014	2013	2014	2013
	(in millions)				(in millions)			
Service cost	$1.1	$1.7	$0.1	$0.2	$3.3	$5.1	$0.3	$0.6
Interest cost	2.4	2.7	0.1	0.1	7.3	8.1	0.3	0.3
Expected return on plan assets	(3.5)	(3.1)	—	—	(10.4)	(9.3)	—	—
Amortization of prior service cost	—	0.2	—	—	0.1	0.3	—	—
Amortization of net loss	0.8	2.3	—	—	2.2	6.7	—	—
Deconsolidation of GST	(0.1)	(0.5)	—	—	(0.3)	(1.5)	—	—
Net periodic benefit cost	$0.7	$3.3	$0.2	$0.3	$2.2	$9.4	$0.6	$0.9

In the nine months ended September 30, 2014, we contributed $48.5 million to our U.S. defined benefit pension plans and do not anticipate any additional contributions prior to December 31, 2014.

11. Derivative Instruments

We use derivative financial instruments to manage our exposure to various risks. The use of these financial instruments modifies the exposure with the intent of reducing our risk. We do not use financial instruments for trading purposes, nor do we use leveraged financial instruments. The counterparties to these contractual arrangements are major financial institutions. We

use multiple financial institutions for derivative contracts to minimize the concentration of credit risk. The current accounting rules require derivative instruments, excluding certain contracts that are issued and held by a reporting entity that are both indexed to its own stock and classified in shareholders' equity, be reported in the Consolidated Balance Sheets at fair value and that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances on our foreign subsidiaries' balance sheets, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. We strive to control our exposure to these risks through our normal operating activities and, where appropriate, through derivative instruments. We have entered into contracts to hedge forecasted transactions occurring at various dates through December 2014 that are denominated in foreign currencies. The notional amount of foreign exchange contracts hedging foreign currency transactions was $6.9 million and $51.1 million at September 30, 2014 and December 31, 2013, respectively.

Prior to 2013, we applied cash flow hedge accounting to certain of our foreign currency derivatives. We elected to discontinue this accounting treatment in the first quarter of 2013, consequently, all gains and losses that had been deferred in accumulated other comprehensive income at December 31, 2012 were reclassified to income in the quarter ended March 31, 2013. See Note 14 for additional information. The notional amounts of all of our foreign exchange contracts were recorded at their fair market value as of September 30, 2014 with changes in market value recorded in income. The earnings impact of any foreign exchange contract that is specifically related to the purchase of inventory is recorded in cost of sales and the changes in market value of all other contracts are recorded in selling, general and administrative expense in the Consolidated Statements of Operations. The balances of derivative assets are recorded in other current assets and the balances of derivative liabilities are recorded in accrued expenses in the Consolidated Balance Sheets.

12. 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, heavy-duty truck wheel-end component systems including brake products, flange sealing and isolation products, pipeline casing spacers/isolators, casing end seals, modular sealing systems for sealing pipeline penetrations, hole forming products, manhole infiltration sealing systems, safety-related signage for pipelines, bellows and bellows assemblies, pedestals for semiconductor manufacturing, PTFE products, conveyor belting and sheeted rubber products.

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.

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, gains and losses related to the sale of assets, impairments, 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 nine months ended September 30, 2014 and 2013 were as follows:

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Sales				
Sealing Products	$168.9	$157.9	$499.3	$470.4
Engineered Products	88.1	84.1	275.4	271.0
Power Systems	46.5	34.9	130.6	129.3
	303.5	276.9	905.3	870.7
Intersegment sales	(0.9)	(0.9)	(2.4)	(2.0)
Net sales	$302.6	$276.0	$902.9	$868.7
Segment Profit				
Sealing Products	$23.0	$24.2	$62.9	$73.2
Engineered Products	6.0	2.9	23.6	17.3
Power Systems	9.6	2.3	16.3	13.5
Total segment profit	38.6	29.4	102.8	104.0
Corporate expenses	(10.1)	(7.6)	(30.9)	(25.2)
Interest expense, net	(10.5)	(11.1)	(31.5)	(33.1)
Other expense, net	(4.9)	(3.5)	(13.5)	(15.3)
Income before income taxes	$13.1	$7.2	$26.9	$30.4

Segment assets are as follows:

	September 30, 2014	December 31, 2013
	(in millions)	
Sealing Products	$538.9	$534.4
Engineered Products	324.8	329.8
Power Systems	142.4	131.3
Corporate	576.6	402.8
	$1,582.7	$1,398.3

13. Fair Value Measurements

We utilize a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect our own assumptions.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair Value Measurements as of September 30, 2014			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Cash equivalents:				
Money market	$123.8	$123.8	$—	$—
Time deposits	42.1	42.1	—	—
	165.9	165.9	—	—
Guaranteed investment contract	2.9	—	2.9	—
Deferred compensation assets	5.5	5.5	—	—
	$174.3	$171.4	$2.9	$—
Liabilities				
Deferred compensation liabilities	$7.9	$7.9	$—	$—
	$7.9	$7.9	$—	$—

	Fair Value Measurements as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Assets				
Cash equivalents:				
European government money market	$21.7	$21.7	$—	$—
	21.7	21.7	—	—
Guaranteed investment contract	2.8	—	2.8	—
Foreign currency derivatives	0.4	—	0.4	—
Deferred compensation assets	5.3	5.3	—	—
	$30.2	$27.0	$3.2	$—
Liabilities				
Deferred compensation liabilities	$7.6	$7.6	$—	$—
Foreign currency derivatives	0.4	—	0.4	—
	$8.0	$7.6	$0.4	$—

Our cash equivalents and deferred compensation assets and liabilities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The fair value for the guaranteed investment contract is based on quoted market prices for outstanding bonds of the insurance company issuing the contract. The fair values for foreign currency derivatives are based on quoted market prices from various banks for similar instruments.

The carrying values of our significant financial instruments reflected in the Consolidated Balance Sheets approximated their respective fair values except for the following instruments:

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Long-term debt	$320.8	$350.5	$165.1	$307.6
Notes payable to GST	$271.0	$283.3	$259.3	$277.8

The fair values for long-term debt are based on quoted market prices for identical liabilities, but these would be considered Level 2 computations because the market is not active. The notes payable to GST computations would be considered Level 2 since they are based on rates available to us for debt with similar terms and maturities.

14. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income by component (after tax) for the quarter ended September 30, 2014 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Gains and Losses on Cash Flow Hedges	Total
Beginning balance	$42.7	$(27.3)	$—	$15.4
Other comprehensive income before reclassifications	(12.3)	—	—	(12.3)
Amounts reclassified from accumulated other comprehensive income	—	0.5	—	0.5
Net current-period other comprehensive income (loss)	(12.3)	0.5	—	(11.8)
Ending balance	$30.4	$(26.8)	$—	$3.6

Changes in accumulated other comprehensive loss by component (after tax) for the quarter ended September 30, 2013 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Gains and Losses on Cash Flow Hedges	Total
Beginning balance	$33.2	$(61.1)	$—	$(27.9)
Other comprehensive income before reclassifications	8.8	—	—	8.8
Amounts reclassified from accumulated other comprehensive loss	—	1.4	—	1.4
Net current-period other comprehensive income	8.8	1.4	—	10.2
Ending balance	$42.0	$(59.7)	$—	$(17.7)

Changes in accumulated other comprehensive income by component (after tax) for the nine months ended September 30, 2014 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Gains and Losses on Cash Flow Hedges	Total
Beginning balance	$42.6	$(28.2)	$—	$14.4
Other comprehensive income before reclassifications	(12.2)	—	—	(12.2)
Amounts reclassified from accumulated other comprehensive income	—	1.4	—	1.4
Net current-period other comprehensive income (loss)	(12.2)	1.4	—	(10.8)
Ending balance	$30.4	$(26.8)	$—	$3.6

Changes in accumulated other comprehensive loss by component (after tax) for the nine months ended September 30, 2013 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Gains and Losses on Cash Flow Hedges	Total

Beginning balance	$41.6	$(64.0)	$(0.6)	$(23.0)
Other comprehensive income before reclassifications	0.4	—	—	0.4
Amounts reclassified from accumulated other comprehensive loss	—	4.3	0.6	4.9
Net current-period other comprehensive income	0.4	4.3	0.6	5.3
Ending balance	$42.0	$(59.7)	$—	$(17.7)

Reclassifications out of accumulated other comprehensive income (loss) for the quarters and nine months ended September 30, 2014 and 2013 are as follows:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected Statement of Operations Caption
(in millions)	Quarters Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Amortization of pension and other postretirement plans:					
Actuarial losses	$0.8	$2.3	$2.2	$6.7	(1)
Prior service costs	—	0.2	0.1	0.3	(1)
Total before tax	0.8	2.5	2.3	7.0	
Tax benefit	(0.3)	(1.1)	(0.9)	(2.7)	Income tax expense
Net of tax	$0.5	$1.4	$1.4	$4.3	
Gains and losses on cash flow hedges:					
Foreign exchange contracts	$—	$—	$—	$1.0	Cost of sales
Tax benefit	—	—	—	(0.4)	Income tax expense
Net of tax	$—	$—	$—	$0.6	

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 10 – “Pensions and Postretirement Benefits” for additional details).

15. Garlock Sealing Technologies LLC and Garrison Litigation Management Group, Ltd.

On the Petition Date, GST LLC, Anchor and Garrison filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court (the "Bankruptcy Court"). The filings were the initial step in a claims resolution process, which is ongoing. The goal of the process is an efficient and permanent resolution of all current and future asbestos claims through court approval of a plan of reorganization, which typically would establish a fund to which all asbestos claims would be channeled for resolution. GST seeks an agreement with asbestos claimants and other creditors on the terms of a plan for the establishment of such a fund and repayment of creditors in full, or in the absence of such an agreement, an order of the Bankruptcy Court confirming such a plan.

In November 2011, GST filed a proposed plan of reorganization with the Bankruptcy Court. GST's initial proposed plan called for a trust to be formed, to which GST and affiliates would contribute $200 million and which would be the exclusive remedy for future asbestos personal injury claimants – those whose claims arise after confirmation of the plan. The initial proposed plan provided that each present asbestos personal injury claim, i.e., any pending claim or one that arises between the Petition Date and plan confirmation, would be assumed by reorganized GST and resolved either by settlement (pursuant to a matrix contained in the proposed plan or as otherwise agreed), or by payment in full of any final judgment entered after trial in federal court. The initial proposed plan was revised and replaced by GST's first amended proposed plan of reorganization filed in May 2014.

On April 13, 2012, the Bankruptcy Court granted a motion by GST for the Bankruptcy Court to estimate the allowed amount of present and future asbestos claims against GST for mesothelioma, a rare cancer attributed to asbestos exposure, for purposes of determining the feasibility of a proposed plan of reorganization. The estimation trial began on July 22, 2013 and concluded on August 22, 2013.

On January 10, 2014, Bankruptcy Judge George Hodges announced his estimation decision in a 65-page order. Citing with approval the methodology put forth by GST at trial, the judge determined that $125 million is the amount sufficient to satisfy GST's liability for present and future mesothelioma claims. Judge Hodges adopted GST's "legal liability" approach to estimation, focused on the merits of claims, and rejected asbestos claimant representatives' approach, which focused solely on GST's historical settlement history. The judge's liability determination is for mesothelioma claims only. The court has not yet determined amounts for GST's liability for other asbestos claims and for administrative costs that would be required to review and process claims and payments, which will add to the amount.

In his opinion, Judge Hodges wrote, "The best evidence of Garlock's aggregate responsibility is the projection of its legal liability that takes into consideration causation, limited exposure and the contribution of exposures to other products."

The decision validates the positions that GST has been asserting for the more than four years it has been in this process. Following are several important findings in the opinion:

•Garlock's products resulted in a relatively low exposure to asbestos to a limited population, and its legal responsibility for causing mesothelioma is relatively de minimis.
•Chrysotile, the asbestos fiber type used in almost all of Garlock's asbestos products, is far less toxic than other forms of asbestos. The court found reliable and persuasive Garlock's expert epidemiologist, who testified that there is no statistically significant association between low dose chrysotile exposure and mesothelioma.
•The population that was exposed to Garlock's products was necessarily exposed to far greater quantities of higher potency asbestos from the products of others.
•The estimates of Garlock's aggregate liability that are based on its historic settlement values are not reliable because those values are infected with the impropriety of some law firms and inflated by the cost of defense.

In June 2014, the official committee representing current asbestos claimants filed a motion with the Bankruptcy Court asking the court to re-open the estimation process for further discovery and alleging that GST misled the court in various respects during the estimation trial. A hearing on the committee's motion has not yet been scheduled.

On May 29, 2014, GST filed an amended proposed plan of reorganization and a proposed disclosure statement. The plan provides $275 million in total funding for (a) present and future asbestos claims against GST that have not been resolved by settlement or verdict prior to the Petition Date, and (b) administrative and litigation costs. The $275 million is to be funded by GST ($245 million) and the Company's subsidiary, Coltec Industries Inc ($30 million), through two facilities - a settlement facility and a litigation facility. Funds contained in the settlement facility and the litigation facility would provide the exclusive remedies for current and future GST asbestos claimants, other than claimants whose claims had been resolved by settlement or verdict prior to the Petition Date and were not paid prior to the Petition Date. The plan provides that GST will pay in full claims that had been resolved by settlement or verdict prior to the Petition Date and that were not paid prior to the Petition Date (with respect to claims resolved by verdict, such payments will be made only to the extent the verdict becomes final). The $275 million amount is more than double the $125 million that the Bankruptcy Court found to be a reasonable and reliable measure of the amount sufficient to satisfy present and future mesothelioma claims against GST, and was determined based on an economic analysis of the feasibility of the proposed plan.

The amended plan also provides that GST will pay settled asbestos claims (those settled but not yet paid prior to the Petition Date) in full. The Bankruptcy Court set September 30, 2014 as the bar date for filing proofs of claim for settled asbestos claims. GST had previously scheduled and does not dispute settled asbestos claims totaling $2.5 million. Claimants' attorneys timely filed proofs of claims alleging additional settled asbestos claims in the total amount of $16.5 million. GST anticipates that it will object to a large majority of those additional alleged claims. GST estimates the range of its aggregate liability for unpaid settled asbestos claims to be from $3.1 million to $16.4 million but believes that its total aggregate liability for settled asbestos claims will be less than $10 million.

If the Bankruptcy Court confirms the amended plan, all present and future asbestos claims against GST will be discharged and an injunction will be entered giving GST permanent protection from future asbestos litigation.

The purpose of the disclosure statement is to provide material information about GST and the plan to creditors, who will decide whether or not to support the plan. The disclosure statement must be approved by the Bankruptcy Court before GST can send it to creditors to solicit their support. A hearing on the disclosure statement originally scheduled for September 2014 has been delayed until December 2014 so that GST can negotiate and consider amendments and revisions to the disclosure statement.

In June, GST also moved the Bankruptcy Court to approve plan solicitation, voting and confirmation procedures and to set a schedule for confirmation proceedings. The motion requests that the Bankruptcy Court approve GST's proposed program for providing notice of the process to known and unknown claimants, GST's proposed rules for eligibility to cast votes on the plan, GST's proposed form of ballots that must be cast by each class of claimants, and GST's proposed schedule. The hearing on this solicitation and scheduling motion is also scheduled for December 2014.

GST asked the Bankruptcy Court to schedule the plan confirmation hearing to begin on July 15, 2015. GST anticipates that the plan will be vigorously opposed by the official committee representing current asbestos claimants. GST continues to hope that it can reach a consensual resolution with representatives of current and future claimants. GST is from time to time engaged in discussions with claimant representatives, recognizing that an agreed settlement

would provide the best path to certainty and finality through section 524(g) of the Bankruptcy Code, provide for faster and more efficient completion of the case, save significant future costs, and allow for the attainment of complete finality.

Confirmation and consummation of the plan are subject to a number of risks and uncertainties, including the actions and decisions of creditors and other third parties that have an interest in the bankruptcy proceedings, delays in the confirmation or effective date of a plan of reorganization due to factors beyond GST's or our control, which would result in greater costs and the impairment of value of GST, appeals and other challenges to the plan, and risks and uncertainties affecting GST and Coltec's ability to fund anticipated contributions under the plan as a result of adverse changes in their results of operations, financial condition and capital resources, including as a result of economic factors beyond their control. Accordingly, we cannot assure you that GST will be able to obtain Bankruptcy Court approval of its amended plan of reorganization and the settlement and resolution of claims and related releases of liability embodied therein, and the time period for the resolution of the bankruptcy proceedings is not presently determinable.

Financial Results

Condensed combined financial information for GST is set forth below, presented on a historical cost basis.

GST
(Debtor-in-Possession)
Condensed Combined Statements of Operations (Unaudited)
(in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	$61.1	$59.0	$183.1	$187.6
Cost of sales	37.4	33.3	110.6	110.8
Gross profit	23.7	25.7	72.5	76.8
Operating expenses:				
Selling, general and administrative	12.5	9.9	35.2	30.3
Asbestos-related	0.5	0.5	(185.5)	1.8
Other	0.2	0.1	0.7	0.5
Total operating expenses	13.2	10.5	(149.6)	32.6
Operating income	10.5	15.2	222.1	44.2
Interest income, net	7.6	7.4	22.9	21.9
Income before reorganization expenses and income taxes	18.1	22.6	245.0	66.1
Reorganization expenses	(4.4)	(15.4)	(12.3)	(38.2)
Income before income taxes	13.7	7.2	232.7	27.9
Income tax expense	(4.8)	(2.0)	(82.5)	(8.4)
Net income	$8.9	$5.2	$150.2	$19.5
Comprehensive income	$6.1	$6.2	$148.8	$16.7

GST
(Debtor-in-Possession)
Condensed Combined Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 2014 and 2013
(in millions)

	2014	2013
Net cash provided by operating activities	$54.4	$38.2
Investing activities		
Purchases of property, plant and equipment	(6.3)	(6.3)
Net payments on loans to affiliates	(1.9)	(10.8)
Net purchase of held-to-maturity securities	(28.1)	(24.0)
Other	(0.3)	(0.7)
Net cash used in investing activities	(36.6)	(41.8)
Effect of exchange rate changes on cash and cash equivalents	(0.6)	(1.4)
Net increase (decrease) in cash and cash equivalents	17.2	(5.0)
Cash and cash equivalents at beginning of period	42.8	43.6
Cash and cash equivalents at end of period	$60.0	$38.6

GST
(Debtor-in-Possession)
Condensed Combined Balance Sheets (Unaudited)
(in millions)

	September 30, 2014	December 31, 2013
Assets:		
Current assets	$200.2	$314.4
U.S. Treasury securities	163.1	—
Asbestos insurance receivable	80.7	101.1
Deferred income taxes	124.8	130.4
Notes receivable from affiliate	259.3	248.1
Other assets	77.2	76.2
Total assets	$905.3	$870.2
Liabilities and Shareholder’s Equity:		
Current liabilities	$103.8	$43.9
Other liabilities	71.7	58.1
Liabilities subject to compromise (A)	281.2	468.4
Total liabilities	456.7	570.4
Shareholder’s equity	448.6	299.8
Total liabilities and shareholder’s equity	$905.3	$870.2

(A) Liabilities subject to compromise include pre-petition unsecured claims which may be resolved at amounts different from those recorded in the condensed combined balance sheets. Liabilities subject to compromise consist principally of asbestos-related claims. GST has undertaken to project the number and ultimate cost of all present and future bodily injury claims expected to be asserted, based on actuarial principles, and to measure probable and estimable liabilities under generally accepted accounting principles. GST has accrued $279.6 million as of September 30, 2014 for asbestos related claims. The accrual consists of $275.0 million in total funding for (a) present and future asbestos claims against GST that have not been resolved by settlement or final verdict, and (b) administrative and litigation costs; $3.1 million and $1.5 million, respectively, for claims that had been resolved by

settlement or verdict prior to the Petition Date and were not paid prior to the Petition Date. See Note 16, "Commitments and Contingencies – Asbestos."

16. Commitments and Contingencies

General

A description of environmental, asbestos and other legal matters relating to certain of our subsidiaries is included in this section. In addition to the matters noted herein, we are from time to time subject to, and are presently involved in, other litigation and legal proceedings arising in the ordinary course of business. We believe the outcome of such other litigation and legal proceedings will not have a material adverse effect on our financial condition, results of operations and cash flows. Expenses for administrative and legal proceedings are recorded when incurred.

Environmental

Our facilities and operations are subject to federal, state and local environmental and occupational health and safety requirements of the U.S. and foreign countries. We take a proactive approach in our efforts to comply with environmental, health and safety laws as they relate to our manufacturing operations and in proposing and implementing any remedial plans that may be necessary. We also regularly conduct comprehensive environmental, health and safety audits at our facilities to maintain compliance and improve operational efficiency.

Although we believe past operations were in substantial compliance with the then applicable regulations, we or one or more of our subsidiaries are involved with various remediation activities at 15 sites where the future cost per site for us or our subsidiary is expected to exceed $100,000. Investigations have been completed for 11 sites and are in progress at the other four sites. Our costs at a majority of these sites relate to remediation projects for soil and groundwater contamination at former operating facilities that were sold or closed.

Our policy is to accrue environmental investigation and remediation costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. The measurement of the liability is based on an evaluation of currently available facts with respect to each individual situation and takes into consideration factors such as existing technology, presently enacted laws and regulations and prior experience in remediation of contaminated sites. Liabilities are established for all sites based on these factors. As assessments and remediation progress at individual sites, these liabilities are reviewed periodically and adjusted to reflect additional technical data and legal information. As of September 30, 2014 and December 31, 2013, we had accrued liabilities of $13.9 million and $15.1 million, respectively, for estimated future expenditures relating to environmental contingencies. These amounts have been recorded on an undiscounted basis in the Consolidated Balance Sheets. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other parties potentially being liable, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our recorded liabilities.

During 2013, we accrued a liability of $6.3 million related to environmental remediation costs associated with the pre-1983 site ownership and operation of the former Trent Tube facility in East Troy, Wisconsin. The Trent Tube facility was operated by Crucible Materials Corporation from 1983 until its closure in 1998. Crucible Materials Corporation commenced environmental remediation activities at the site in 1999. In connection with the bankruptcy of Crucible Materials Corporation, a trust was established to fund the remediation of the site. We have reviewed the trust's assets and have valued them at $750,000 for our internal purposes. During 2013, the Wisconsin Department of Natural Resources first notified us of potential liability for remediation of the site as a potentially responsible party under Wisconsin's “Spill Act” which provides that potentially responsible parties may be jointly and severally liable for site remediation. Based on our evaluation of the site, we believe our estimated costs to remediate the site will range between $7 million and $10 million, reduced by the value of the trust's remaining assets.

Except as described below, we believe that our accruals for specific environmental liabilities are adequate for those liabilities based on currently available information. Actual costs to be incurred in future periods may vary from estimates because of the inherent uncertainties in evaluating environmental exposures due to unknown and changing conditions, changing government regulations and legal standards regarding liability.

Based on our prior ownership of Crucible Steel Corporation a/k/a Crucible, Inc. (“Crucible”), we may have additional contingent liabilities in one or more significant environmental matters. One such matter, which is included in the 15 sites referred to above, is the Lower Passaic River Study Area of the Diamond Alkali Superfund Site in New Jersey. Crucible operated a steel mill abutting the Passaic River in Harrison, New Jersey from the 1930s until 1974, which was one of many industrial operations on the river dating back to the 1800s. Certain contingent environmental

liabilities related to this site were retained by Coltec when Coltec sold a majority interest in Crucible Materials Corporation (the successor of Crucible) in 1985. The United States Environmental Protection Agency (the "EPA") has notified Coltec that it is a potentially responsible party ("PRP") for Superfund response actions in the lower 17-mile stretch of the Passaic River known as the Lower Passaic River Study Area. Coltec and approximately 70 of the numerous other PRPs, known as the Cooperating Parties Group, are parties to a May 2007 Administrative Order on Consent with the EPA to perform a Remedial Investigation/Feasibility Study ("RI/FS") of

the contaminants in the Lower Passaic River Study Area. The RI/FS is ongoing and has not been completed. Separately, on April 11, 2014, the EPA released its Focused Feasibility Study (the “FFS”) with its proposed plan for remediating the lower eight miles of the Lower Passaic River Study Area. The FFS calls for bank-to-bank dredging and capping of the riverbed of that portion of the river and estimates a range of the present value of aggregate remediation costs of approximately $953 million to approximately $1.731 billion, although estimates of the costs and the timing of costs are inherently imprecise. The FFS is subject to a 90-day public comment period, which expired on August 28, 2014, and potential revision, including the adoption of a less extensive remedy, in light of comments that were received. No final allocations of responsibility have been made among the numerous PRPs that have received notices from the EPA, there are numerous identified PRPs that have not yet received PRP notices from the EPA, and there are likely many PRPs that have not yet been identified. At this time, we cannot estimate a reasonably possible range of loss related to the remediation of the Lower Passaic River Study Area because the ultimate remedial approach has not been determined and the parties that will participate in funding the remediation and their respective allocations are not yet known. In addition, except with respect to specific Crucible environmental matters for which we have accrued a portion of the liability set forth above, we are unable to estimate a reasonably possible range of loss related to any other contingent environmental liability based on our prior ownership of Crucible.
See the section entitled “Crucible Steel Corporation a/k/a Crucible, Inc.” in this footnote for additional information.

Colt Firearms and Central Moloney

We may have contingent liabilities related to divested businesses for which certain of our subsidiaries retained liability or are obligated under indemnity agreements. These contingent liabilities include, but are not limited to, potential product liability and associated claims related to firearms manufactured prior to March 1990 by Colt Firearms, a former operation of Coltec, and for electrical transformers manufactured prior to May 1994 by Central Moloney, another former Coltec operation. We believe that these potential contingent liabilities are not material to our financial condition, results of operation and cash flows. Coltec also has ongoing obligations, which are included in other liabilities in our Consolidated Balance Sheets, with regard to workers’ compensation, retiree medical and other retiree benefit matters that relate to Coltec’s periods of ownership of these operations.

Crucible Steel Corporation a/k/a Crucible, Inc.

Crucible, which was engaged primarily in the manufacture and distribution of high technology specialty metal products, was a wholly owned subsidiary of Coltec until 1983 when its assets and liabilities were distributed to a new Coltec subsidiary, Crucible Materials Corporation. Coltec sold a majority of the outstanding shares of Crucible Materials Corporation in 1985 and divested its remaining minority interest in 2004. Crucible Materials Corporation filed for Chapter 11 bankruptcy protection in May 2009.

In conjunction with the closure of a Crucible plant in the early 1980s, Coltec was required to fund a trust for retiree medical benefits for certain employees at the plant. This trust (the “Benefits Trust”) pays for these retiree medical benefits on an ongoing basis. Coltec has no ownership interest in the Benefits Trust, and thus the assets and liabilities of this trust are not included in our Consolidated Balance Sheets. Under the terms of the Benefits Trust agreement, the trustees retained an actuary to assess the adequacy of the assets in the Benefits Trust in 1995 and 2005. A third and final actuarial report will be required in 2015. The actuarial reports in 1995 and 2005 determined that the Benefits Trust has sufficient assets to fund the payment of future benefits. We own a guaranteed investment contract with a current value of $2.9 million, which is being held in a special account in case of a shortfall in the Benefits Trust.

We have certain ongoing obligations, which are included in other liabilities in our Consolidated Balance Sheets, including workers’ compensation, retiree medical and other retiree benefit matters, in addition to those mentioned previously related to Coltec’s period of ownership of Crucible. Based on Coltec’s prior ownership of Crucible, we may have certain additional contingent liabilities, including liabilities in one or more significant environmental matters included in the matters discussed in “Environmental,” above. We are investigating these matters and are unable to estimate a reasonably possible range of loss related to these contingent liabilities.

Warranties

We provide warranties on many of our products. The specific terms and conditions of these warranties vary depending on the product and the market in which the product is sold. We record a liability based upon estimates of the costs we may incur under our warranties after a review of historical warranty experience and information about specific

warranty claims. Adjustments are made to the liability as claims data and historical experience necessitate.
Changes in the carrying amount of the product warranty liability for the nine months ended September 30, 2014 and 2013 are as follows:

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	2014	2013
	(in millions)	
Balance at beginning of year	$3.8	$4.1
Charges to expense	0.4	2.5
Settlements made (primarily payments)	(0.8)	(3.1)
Balance at end of period	$3.4	$3.5

BorgWarner

A subsidiary of BorgWarner Inc. (“BorgWarner”) has asserted claims against GGB France E.U.R.L. (“GGB France”) with respect to certain bearings supplied by GGB France to BorgWarner and used by BorgWarner in manufacturing hydraulic control units included in motor vehicle automatic transmission units. BorgWarner and GGB France are participating in a technical review before a panel of experts to determine, among other things, whether there were any defects in the bearings and whether any defect caused the damages claimed by BorgWarner, which technical review is a required predicate to the commencement of a legal proceeding for damages. There is no fixed deadline for the completion of the technical review and the presentation of the expert panel's findings. We believe that GGB France has valid factual and legal defenses to these claims and we are vigorously defending these claims. At this point in the technical review process we are unable to estimate a reasonably possible range of loss related to these claims.

Asbestos

Background on Asbestos-Related Litigation. The historical business operations of GST LLC and 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 in products produced or sold by GST LLC or Anchor, together with products produced and sold by numerous other companies. GST LLC and Anchor manufactured and/or sold industrial sealing products that contained encapsulated asbestos fibers. Other of our subsidiaries that manufactured or sold equipment that may have at various times in the past contained asbestos-containing components have also been named in a number of asbestos lawsuits, but neither we nor any of our subsidiaries other than GST LLC and Anchor have ever paid an asbestos claim.

Since the first asbestos-related lawsuits were filed against GST LLC in 1975, GST LLC and Anchor have processed more than 900,000 claims to conclusion, and, together with insurers, have paid over $1.4 billion in settlements and judgments and over $400 million in fees and expenses. Our subsidiaries’ exposure to asbestos litigation and their relationships with insurance carriers have been managed through Garrison.

Subsidiary Chapter 11 Filing and Effect. On the Petition Date, GST LLC, Garrison and Anchor filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court. The filings were the initial step in a claims resolution process, which is ongoing. See Note 15 for additional information about this process and its impact on us.

During the pendency of the Chapter 11 proceedings, certain actions proposed to be taken by GST not in the ordinary course of business are subject to approval by the Bankruptcy Court. As a result, during the pendency of these proceedings, we do not have exclusive control over these companies. Accordingly, as required by GAAP, GST was deconsolidated beginning on the Petition Date.

As a result of the initiation of the Chapter 11 proceedings, the resolution of asbestos claims is subject to the jurisdiction of the Bankruptcy Court. The filing of the Chapter 11 cases automatically stayed the prosecution of pending asbestos bodily injury and wrongful death lawsuits, and initiation of new such lawsuits, against GST. Further, the Bankruptcy Court issued an order enjoining plaintiffs from bringing or further prosecuting asbestos products liability actions against affiliates of GST, including EnPro, Coltec and all their subsidiaries, during the pendency of the Chapter 11 proceedings, subject to further order. As a result, except as a result of the resolution of appeals from verdicts rendered prior to the Petition Date and the elimination of claims as a result of information obtained in the Chapter 11 proceedings, the numbers of asbestos claims pending against our subsidiaries have not changed since the Petition Date, and those numbers continue to be as reported in our 2009 Form 10-K and our quarterly reports for the first and second quarters of 2010.

Pending Claims. On the Petition Date, according to Garrison's claim records, there were more than 90,000 total claims pending against GST LLC, of which approximately 5,800 were claims alleging the disease mesothelioma. Mesothelioma is a rare cancer of the protective lining of many of the body’s internal organs, principally the lungs. The

primary cause of mesothelioma is believed to be exposure to asbestos. As a result of asbestos tort reform during the 2000s, most active asbestos-related lawsuits, and a large majority of the amount of payments made by our subsidiaries in the years immediately preceding the Petition Date, have been of claims alleging mesothelioma. In total, GST LLC has paid $563.2 million to resolve a total of 15,300 mesothelioma claims, and another 5,700 mesothelioma claims have been dismissed without payment.

In order to estimate the allowed amount for mesothelioma claims against GST, the Bankruptcy Court approved a process whereby all current GST LLC mesothelioma claimants were required to respond to a questionnaire about their claims. Questionnaires were distributed to the mesothelioma claimants identified in Garrison's claims database. Many of the 5,800 claimants (over 500) did not respond to the questionnaire at all; many others (more than 1,900) clarified that: claimants do not have mesothelioma, claimants cannot establish exposure to GST products, claims were dismissed, settled or withdrawn, claims were duplicates of other filed claims, or claims were closed or inactive. Still others responded to the questionnaire but their responses were deficient in some material respect. As a result of this process, less than 3,300 claimants presented questionnaires asserting mesothelioma claims against GST LLC as of the Petition Date and many of them did not establish exposure to GST products or have claims that are otherwise deficient.

Since the Petition Date, many asbestos-related lawsuits have been filed by claimants against other companies in state and federal courts, and many of those claimants might also have included GST LLC as a defendant but for the bankruptcy injunction. Many of those claimants likely will make claims against GST in the bankruptcy proceeding.

Product Defenses. We believe that the asbestos-containing products manufactured or sold by GST could not have been a substantial contributing cause of any asbestos-related disease. The asbestos in the products was encapsulated, which means the asbestos fibers incorporated into the products during the manufacturing process were sealed in binders. The products were also nonfriable, which means they could not be crumbled by hand pressure. The U.S. Occupational Safety and Health Administration, which began generally requiring warnings on asbestos-containing products in 1972, has never required that a warning be placed on products such as GST LLC's gaskets. Even though no warning label was required, GST LLC included one on all of its asbestos-containing products beginning in 1978. Further, gaskets such as those previously manufactured and sold by GST LLC are one of the few asbestos-containing products still permitted to be manufactured under regulations of the U.S. Environmental Protection Agency. Nevertheless, GST LLC discontinued all manufacture and distribution of asbestos-containing products in the U.S. during 2000 and worldwide in mid-2001.

Appeals. GST LLC has a record of success in trials of asbestos cases, especially before the bankruptcies of many of the historically significant asbestos defendants that manufactured raw asbestos, asbestos insulation, refractory products or other dangerous friable asbestos products. However, it has on occasion lost jury verdicts at trial. GST has consistently appealed when it has received an adverse verdict and has had success in a majority of those appeals. At September 30, 2014, two GST LLC appeals are pending from adverse decisions totaling $1.5 million.

GST LLC won reversals of adverse verdicts in one of three recent appellate decisions. In September 2011, the United States Court of Appeals for the Sixth Circuit overturned a $500,000 verdict against GST LLC that was handed down in 2009 by a Kentucky federal court jury. The federal appellate court found that GST LLC's motion for judgment as a matter of law should have been granted because the evidence was not sufficient to support a determination of liability. The Sixth Circuit's chief judge wrote that, "On the basis of this record, saying that exposure to Garlock gaskets was a substantial cause of [claimant's] mesothelioma would be akin to saying that one who pours a bucket of water into the ocean has substantially contributed to the ocean's volume." In May 2011, a three-judge panel of the Kentucky Court of Appeals upheld GST LLC's $700,000 share of a 2009 jury verdict, which included punitive damages, in a lung cancer case against GST LLC in Kentucky state court. This verdict, which was secured by a bond pending the appeal, was paid in June 2012. In a Kentucky appeal from a 2006 verdict against GST LLC, another Kentucky Court of Appeals panel upheld, in August 2014, GST LLC's share of the verdict and a $600,000 punitive damage award. The verdict against GST LLC totaled $874,000. This verdict and post-judgment interest were secured by a bond in the amount of $1.1 million. The plaintiff in the case agreed to resolve the case, including claims for post-judgment interest, for the amount of the bond and to forego additional accrued interest on the verdict, and GST LLC agreed to discontinue further appeals. Because the Company was responsible to the bonding company for the bond amount, the Company's Coltec subsidiary purchased the verdict from the plaintiff in September 2014 for the amount of the $1.1 million bond. As a result, Coltec has a claim against GST LLC for the amount of the judgment, including post-judgment interest.

Insurance Coverage. At September 30, 2014 we had $100.7 million of insurance coverage we believe is available to cover current and future asbestos claims payments and certain expense payments. GST has collected insurance payments totaling $95.4 million since the Petition Date. Of the $100.7 million of available insurance coverage

remaining, we consider $100.0 million (99%) to be of high quality because the insurance policies are written or guaranteed by U.S.-based carriers whose credit rating by S&P is investment grade (BBB-) or better, and whose AM Best rating is excellent (A-) or better. Of the $100.7 million, $64.6 million is allocated to claims that were paid by GST LLC prior to the initiation of the Chapter 11 proceedings and submitted to insurance companies for reimbursement, and the remainder is allocated to pending and estimated future claims. There are specific agreements in place with carriers covering $66.2 million of the remaining available coverage. Based on those agreements and the terms of the policies in place and prior decisions concerning coverage, we believe that substantially all of the $100.7 million of insurance proceeds will ultimately be collected, although there can be no assurance that the insurance companies will make the payments as and when due. The $100.7 million is in addition to the $21.3 million

collected in the first nine months of 2014. Based on those agreements and policies, some of which define specific annual amounts to be paid and others of which limit the amount that can be recovered in any one year, we anticipate that $38.7 million will become collectible at the conclusion of GST's Chapter 11 proceeding and, assuming the insurers pay according to the agreements and policies, that the following amounts should be collected in the years set out below regardless of when the case concludes:
2015 – $20 million
2016 – $18 million
2017 – $13 million
2018 – $11 million
GST LLC has received $8.1 million of insurance recoveries from insolvent carriers since 2007, including a $900,000 payment received in the second quarter, and may receive additional payments from insolvent carriers in the future. No anticipated insolvent carrier collections are included in the $100.7 million of anticipated collections. The insurance available to cover current and future asbestos claims is from comprehensive general liability policies that cover Coltec and certain of its other subsidiaries in addition to GST LLC for periods prior to 1985 and therefore could be subject to potential competing claims of other covered subsidiaries and their assignees.
Liability Estimate. Our recorded asbestos liability as of the Petition Date was $472.1 million. We based that recorded liability on an estimate of probable and estimable expenditures to resolve asbestos personal injury claims under generally accepted accounting principles, made with the assistance of Garrison and an estimation expert, Bates White, retained by GST LLC's counsel. The estimate developed was an estimate of the most likely point in a broad range of potential amounts that GST LLC might pay to resolve asbestos claims (by settlement in the majority of the cases except those dismissed or tried) over the ten-year period following the date of the estimate in the state court system, plus accrued but unpaid legal fees. The estimate, which was not discounted to present value, did not reflect GST LLC's views of its actual legal liability. GST LLC has continuously maintained that its products could not have been a substantial contributing cause of any asbestos disease. Instead, the liability estimate reflected GST LLC's recognition that most claims would be resolved more efficiently and at a significantly lower total cost through settlements without any actual liability determination.
From the Petition Date through the first quarter of 2014, neither we nor GST endeavored to update the accrual since the Petition Date except as necessary to reflect payments of accrued fees and the disposition of cases on appeal. In each asbestos-driven Chapter 11 case that has been resolved previously, the amount of the debtor's liability has been determined as part of a consensual plan of reorganization agreed to by the debtor, its asbestos claimants and a legal representative for its potential future claimants. GST did not believe that there was a reliable process by which an estimate of such a consensual resolution could be made and therefore believed that there was no basis upon which it could revise the estimate last updated prior to the Petition Date.
Given the Bankruptcy Court's January 2014 decision estimating GST's liability for present and future mesothelioma claims at $125 million and GST's filing of its first amended proposed plan of reorganizat