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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2019

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
(Address of principal executive offices)

28209
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.01 par value	NPO	New York Stock Exchange

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 29, 2019, there were 20,593,475 shares of common stock of the registrant outstanding, which does not include 187,245 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, 2019 and 2018
(in millions, except per share amounts)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net sales	\$ 387.0	\$ 393.6	\$ 747.3	\$ 762.4
Cost of sales	261.9	277.8	509.1	521.5
Gross profit	125.1	115.8	238.2	240.9
Operating expenses:				
Selling, general and administrative	83.8	89.4	171.6	181.5
Other	1.0	4.3	2.4	5.3
Total operating expenses	84.8	93.7	174.0	186.8
Operating income	40.3	22.1	64.2	54.1
Interest expense	(4.5)	(7.3)	(9.7)	(15.5)
Interest income	0.3	0.2	1.0	0.6
Other expense	(1.2)	(1.2)	(2.7)	(0.6)
Income before income taxes	34.9	13.8	52.8	38.6
Income tax expense	(11.0)	(3.9)	(15.8)	(16.1)
Net income	\$ 23.9	\$ 9.9	\$ 37.0	\$ 22.5
Comprehensive income	\$ 21.3	\$ —	\$ 41.2	\$ 22.4
Basic earnings per share	\$ 1.16	\$ 0.47	\$ 1.79	\$ 1.06
Diluted earnings per share	\$ 1.15	\$ 0.47	\$ 1.78	\$ 1.05
Cash dividends per share	\$ 0.25	\$ 0.24	\$ 0.50	\$ 0.48

See notes to consolidated financial statements (unaudited).

ENPRO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Six Months Ended June 30, 2019 and 2018
(in millions)

	2019	2018
OPERATING ACTIVITIES		
Net income	\$ 37.0	\$ 22.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18.5	19.0
Amortization	17.1	17.7
Deferred income taxes	0.8	(7.5)
Stock-based compensation	3.3	3.5
Other non-cash adjustments	1.6	3.4
Change in assets and liabilities:		
Asbestos insurance receivables	1.3	12.3
Accounts receivable, net	8.4	(31.4)
Inventories	(19.2)	(21.4)
Accounts payable	(16.4)	7.1
Income taxes, net	14.6	109.2
Other current assets and liabilities	8.7	(8.6)
Other non-current assets and liabilities	2.3	(16.2)
Net cash provided by operating activities	<u>78.0</u>	<u>109.6</u>
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(17.0)	(28.1)
Proceeds from sale of property, plant, and equipment	1.0	26.3
Other	(2.5)	(2.0)
Net cash used in investing activities	<u>(18.5)</u>	<u>(3.8)</u>
FINANCING ACTIVITIES		
Proceeds from debt	217.7	358.6
Repayments of debt	(253.5)	(489.7)
Repurchase of common stock	(14.6)	(49.5)
Dividends paid	(10.6)	(10.3)
Other	(3.4)	(6.6)
Net cash used in financing activities	<u>(64.4)</u>	<u>(197.5)</u>
Effect of exchange rate changes on cash and cash equivalents	(0.4)	(4.2)
Net decrease in cash and cash equivalents	(5.3)	(95.9)
Cash and cash equivalents at beginning of period	129.6	189.3
Cash and cash equivalents at end of period	<u>\$ 124.3</u>	<u>\$ 93.4</u>
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest, net	\$ 9.9	\$ 17.0
Income taxes, net	\$ (0.5)	\$ (86.1)
Non-cash investing and financing activities:		
Non-cash acquisitions of property, plant, and equipment	\$ 1.8	\$ 4.7

See notes to consolidated financial statements (unaudited).

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

	June 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 124.3	\$ 129.6
Accounts receivable, net	278.1	286.6
Inventories	252.3	233.1
Income tax receivable	36.5	49.6
Prepaid expenses and other current assets	40.2	33.2
Total current assets	731.4	732.1
Property, plant and equipment, net	289.6	301.2
Goodwill	334.7	333.7
Other intangible assets, net	285.9	297.3
Other assets	83.7	51.5
Total assets	\$ 1,725.3	\$ 1,715.8
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 0.3	\$ 2.4
Accounts payable	115.0	139.2
Accrued expenses	174.4	150.4
Total current liabilities	289.7	292.0
Long-term debt	427.9	462.5
Other liabilities	131.5	103.6
Total liabilities	849.1	858.1
Commitments and contingencies		
Shareholders' equity		
Common stock – \$.01 par value; 100,000,000 shares authorized; issued, 20,780,720 shares in 2019 and 20,929,218 shares in 2018	0.2	0.2
Additional paid-in capital	288.8	301.0
Retained earnings	641.3	603.3
Accumulated other comprehensive loss	(52.8)	(45.5)
Common stock held in treasury, at cost – 188,027 shares in 2019 and 189,514 shares in 2018	(1.3)	(1.3)
Total shareholders' equity	876.2	857.7
Total liabilities and equity	\$ 1,725.3	\$ 1,715.8

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; hoses and fittings for the hygienic process industries; bellows and bellow assemblies; pedestals for semiconductor manufacturing; PTFE products; 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 except as disclosed below 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, 2018 was derived from the audited financial statements included in our annual report on Form 10-K/A for the year ended December 31, 2018. 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, 2018 included within our annual report on Form 10-K/A.

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 2019, we adopted a standard that establishes principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The standard requires 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 Consolidated Statements of Operations and the Consolidated 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. We adopted the new standard using the allowable option to apply the transition provisions of the new guidance at its adoption date without adjusting the comparative periods presented.

We evaluated the impact of applying practical expedients, and upon adoption we elected the package of practical expedients which permits us to not reassess prior conclusions related to contracts containing leases, lease classification, and initial direct costs. Additionally, we elected to not separate lease and non-lease components, we will not recognize an asset for leases with a term of twelve months or less, and we will apply a portfolio approach in determining discount rates.

Upon adoption of this standard, we recognized a right-of-use asset and a corresponding lease liability of approximately \$30 million for our operating leases. The adoption of the standard did not have a material impact to our Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

Additionally, in the first quarter of 2019, we adopted a standard that allows for the reclassification of disproportionate income tax effects (“stranded tax effects”) resulting from the Tax Cuts and Jobs Act (“the Tax Act”) from accumulated other comprehensive loss to retained earnings. As a result of the Tax Act, we remeasured our deferred taxes related to pensions and other postretirement benefits using the new U.S. federal tax rate. Our adoption of the standard resulted in the reclassification of a net tax benefit of \$11.5 million from accumulated other comprehensive loss to opening retained earnings in our Consolidated Balance Sheet. Adoption of the standard had no impact to our Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

Recently Issued Authoritative Accounting Guidance

In January 2017, a standard was issued to simplify annual and interim goodwill impairment testing for public business entities. Under the standard, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The standard is effective for any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The standard is not currently expected to have a significant impact on our consolidated financial statements or disclosures.

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 are not 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. Based upon our current population of receivables and associated historical credit loss experience, we do not expect that this standard will have a significant impact on our consolidated financial statements. This conclusion could be impacted by any significant future financing arrangements that we may choose to enter with customers.

2. Revenue from Contracts with Customers

Information regarding long-term engine contracts where revenue is recognized over time using an input method is as follows:

	June 30, 2019	December 31, 2018
	(in millions)	
Cumulative revenues recognized on uncompleted contracts	\$ 428.5	\$ 452.5
Cumulative billings on uncompleted contracts	398.3	393.9
	<u>\$ 30.2</u>	<u>\$ 58.6</u>

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

	June 30, 2019	December 31, 2018
	(in millions)	
Accounts receivable, net (contract revenue recognized in excess of billings)	\$ 60.4	\$ 63.9
Accrued expenses (billings in excess of revenue recognized)	(30.2)	(5.3)
	<u>\$ 30.2</u>	<u>\$ 58.6</u>

The changes in our contract deferred revenue (billings in excess of revenue recognized) for the six months ended June 30, 2019 are as follows:

	2019
Balance at beginning of period	\$ 5.5
Additional billings in excess of revenue recognized	37.9
Revenue recognized	(13.2)
Balance at end of period	<u>\$ 30.2</u>

We make deposits and progress payments to certain vendors for long-lead-time manufactured components associated with engine projects. At June 30, 2019 and December 31, 2018, deposits and progress payments for long-lead-time components in our Power Systems segment totaled \$3.3 million and \$1.0 million, respectively. These deposits and progress payments are

classified in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets. Assets and liabilities for long-term service contracts recognized over time were immaterial as of June 30, 2019 and December 31, 2018.

As of June 30, 2019, the aggregate amount of transaction price of remaining performance obligations, or backlog, for the full company was \$406.7 million. Approximately 90% of these obligations are expected to be satisfied within one year. The amount expected to be satisfied beyond June 30, 2020 is mainly attributable to our Power Systems segment and pertains to the contracts discussed above. Remaining performance obligations include those related to the contracts discussed above as well as orders across all of our businesses that we believe to be firm. However, there is no certainty these orders will result in actual sales at the times or in the amounts ordered. In addition, for most of our business, this total is not particularly predictive of future performance because of our short lead times and some seasonality.

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 in the interim periods, including losses generated in countries where we are projecting annual losses for which a deferred tax asset is not anticipated to be recognized. This estimated annual effective tax rate is affected by the relative proportions of revenue and income before taxes in the jurisdictions in which we operate. Based on the current geographical mix of earnings and the reduction in the U.S. corporate income tax rate as a result of the Tax Act, our global annual effective tax rate typically approximates the blended domestic statutory rate and fluctuates based on the portion of our profits earned in each jurisdiction.

The effective tax rates for the quarters ended June 30, 2019 and 2018 were 31.4% and 28.6%, respectively. These effective tax rates reflect the impact of the reduction in the U.S. federal statutory income tax rate to 21.0%, partially offset by the minimum tax on certain non-U.S. earnings, and higher tax rates in most foreign jurisdictions.

The effective tax rates for the six months ended June 30, 2019 and 2018 were 29.8% and 41.8%, respectively. The effective tax rates for the six months ended June 30, 2019 and 2018 reflect the impact of the reduction in the U.S. federal statutory income tax rate to 21.0%, partially offset by the minimum tax on certain non-U.S. earnings, and higher tax rates in most foreign jurisdictions. The effective tax rate for the six months ended June 30, 2018 was also impacted by a \$5.4 million discrete tax charge to prior benefits recognized for domestic production activities as a result of interpretive guidance issued by the IRS.

In June 2017, the IRS began an examination of our 2014 U.S. federal income tax return. Although this examination is part of a routine and recurring cycle, we cannot predict the final outcome or expected conclusion date of the audit. Various foreign and state tax returns are also currently under examination and some of these exams may conclude within the next twelve months. The final outcomes of these audits are not yet determinable; however, management believes that any assessments that may arise will not have a material effect on our financial results.

4. Earnings Per Share

	Quarters Ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	(in millions, except per share amounts)			
Numerator (basic and diluted):				
Net income	\$ 23.9	\$ 9.9	\$ 37.0	\$ 22.5
Denominator:				
Weighted-average shares – basic	20.7	20.9	20.7	21.1
Share-based awards	0.1	0.2	0.1	0.2
Weighted-average shares – diluted	20.8	21.1	20.8	21.3
Earnings per share:				
Basic	\$ 1.16	\$ 0.47	\$ 1.79	\$ 1.06
Diluted	\$ 1.15	\$ 0.47	\$ 1.78	\$ 1.05

5. Inventories

	June 30, 2019	December 31, 2018
	(in millions)	
Finished products	\$ 158.4	\$ 142.9
Work in process	37.7	33.6
Raw materials and supplies	67.3	67.7
	263.4	244.2
Reserve to reduce certain inventories to LIFO basis	(11.1)	(11.1)
Total inventories	<u>\$ 252.3</u>	<u>\$ 233.1</u>

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. Goodwill and Other Intangible Assets

The changes in the net carrying value of goodwill by reportable segment for the six months ended June 30, 2019, are as follows:

	Sealing Products	Engineered Products	Power Systems	Total
	(in millions)			
Goodwill as of December 31, 2018	\$ 311.3	\$ 10.8	\$ 11.6	\$ 333.7
Change due to foreign currency translation	0.7	0.1	0.2	1.0
Goodwill as of June 30, 2019	<u>\$ 312.0</u>	<u>\$ 10.9</u>	<u>\$ 11.8</u>	<u>\$ 334.7</u>

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, 2019 and December 31, 2018.

Identifiable intangible assets are as follows:

	As of June 30, 2019		As of December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in millions)			
Amortized:				
Customer relationships	\$ 284.9	\$ 158.8	\$ 284.5	\$ 150.2
Existing technology	112.6	49.0	112.3	45.1
Trademarks	36.3	24.1	35.3	23.1
Other	30.1	24.1	28.3	23.8
	463.9	256.0	460.4	242.2
Indefinite-Lived:				
Trademarks	78.0	—	79.1	—
Total	<u>\$ 541.9</u>	<u>\$ 256.0</u>	<u>\$ 539.5</u>	<u>\$ 242.2</u>

Amortization for the quarters and six months ended June 30, 2019 and 2018 were \$7.2 million, \$7.4 million, \$14.0 million and \$14.9 million, respectively.

7. Leases

We regularly enter into operating leases primarily for real estate, equipment, and vehicles. Operating lease arrangements are generally utilized to secure the use of assets if the terms and conditions of the lease or the nature of the asset makes the lease arrangement more favorable than a purchase. Leases with an initial term of 12 months or less are not recorded on the balance sheet. We have elected an accounting policy to combine lease and non-lease components.

Our building leases have remaining terms up to twelve years, some of which contain options to renew up to five years, and some of which contain options to terminate. Some leases contain non-lease components, which may include items such as building common area maintenance, building parking, or general service and maintenance provided for leased assets by the lessor. Our vehicle, equipment, and other leases have remaining lease terms up to seven years, some of which contain options to renew or become evergreen leases, with automatic renewing one-month terms, and some of which have options to terminate.

Our right of use assets and liabilities related to operating leases as of June 30, 2019 are as follows:

	Balance Sheet Classification	June 30, 2019 (in millions)
Right-of-use assets	Other assets	\$ 30.4
Current liability	Accrued expenses	\$ 9.7
Long-term liability	Other liabilities	21.2
Total liability		\$ 30.9

Approximately 80% of our operating lease assets and liabilities arise from real estate leases and approximately 20% arise from equipment and vehicle leases.

Most of our leases do not provide an implicit rate for calculating the right of use assets and corresponding lease liabilities. Accordingly, we determine the interest rate that we would have to pay to borrow on a collateralized basis over a similar term and amount equal to the lease payments in similar economic environments. We used the incremental borrowing rate at January 1, 2019 for all leases that commenced prior to that date.

In the quarter ended June 30, 2019, we had operating lease costs of \$2.9 million and our operating cash flows from operating leases were \$3.1 million. Our short-term and variable lease costs were \$0.4 million. We entered into additional operating leases that resulted in new right-of-use assets totaling \$3.2 million.

In the six months ended June 30, 2019, we had operating lease costs of \$5.9 million and our operating cash flows from operating leases were \$6.2 million. Our short-term and variable leases costs were \$0.9 million. We entered into additional operating leases that resulted in new right-of-use assets totaling \$5.8 million.

We have not entered into any significant leases that have yet to commence.

Our weighted-average remaining lease term and discount rate at June 30, 2019 were:

Weighted-average remaining lease term (years)	4.8
Weighted-average discount rate	4.3%

A maturity analysis of undiscounted operating lease liabilities is shown in the table below:

	Operating Lease Payments
	(in millions)
2019 ⁽¹⁾	\$ 5.8
2020	9.1
2021	6.5
2022	4.1
2023	3.1
Thereafter	5.7
Total lease payments	34.3
Less: interest	(3.4)
Present value of lease liabilities	\$ 30.9

(1) Excludes the six months ended June 30, 2019

The operating lease payments listed in the table above include all current leases and all known future leases that have yet to commence. The payments also include all renewal periods that we are reasonably certain to exercise.

We rarely enter into finance leases. Since finance lease amounts and related costs are not significant to our consolidated financial position or results of operations, additional disclosures regarding finance leases are not presented.

Future minimum lease payments by year and in the aggregate, under noncancelable operating leases with initial or remaining noncancelable lease terms in excess of one year, consisted of the following at December 31, 2018 (in millions):

2019	\$ 11.5
2020	9.0
2021	6.2
2022	4.4
2023	3.4
Thereafter	2.7
Total minimum payments	\$ 37.2

Net rent expense was \$13.5 million for the year ended December 31, 2018.

8. Accrued Expenses

	June 30, 2019	December 31, 2018
	(in millions)	
Salaries, wages and employee benefits	\$ 52.8	\$ 59.5
Interest	4.7	4.9
Customer advances	33.1	7.1
Environmental	16.3	16.4
Warranty	5.4	10.9
Income and other taxes	21.8	21.8
Operating lease liabilities	9.7	—
Other	30.6	29.8
	\$ 174.4	\$ 150.4

9. Long-Term Debt

Revolving Credit Facility

On June 28, 2018, we entered into a Second Amended and Restated Credit Agreement (the "Amended Credit Agreement") among EnPro Industries, Inc. and EnPro Holdings, Inc., a wholly owned subsidiary of the Company ("EnPro Holdings"), as borrowers, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer. The Amended Credit Agreement provides for a five-year, senior secured revolving credit facility of \$350.0 million (the "Revolving Credit Facility"). The Amended Credit Agreement also provides that the borrowers may seek incremental term loans and/or additional revolving credit commitments in an amount equal to the greater of \$225.0 million and 100% of consolidated EBITDA (as defined) for the most recently ended four-quarter period for which we have reported financial results, plus additional amounts based on a consolidated senior secured leverage ratio.

Borrowing availability under the Revolving Credit Facility 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 net leverage ratio. In addition, a commitment fee accrues with respect to the unused amount of the Revolving Credit Facility.

The Company and EnPro Holdings are the permitted borrowers under the Revolving Credit Facility. We have the ability to add foreign subsidiaries as borrowers under the Revolving Credit Facility for up to \$100.0 million (or its foreign currency equivalent) in aggregate borrowings, subject to certain conditions. Each of our domestic, consolidated subsidiaries are required to guarantee the obligations of the borrowers under the Revolving Credit Facility, and each of our existing domestic, consolidated subsidiaries has entered into the Amended Credit Agreement to provide such a guarantee.

Borrowings under the Revolving Credit Facility are secured by a first priority pledge of certain assets. The Amended Credit Agreement contains certain financial covenants and required financial ratios including a maximum consolidated total net leverage and a minimum consolidated interest coverage as defined in the Amended Credit Agreement. We were in compliance with all covenants of the Revolving Credit Facility as of June 30, 2019.

The borrowing availability under our Revolving Credit Facility at June 30, 2019 was \$250.4 million after giving consideration to \$17.5 million of outstanding letters of credit and \$82.1 million of outstanding revolver borrowings.

Senior Notes

In October 2018, we completed the offering of \$350.0 million aggregate principal amount of 5.75% Senior Notes due 2026 (the "Senior Notes").

The Senior Notes are unsecured, unsubordinated obligations of EnPro and mature on October 15, 2026. Interest on the Senior Notes accrues at a rate of 5.75% per annum and is payable semi-annually in cash in arrears on April 15 and October 15 of each year, commencing on April 15, 2019. 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 October 15, 2021, we may, on any one or more occasion, redeem all or 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 October 15, 2021 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 price. We may also redeem some or all of the Senior Notes before October 15, 2021 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, 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 held by such holder 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 included covenants that restrict our ability to engage in certain activities, including incurring additional indebtedness, paying dividends, and repurchasing shares of our common stock, subject in each case to specified exceptions and qualifications set forth in the indenture.

10. Pensions and Postretirement Benefits

The components of net periodic benefit cost for our U.S. and foreign defined benefit pension and other postretirement plans for the quarters and six months ended June 30, 2019 and 2018, are as follows:

	Quarters Ended June 30,				Six months ended June 30,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2019	2018	2019	2018	2019	2018	2019	2018
	(in millions)							
Service cost	\$ 1.2	\$ 1.3	\$ —	\$ —	\$ 2.3	\$ 2.5	\$ 0.1	\$ 0.1
Interest cost	3.1	3.4	0.1	0.1	6.1	6.8	0.1	0.1
Expected return on plan assets	(4.0)	(5.3)	—	—	(8.0)	(10.7)	—	—
Amortization of prior service cost	0.1	0.1	—	—	0.1	0.1	—	—
Amortization of net loss	1.7	1.5	—	—	3.3	2.9	—	—
Net periodic benefit cost	<u>\$ 2.1</u>	<u>\$ 1.0</u>	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ 3.8</u>	<u>\$ 1.6</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>

Contributions of \$20.0 million were made in the six months ended June 30, 2018 to our U.S. defined benefit pension plans. We do not expect to make any contributions in 2019.

11. Shareholders' Equity

Changes in shareholders' equity for the six months ended June 30, 2019 are as follows:

(in millions)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
	Shares	Amount					
Balance, December 31, 2018	20.7	\$ 0.2	\$ 301.0	\$ 603.3	\$ (45.5)	\$ (1.3)	\$ 857.7
Adoption of new accounting standard	—	—	—	11.5	(11.5)	—	—
Net income	—	—	—	13.1	—	—	13.1
Other comprehensive income	—	—	—	—	6.8	—	6.8
Dividends	—	—	—	(5.3)	—	—	(5.3)
Share repurchases	—	—	(2.4)	—	—	—	(2.4)
Incentive plan activity	0.1	—	1.2	—	—	—	1.2
Balance, March 31, 2019	20.8	0.2	299.8	622.6	(50.2)	(1.3)	871.1
Net income	—	—	—	23.9	—	—	23.9
Other comprehensive loss	—	—	—	—	(2.6)	—	(2.6)
Dividends	—	—	—	(5.2)	—	—	(5.2)
Share repurchases	(0.2)	—	(12.6)	—	—	—	(12.6)
Incentive plan activity	—	—	1.6	—	—	—	1.6
Balance, June 30, 2019	<u>20.6</u>	<u>\$ 0.2</u>	<u>\$ 288.8</u>	<u>\$ 641.3</u>	<u>\$ (52.8)</u>	<u>\$ (1.3)</u>	<u>\$ 876.2</u>

Changes in shareholders' equity for the six months ended June 30, 2018 are as follows:

(in millions)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
	Shares	Amount					
Balance, December 31, 2017	21.3	\$ 0.2	\$ 347.9	\$ 604.4	\$ (48.4)	\$ (1.3)	\$ 902.8
Adoption of new accounting standard	—	—	—	(0.3)	—	—	(0.3)
Net income	—	—	—	12.6	—	—	12.6
Other comprehensive income	—	—	—	—	9.8	—	9.8
Dividends	—	—	—	(5.2)	—	—	(5.2)
Share repurchases	(0.2)	—	(16.9)	—	—	—	(16.9)
Incentive plan activity	0.1	—	(1.7)	—	—	—	(1.7)
Balance, March 31, 2018	21.2	0.2	329.3	611.5	(38.6)	(1.3)	901.1
Net income	—	—	—	9.9	—	—	9.9
Other comprehensive loss	—	—	—	—	(9.9)	—	(9.9)
Dividends	—	—	—	(5.1)	—	—	(5.1)
Share repurchases	(0.5)	—	(33.0)	—	—	—	(33.0)
Incentive plan activity	—	—	1.7	—	—	—	1.7
Balance, June 30, 2018	20.7	\$ 0.2	\$ 298.0	\$ 616.3	\$ (48.5)	\$ (1.3)	\$ 864.7

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 \$10.6 million were made during the six months ended June 30, 2019.

In July 2019, our board of directors declared a dividend of \$0.25 per share, payable on September 18, 2019 to all shareholders of record as of September 4, 2019.

In October 2018, 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, 2019 we repurchased 0.2 million shares for \$15.0 million. Total cash paid during the six months ended June 30, 2019 for the share repurchases was \$14.6 million. The remaining amount of authorized purchases in the program at June 30, 2019 was \$35.0 million. The board of directors' authorization expires in October 2020.

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, custom-engineered mechanical seals for applications in the aerospace industry and other markets, 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 commercial vehicle parts used in the wheel-end, braking, suspension, and tire and 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, including parts and services.

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, 2019 and 2018 were as follows:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in millions)			
Sales				
Sealing Products	\$ 239.3	\$ 255.7	\$ 463.8	\$ 487.6
Engineered Products	79.0	85.4	158.5	171.3
Power Systems	69.8	53.7	127.1	105.8
	<u>388.1</u>	<u>394.8</u>	<u>749.4</u>	<u>764.7</u>
Intersegment sales	(1.1)	(1.2)	(2.1)	(2.3)
Net sales	<u>\$ 387.0</u>	<u>\$ 393.6</u>	<u>\$ 747.3</u>	<u>\$ 762.4</u>
Segment Profit				
Sealing Products	\$ 29.4	\$ 19.3	\$ 50.2	\$ 43.0
Engineered Products	10.1	12.1	16.3	26.5
Power Systems	9.0	(0.2)	15.7	3.8
Total segment profit	<u>48.5</u>	<u>31.2</u>	<u>82.2</u>	<u>73.3</u>
Corporate expenses	(7.2)	(8.5)	(16.2)	(17.2)
Interest expense, net	(4.2)	(7.1)	(8.7)	(14.9)
Other expense, net	(2.2)	(1.8)	(4.5)	(2.6)
Income before income taxes	<u>\$ 34.9</u>	<u>\$ 13.8</u>	<u>\$ 52.8</u>	<u>\$ 38.6</u>

Segment assets are as follows:

	June 30,	December 31,
	2019	2018
	(in millions)	
Sealing Products	\$ 1,022.8	\$ 1,009.3
Engineered Products	239.6	220.5
Power Systems	258.2	266.1
Corporate	204.7	219.9
	<u>\$ 1,725.3</u>	<u>\$ 1,715.8</u>

Revenue by End Market

Due to the diversified nature of our business and the wide array of products that we offer, we sell into a number of end markets. Underlying economic conditions within these markets are a major driver of our segments' sales performance. Below is a summary of our third party sales by major end market with which we do business for the quarters ended June 30, 2019 and 2018:

Quarter Ended June 30, 2019				
(in millions)	Sealing Products	Engineered Products	Power Systems	Total
Aerospace	\$ 14.8	\$ 3.0	\$ —	\$ 17.8
Automotive	0.5	22.5	—	23.0
Chemical and material processing	13.2	13.0	—	26.2
Food and pharmaceutical	9.5	0.1	—	9.6
General industrial	43.1	24.4	—	67.5
Medium-duty/heavy-duty truck	97.8	0.1	—	97.9
Navy and marine	0.2	—	57.3	57.5
Oil and gas	15.9	11.2	1.1	28.2
Power generation	12.7	2.3	11.4	26.4
Semiconductors	27.0	—	—	27.0
Other	3.7	2.2	—	5.9
Total third party sales	\$ 238.4	\$ 78.8	\$ 69.8	\$ 387.0

Quarter Ended June 30, 2018				
(in millions)	Sealing Products	Engineered Products	Power Systems	Total
Aerospace	\$ 13.2	\$ 2.1	\$ —	\$ 15.3
Automotive	1.8	27.5	—	29.3
Chemical and material processing	11.2	14.2	—	25.4
Food and pharmaceutical	9.7	0.2	—	9.9
General industrial	49.3	26.0	—	75.3
Medium-duty/heavy-duty truck	106.2	—	—	106.2
Navy and marine	0.2	—	40.5	40.7
Oil and gas	12.9	11.6	3.0	27.5
Power generation	18.5	2.7	10.0	31.2
Semiconductors	30.4	—	—	30.4
Other	1.4	0.8	0.2	2.4
Total third party sales	\$ 254.8	\$ 85.1	\$ 53.7	\$ 393.6

Below is a summary of our third party sales by major end market with which we do business for the six months ended June 30, 2019 and 2018:

(in millions)	Six Months Ended June 30, 2019			
	Sealing Products	Engineered Products	Power Systems	Total
Aerospace	\$ 26.9	\$ 5.7	\$ —	\$ 32.6
Automotive	1.5	45.8	—	47.3
Chemical and material processing	28.6	25.2	—	53.8
Food and pharmaceutical	19.2	0.3	—	19.5
General industrial	85.9	50.7	—	136.6
Medium-duty/heavy-duty truck	187.0	0.4	—	187.4
Navy and marine	0.4	—	103.7	104.1
Oil and gas	31.0	21.7	2.4	55.1
Power generation	23.3	4.7	20.8	48.8
Semiconductors	52.5	—	—	52.5
Other	5.7	3.7	0.2	9.6
Total third party sales	\$ 462.0	\$ 158.2	\$ 127.1	\$ 747.3

(in millions)	Six Months Ended June 30, 2018			
	Sealing Products	Engineered Products	Power Systems	Total
Aerospace	\$ 24.9	\$ 4.3	\$ —	\$ 29.2
Automotive	3.0	55.5	—	58.5
Chemical and material processing	24.2	26.8	—	51.0
Food and pharmaceutical	18.0	0.5	—	18.5
General industrial	94.8	53.2	—	148.0
Medium-duty/heavy-duty truck	195.3	0.3	—	195.6
Navy and marine	0.3	—	71.4	71.7
Oil and gas	27.8	23.2	4.2	55.2
Power generation	32.8	5.4	28.6	66.8
Semiconductors	58.6	—	—	58.6
Other	6.0	1.8	1.5	9.3
Total third party sales	\$ 485.7	\$ 171.0	\$ 105.7	\$ 762.4

13. Derivatives and Hedging

In September 2018, we entered into cross currency swap agreements (the "Original Swap") with a notional amount of \$200.0 million to manage foreign currency risk by effectively converting a portion of the interest payments related to our fixed-rate U.S. Dollar ("USD")-denominated Senior Notes, including the semi-annual interest payments thereunder, to interest payments on fixed-rate Euro-denominated debt of 172.8 million EUR with a weighted average interest rate of 2.8%, with interest payment dates of March 15 and September 15 of each year. The Original Swap agreement matures on September 15, 2022.

In May 2019, we entered into additional cross currency swap agreements (the "Additional Swap") with a notional amount of \$100.0 million to manage an increased portion of our foreign currency risk by effectively converting a portion of the interest payments related to our fixed-rate USD-denominated Senior Notes, including the semi-annual interest payments thereunder, to interest payments on fixed-rate Euro-denominated debt of 89.6 million EUR with a weighted average interest rate of 3.5%, with interest payment dates of April 15 and October 15 of each year. The Additional Swap agreement matures on October 15, 2026.

During the term of the swap agreements, we will receive semi-annual payments from the counterparties due to the difference between the interest rate on the Senior Notes and the interest rate on the Euro debt underlying each of the swaps. There was no principal exchange at the inception of the arrangements, and there will be no exchange at maturity. At maturity (or earlier at our option), we and the counterparties will settle the swap agreements at their fair value in cash based on the aggregate notional amount and the then-applicable currency exchange rate compared to the exchange rate at the time the swap agreements were entered into.

We have designated these cross currency swaps as qualifying hedging instruments and are accounting for them as a net investment hedge. At June 30, 2019, the fair values of the Original Swap and the Additional Swap were a \$8.4 million asset and a \$4.7 million liability, respectively, and were recorded within other assets and other liabilities on the Consolidated Balance Sheet. The gains and losses resulting from fair value adjustments to the cross currency swap agreements, excluding interest accruals related to the above receipts, are recorded in accumulated other comprehensive loss within our cumulative foreign currency translation adjustment, as the swaps are effective in hedging the designated risk. Cash flows related to the cross currency swaps are included in operating activities in the Consolidated Statements of Cash Flows, aside from the ultimate settlement at maturity with the counterparties, which will be included in investing activities.

14. Fair Value Measurements

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

	Fair Value Measurements as of	
	June 30, 2019	December 31, 2018
	(in millions)	
<u>Assets</u>		
Time deposits	\$ 18.0	\$ 33.4
Foreign currency derivatives	8.4	4.5
Deferred compensation assets	9.8	8.6
	<u>\$ 36.2</u>	<u>\$ 46.5</u>
<u>Liabilities</u>		
Deferred compensation liabilities	\$ 10.1	\$ 8.9
Foreign currency derivatives	4.7	—
	<u>\$ 14.8</u>	<u>\$ 8.9</u>

Our time deposits and deferred compensation assets and liabilities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. Our foreign currency derivatives are classified as Level 2 as their value is calculated based upon observable inputs including market USD/Euro exchange rates and market interest rates.

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

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Long-term debt	\$ 428.2	\$ 441.0	\$ 464.9	\$ 462.1

The fair values for long-term debt are based on quoted market prices for identical liabilities, but these are considered Level 2 computations because the market is not active.

15. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component (after tax) for the quarter ended June 30, 2019 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Total
Beginning balance	\$ (4.8)	\$ (45.4)	\$ (50.2)
Other comprehensive loss before reclassifications	(4.0)	—	(4.0)
Amounts reclassified from accumulated other comprehensive loss	—	1.4	1.4
Net current-period other comprehensive income (loss)	(4.0)	1.4	(2.6)
Ending balance	<u>\$ (8.8)</u>	<u>\$ (44.0)</u>	<u>\$ (52.8)</u>

Changes in accumulated other comprehensive loss by component (after tax) for the quarter ended June 30, 2018 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Total
Beginning balance	\$ 2.0	\$ (40.6)	\$ (38.6)
Other comprehensive loss before reclassifications	(11.0)	—	(11.0)
Amounts reclassified from accumulated other comprehensive loss	—	1.1	1.1
Net current-period other comprehensive income (loss)	(11.0)	1.1	(9.9)
Ending balance	<u>\$ (9.0)</u>	<u>\$ (39.5)</u>	<u>\$ (48.5)</u>

Changes in accumulated other comprehensive loss by component (after tax) for the six months ended June 30, 2019 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Total
Beginning balance	\$ (10.6)	\$ (34.9)	\$ (45.5)
Adoption of new accounting standard	—	(11.5)	(11.5)
Adjusted beginning balance	(10.6)	(46.4)	(57.0)
Other comprehensive income before reclassifications	1.8	—	1.8
Amounts reclassified from accumulated other comprehensive loss	—	2.4	2.4
Net current-period other comprehensive income	1.8	2.4	4.2
Ending balance	<u>\$ (8.8)</u>	<u>\$ (44.0)</u>	<u>\$ (52.8)</u>

Changes in accumulated other comprehensive loss by component (after tax) for the six months ended June 30, 2018 are as follows:

(in millions)	Unrealized Translation Adjustments	Pension and Other Postretirement Plans	Total
Beginning balance	\$ (6.8)	\$ (41.6)	\$ (48.4)
Other comprehensive loss before reclassifications	(2.2)	—	(2.2)
Amounts reclassified from accumulated other comprehensive loss	—	2.1	2.1
Net current-period other comprehensive income (loss)	(2.2)	2.1	(0.1)
Ending balance	<u>\$ (9.0)</u>	<u>\$ (39.5)</u>	<u>\$ (48.5)</u>

Reclassifications out of accumulated other comprehensive loss for the quarters and six months ended June 30, 2019 and 2018 are as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss				Affected Statement of Operations Caption
	Quarters Ended June 30,		Six Months Ended June 30,		
	2019	2018	2019	2018	
(in millions)					
Pension and other postretirement plans adjustments:					
Actuarial losses	\$ 1.7	\$ 1.5	\$ 3.3	\$ 2.9	(1)
Prior service costs	0.1	0.1	0.1	0.1	(1)
Total before tax	\$ 1.8	\$ 1.6	\$ 3.4	\$ 3.0	Income before income taxes
Tax benefit	(0.4)	(0.5)	(1.0)	(0.9)	Income tax expense
Net of tax	\$ 1.4	\$ 1.1	\$ 2.4	\$ 2.1	Net income

- (1) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. As these are components of net periodic pension cost other than service cost, the affected Statement of Operations caption is other (non-operating) expense (See Note 10, "Pensions and Postretirement Benefits" for additional details).

16. Commitments and Contingencies

General

A detailed description of environmental 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 19 sites. At 15 of these sites, the future cost per site for us or our subsidiary is expected to exceed \$100,000. Of these 19 sites, 15 are sites where we or one or more of our subsidiaries formerly conducted business operations but no longer do, and 4 are sites where we conduct manufacturing operations. Investigations have been completed for 16 sites and are in progress at the other 3 sites. Our costs at 14 of the 19 sites relate to remediation projects for soil and/or groundwater contamination at or near 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 the remediation of similar 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 June 30, 2019 and December 31, 2018, we had accrued liabilities aggregating \$28.5 million and \$31.1 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 fully or partially 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.

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 19 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 a predecessor of our EnPro Holdings, Inc. subsidiary (which, including its corporate predecessors is referred to as “EnPro Holdings”) when it sold a majority interest in Crucible Materials Corporation (the successor of Crucible) in 1985. The United States Environmental Protection Agency (the “EPA”) notified our subsidiary in September 2003 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. EnPro Holdings 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. In September 2018, EnPro Holdings withdrew from the Cooperating Parties Group but remains a party to the May 2007 Administrative Order on Consent. The RI/FS was completed and submitted to the EPA at the end of April 2015. The RI/FS recommends a targeted dredge and cap remedy with monitored natural recovery and adaptive management for the Lower Passaic River Study Area. The cost of such remedy is estimated to be \$726 million. Previously, 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 \$1.73 billion, although estimates of the costs and the timing of costs are inherently imprecise. On March 3, 2016, the EPA issued the final Record of Decision (ROD) as to the remedy for the lower eight miles of the Lower Passaic River Study Area, with the maximum estimated cost being reduced by the EPA from \$1.73 billion to \$1.38 billion, primarily due to a reduction in the amount of cubic yards of material that will be dredged. In October 2016, Occidental Chemical Corporation, the successor to the entity that operated the Diamond Alkali chemical manufacturing facility, reached an agreement with the EPA to develop the design for this proposed remedy at an estimated cost of \$165 million. The EPA has estimated that it will take approximately four years to develop this design.

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. In September 2017, EPA hired a third-party allocator to develop an allocation of costs among a large number of the parties identified by EPA as having potential responsibility, including the Company. On June 30, 2018, Occidental Chemical Corporation sued over 120 parties, including the Company, in the United States District Court for New Jersey seeking recovery of response costs under the Federal Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”). In a proposed pre-trial order, Occidental Chemical Corporation has proposed that any alternative dispute resolution process, including mediation, shall begin no later than September 16, 2019.

Based on our evaluation of the site, during 2014 we accrued a liability of \$3.5 million related to environmental remediation costs associated with the lower eight miles of the Lower Passaic River Study Area, which is our estimate of the low end of a range of reasonably possible costs, with no estimate within the range being a better estimate than the minimum. Since 2016, we incurred \$0.6 million in costs related to this matter. Our future remediation costs could be significantly greater than the \$2.9 million remaining accrual at June 30, 2019. With respect to the upper nine miles of the Lower Passaic River Study Area, we are unable to estimate a range of reasonably possible costs.

Another such matter involves the Onondaga Lake Superfund Site (the “Onondaga Site”) located near Syracuse, New York, which is also included in the 19 sites referred to above. Crucible operated a steel mill facility adjacent to Onondaga Lake from 1911 to 1983. The New York State Department of Environmental Conservation (“NYSDEC”) has contacted us and EnPro Holdings, as well as other parties, demanding reimbursement of unquantified environmental response costs incurred by NYSDEC and the EPA at the Onondaga Site. NYSDEC and EPA have alleged that contamination from the Crucible facility contributed to the need for environmental response actions at the Onondaga Site. We have also received notice from the Natural Resource Trustees for the Onondaga Lake Superfund Site (which are the U.S. Department of Interior, NYSDEC, and the Onondaga Nation) alleging that EnPro Holdings is considered to be a potentially responsible party for natural resource damages at the Onondaga Site. In addition, Honeywell International Inc. (“Honeywell”), which has undertaken certain remediation activities at the Onondaga Site under the supervision of NYSDEC and the EPA, has informed us that it has claims against EnPro Holdings related to investigation and remediation at the Onondaga Site. We have entered into tolling agreements with NYSDEC, the EPA and Honeywell. On May 4, 2016, we received from Honeywell a summary of its claims, including a portion of its costs for the remediation of the Onondaga Site in accordance with its settlement with NYSDEC and EPA. Based on limited information available with respect to estimated remediation costs and the respective allocation of responsibility for remediation among potentially responsible parties, we previously were unable to estimate a reasonably possible range of loss associated with Crucible’s activities that may have affected the Onondaga Site. During 2016, we reserved \$1.5 million for reimbursement of EPA response costs and certain estimated costs associated with the remedial investigation.

We have engaged and are continuing to engage in discussions with Honeywell with respect to these issues and possible resolution of Honeywell's claim. If the claim were to be litigated, a court would consider a number of factors in allocating investigation and remediation costs, including, among others, each party's level of culpability, the amount and relative toxicity of each party's waste, each party's involvement and degree of care exercised with regard to the generation, transportation, treatment, storage or disposal of the waste, the contribution of each party's waste to the method of remediation, and the degree of cooperation by each party with government officials to prevent any harm to public health or the environment. A court has broad discretion in how these factors are applied. In light of information made available during the course of those discussions and our continued evaluation of this matter, we determined that we had sufficient information as of the end of the fourth quarter of 2018 to estimate the low end of a reasonably possible range of loss associated with this matter, although we continued to be unable to estimate the upper end of such a range. Accordingly, for the fourth quarter of 2018, we increased our reserve for this matter by \$5.0 million, to reflect an aggregate reserve of \$6.5 million, which is our estimate of the low end of the reasonably possible range of loss. In light of the discretionary allocation factors and other uncertainties described above, the costs to resolve this matter may significantly exceed the amount of this reserve.

Except with respect to specific Crucible environmental matters for which we have accrued a portion of the liability set forth above, including the Lower Passaic River Study Area and the Onondaga site, 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.

In addition to the Crucible environmental matters discussed above, EnPro Holdings received a notice from the EPA dated February 19, 2014 asserting that EnPro Holdings is a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") as the successor to a former operator in 1954 and 1955 of two uranium mines in Arizona. On October 15, 2015, EnPro Holdings received another notice from the EPA asserting that it is a potentially responsible party as the successor to the former operator of six additional uranium mines in Arizona. In 2015, we reserved \$1.1 million for the minimum amount of probable loss associated with the first two mines identified by the EPA, including the cost of the investigative work to be conducted at such mines. During 2016, we reserved an additional \$1.1 million for the minimum amount of probable loss associated with the six additional mines, which includes estimated costs of investigative work to be conducted at the eight mines. We entered into an Administrative Settlement Agreement and Order on Consent for Interim Removal Action with the EPA effective November 7, 2017 for the performance of this work. In the third quarter of 2017, we increased the reserve by \$1.9 million to perform investigations required by the Settlement Agreement to determine the nature and extent of contamination at each site with the investigations anticipated to be completed by the end of 2020. In the fourth quarter of 2018, we increased the reserve by \$1.0 million for the estimated reimbursement of the EPA's costs to oversee these investigations. The balance in the reserve as of June 30, 2019 is \$2.4 million. We cannot at this time estimate a reasonably possible range of loss associated with remediation or other incremental costs related to these mines.

In connection with the former operation of a division of EnPro Holdings located in Water Valley, Mississippi, which was divested to BorgWarner, Inc. ("BorgWarner") in 1996, EnPro Holdings has been managing trichloroethylene soil and groundwater contamination at the site. In February 2016, the Mississippi Department of Environmental Quality (MDEQ) issued an order against EnPro Holdings requiring evaluation of potential vapor intrusion into residential properties and commercial facilities located over the groundwater plume as well as requiring additional groundwater investigation and remediation. MDEQ performed the initial vapor intrusion investigations at certain residential and commercial sites, with the findings all being below the applicable screening level. In April 2016, the parties entered into a new order including negotiated time frames for groundwater remediation. Pursuant to that order, MDEQ performed a second round of vapor intrusion sampling beginning in August 2016. Results from sampling outside of three residences were above screening levels. Follow-up sampling directly underneath those residences (either sub-slab or in crawl spaces) were all below applicable screening levels. Two separate sampling events at another residence were also below applicable screening levels. Due to an increasing trend in vapor concentrations, MDEQ requested that we develop and implement initial corrective action measures to address vapor intrusion resulting from groundwater contamination in this residential area. These measures were developed and approved by MDEQ. Due to an inability to obtain access to private properties where the corrective action system was to be located, we developed an alternate remedial approach which has been approved by MDEQ. In addition, vapor intrusion sampling at the manufacturing facility owned by BorgWarner was conducted during the first quarter of 2017. The results showed exceedances of screening levels at various areas in the plant and exceedances of levels requiring responsive actions in a limited area of the plant.

Implementation of the immediate responsive actions has been completed and corrective action consisting of a permanent vapor intrusion remediation system became operational in May 2017 with further improvements made to the system in December 2017 and January 2018. Indoor air sampling is conducted at four locations biweekly and have been below levels requiring responsive action at three sampling locations since June 2017 and at all four locations since February 2018. We are also continuing soil and groundwater investigation work in the area inside the plant where the vapor intrusion remediation system is located and around the outside of the plant and implementing corrective action plans for both the contamination

remaining at the plant as well as contamination that has migrated off-site. All of the work to be performed at the residential area, the plant and off-site is set forth in an agreed Order that we and MDEQ entered into on September 11, 2017.

During 2016, we established an additional \$1.3 million reserve with respect to this matter. During the year ended December 31, 2017, we reserved an additional \$5.7 million for further investigation, additional remediation, long-term monitoring costs, and legal fees to support regulatory compliance for the above noted actions. In the fourth quarter of 2018, we reserved an additional \$3.5 million for additional remediation, long-term monitoring costs and legal fees to support regulatory compliance for the above noted activities. The remaining reserve at June 30, 2019 is \$3.4 million. As the corrective actions are implemented and their performance monitored, further modifications to the remediation system at the site may be required which may result in additional costs beyond the current reserve.

On April 7, 2017, the State of Mississippi through its Attorney General filed suit against EnPro Holdings and Goodrich Corporation (EnPro's former corporate parent), in Mississippi Circuit Court in Yalobusha County seeking recovery of all costs and expenses to be incurred by the State in remediating the groundwater contamination, punitive damages and attorney's fees. We are aggressively defending this case. The additional reserve established in the year ended December 31, 2017, noted above, does not include any estimate of contingent loss associated with this lawsuit other than due to remediation and other actions with respect to this site based on existing MDEQ orders described above. On January 31, 2019, some of these property owners (representing ownership of 34 residential or commercial properties), Yalobusha County, and the Board of Trustees of the Yalobusha General Hospital filed suit against EnPro and Goodrich in Mississippi Circuit Court and Yalobusha County seeking recovery for alleged damage to their properties, including diminution in value, from groundwater contamination that has come onto their properties. These cases have been removed to the federal U.S. District Court and plaintiffs' challenge to such removal has been denied by the federal court. In addition, it is our understanding that other area homeowners, owners of commercial facilities and possibly other private parties and individuals may be separately evaluating possible legal action relating to potential vapor intrusion and groundwater contamination.

We cannot estimate a reasonably possible range of loss from these lawsuits or any potential additional legal actions at this time. Based upon limited information regarding any incremental remediation or other actions that may be required at the site, we cannot estimate a minimum loss or a reasonably possible range of loss related to this matter.

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 EnPro Holdings until 1983 when its assets and liabilities were distributed to a new subsidiary, Crucible Materials Corporation. EnPro Holdings 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 and is no longer conducting operations.

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 EnPro Holding's period of ownership of Crucible. Based on EnPro Holding'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. Except with respect to those matters for which we have an accrued liability as discussed in "Environmental" above, we 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, historical experience, and trends result in changes to our estimate.

Changes in the product warranty liability for the six months ended June 30, 2019 and 2018 are as follows:

	2019	2018
	(in millions)	
Balance at beginning of year	\$ 11.7	\$ 5.3
Net charges to expense	2.7	5.8
Settlements made	(3.3)	(2.3)
Balance at end of period	<u>\$ 11.1</u>	<u>\$ 8.8</u>

BorgWarner

A subsidiary of BorgWarner has asserted claims against our subsidiary, GGB France E.U.R.L. (“GGB France”), regarding certain bearings supplied by GGB France to BorgWarner and used by BorgWarner in manufacturing hydraulic control units included in motor vehicle automatic transmission units, mainly that the bearings caused performance problems with and/or damage to the transmission units, leading to associated repairs and replacements. BorgWarner and GGB France participated in a technical review before a panel of experts to determine, among other things, whether there were any defects in such bearings that were a cause of the damages claimed by BorgWarner, including whether GGB France was required to notify BorgWarner of a change in the source of a raw material used in the manufacture of such bearings. This technical review was a required predicate to the commencement of a legal proceeding for damages. The expert panel issued a final report on technical and financial matters on April 6, 2017. In the final report, the expert panel concluded that GGB France had a duty to notify BorgWarner regarding the change of source of raw material used in the bearings, but that the failure of the hydraulic control units was attributable to both the raw material supplier change and the insufficient design of the units by BorgWarner. The expert panel provided detail on a possible allocation of damages alleged to have been incurred by BorgWarner and its customer. Although the language of the report is not clear, the report appears to note a potential allocation of recoverable damages 65% to GGB and 35% to BorgWarner. It also indicates that, though it is for a court to ultimately determine, the aggregate damages to BorgWarner and its customer was in the range of 7.9 million EUR to 10.2 million EUR, with 1.8 million EUR to 2.1 million EUR of this range being for damages to BorgWarner and the remainder being for damages to its customer. The experts noted the lower end of the range as being more likely and noted a lack of sufficient evidence provided substantiating the customer's damages. Applying a 65% liability allocation to GGB to the total aggregate range yields a range of 5.1 million EUR to 6.6 million EUR. In the final report, the expert panel deferred to a court the determination of whether GGB France had breached its contractual obligations to BorgWarner. On October 25, 2017, BorgWarner initiated a legal proceeding against GGB with respect to this matter by filing a writ of claim with the Commercial Court of Brive, France. The parties have begun briefing their legal positions, and we expect court hearings to begin in late 2019.

We continue to believe that GGB France has valid factual and legal defenses to these claims and we are vigorously defending these claims. Among GGB France's legal defenses are a contractual disclaimer of consequential damages, which, if controlling, would limit liability for consequential damages and provide for the replacement of the bearings at issue, at an aggregate replacement value we estimate to be approximately 0.4 million EUR; that the determination of any duty to notify of the change in the source of the raw material is a legal matter to be determined by the presiding court; and the insufficiency of evidence of damage to BorgWarner's customer provided to the expert panel. Based on the final report from the expert panel and GGB France's legal defenses described above, we estimate GGB France's reasonably possible range of loss associated with this matter to be approximately 0.4 million EUR to 6.6 million EUR plus a potential undetermined amount of apportioned proceeding expenses, with no amount within the range being a better estimate than the minimum of the range. Accordingly, GGB France has retained the accrual of 0.4 million EUR associated with this matter, which was established in 2016.

Asbestos Insurance Matters

The historical business operations of certain of our subsidiaries 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 2010, certain of these subsidiaries, including Garlock Sealing Technologies, LLC (“GST”), filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of North Carolina (the “Bankruptcy Court”). An additional subsidiary filed a Chapter 11 bankruptcy petition with the Bankruptcy Court in 2017. The filings were part of a claims resolution process for an efficient and permanent resolution of all pending and future asbestos claims through court approval of a plan of reorganization to establish a facility to resolve and pay these asbestos claims.

These claims against GST and other subsidiaries were resolved pursuant to a joint plan of reorganization (the “Joint Plan”) filed with the Bankruptcy Court which was consummated on July 29, 2017. Under the Joint Plan, GST and EnPro Holdings retained their rights to seek reimbursement under insurance policies for any amounts they have paid in the past to resolve asbestos claims, including contributions made to the asbestos claims resolution trust established under the Joint Plan (the “Trust”). These policies include a number of primary and excess general liability insurance policies that were purchased by EnPro Holdings and were in effect prior to January 1, 1976 (the “Pre-Garlock Coverage Block”). The policies provide coverage for “occurrences” happening during the policy periods and cover losses associated with product liability claims against EnPro Holdings and certain of its subsidiaries. Asbestos claims against GST are not covered under these policies because GST was not a subsidiary of EnPro Holdings prior to 1976. The Joint Plan provides that EnPro Holdings may retain the first \$25 million of any settlements and judgments collected for non-GST asbestos claims related to insurance policies in the Pre-Garlock Coverage Block and EnPro Holdings and the Trust will share equally in any settlements and judgments EnPro Holdings may collect in excess of \$25 million. To date, EnPro Holdings has collected almost \$22 million in settlements for non-GST asbestos claims from the Pre-Garlock Coverage Block and anticipates further collections once the Trust begins making claims payments.

As of June 30, 2019, approximately \$11.3 million of available products hazard limits or insurance receivables existed under primary and excess general liability insurance policies other than the Pre-Garlock Coverage Block (the "Garlock Coverage Block") from solvent carriers with investment grade ratings, which we believe is available to cover GST asbestos claims payments and certain expense payments, including contributions to the Trust. We consider such amount of available insurance coverage under the Garlock Coverage Block 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. The remaining \$11.3 million is available to pending and estimated future claims. There are specific agreements in place with carriers regarding the remaining available coverage. Based on those agreements and the terms of the policies in place and prior decisions concerning coverage, we believe that all of the \$11.3 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. Assuming the insurers pay according to the agreements and policies, we anticipate that the following additional amounts should be collected in the years set out below:

2019 – \$8.8 million

2020 – \$2.5 million

We also believe that EnPro Holdings will bill, and could collect over time, as much as \$10 million of insurance coverage for non-GST asbestos claims to reimburse it for Trust payments to non-GST Trust claimants. After EnPro Holdings collects the first approximately \$3 million of that coverage, remaining collections for non-GST asbestos claims from the Pre-Garlock Coverage Block will be shared equally with the Trust.

GST has received \$8.8 million of insurance recoveries from insolvent carriers since 2007, and may receive additional payments from insolvent carriers in the future. No anticipated insolvent carrier collections are included in the \$11.3 million of anticipated collections. The insurance available to cover current and future asbestos claims is from comprehensive general liability policies that cover EnPro Holdings and certain of its other subsidiaries in addition to GST for periods prior to 1985 and therefore could be subject to potential competing claims of other covered subsidiaries and their assignees.

17. Supplemental Guarantor Financial Information

On October 17, 2018, we completed the offering of the Senior Notes. The Senior Notes are fully and unconditionally guaranteed on an unsecured, unsubordinated, joint and several basis by our existing and future wholly owned direct and indirect domestic subsidiaries, that are each guarantors of our Revolving Credit Facility (collectively, the "Guarantor Subsidiaries"). Our subsidiaries organized outside of the United States, (collectively, the "Non-Guarantor Subsidiaries") do not guarantee the Senior Notes. A Guarantor Subsidiary's guarantee of the Senior Notes is subject to release in certain circumstances, including (i) the sale, disposition, exchange or other transfer (including through merger, consolidation, amalgamation or otherwise) of the capital stock of the subsidiary made in a manner not in violation of the indenture governing the Senior Notes; (ii) the designation of the subsidiary as an "Unrestricted Subsidiary" under the indenture governing the Senior Notes; (iii) the legal defeasance or covenant defeasance of the Senior Notes in accordance with the terms of the indenture; or (iv) the subsidiary ceasing to be our subsidiary as a result of any foreclosure of any pledge or security interest securing our Revolving Credit Facility or other exercise of remedies in respect thereof.

The following tables present condensed consolidating financial information for EnPro Industries, Inc. (the "Parent"), the Guarantor Subsidiaries on a combined basis, the Non-Guarantor Subsidiaries on a combined basis and the eliminations necessary to arrive at our consolidated results. The consolidating financial information reflects our investments in subsidiaries using the equity method of accounting. These tables are not intended to present our results of operations, cash flows or financial condition for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting.

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (UNAUDITED)
Quarter Ended June 30, 2019
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 277.3	\$ 150.3	\$ (40.6)	\$ 387.0
Cost of sales	—	201.9	100.6	(40.6)	261.9
Gross profit	—	75.4	49.7	—	125.1
Operating expenses:					
Selling, general and administrative	11.3	44.6	27.9	—	83.8
Other	0.1	0.3	0.6	—	1.0
Total operating expenses	11.4	44.9	28.5	—	84.8
Operating income (loss)	(11.4)	30.5	21.2	—	40.3
Interest income (expense), net	(3.1)	(1.4)	0.3	—	(4.2)
Other expense	—	(1.2)	—	—	(1.2)
Income (loss) before income taxes	(14.5)	27.9	21.5	—	34.9
Income tax benefit (expense)	2.3	(6.1)	(7.2)	—	(11.0)
Income (loss) before equity in earnings of subsidiaries	(12.2)	21.8	14.3	—	23.9
Equity in earnings of subsidiaries, net of tax	36.1	14.3	—	(50.4)	—
Net income	\$ 23.9	\$ 36.1	\$ 14.3	\$ (50.4)	\$ 23.9
Comprehensive income	\$ 21.3	\$ 37.0	\$ 13.8	\$ (50.8)	\$ 21.3

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (UNAUDITED)
Quarter Ended June 30, 2018
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 274.3	\$ 160.9	\$ (41.6)	\$ 393.6
Cost of sales	—	214.3	105.1	(41.6)	277.8
Gross profit	—	60.0	55.8	—	115.8
Operating expenses:					
Selling, general and administrative	11.3	46.4	31.7	—	89.4
Other	—	4.1	0.2	—	4.3
Total operating expenses	11.3	50.5	31.9	—	93.7
Operating income (loss)	(11.3)	9.5	23.9	—	22.1
Interest expense, net	(5.5)	(1.5)	(0.1)	—	(7.1)
Other expense	—	(1.0)	(0.2)	—	(1.2)
Income (loss) before income taxes	(16.8)	7.0	23.6	—	13.8
Income tax benefit (expense)	1.2	1.7	(6.8)	—	(3.9)
Income (loss) before equity in earnings of subsidiaries	(15.6)	8.7	16.8	—	9.9
Equity in earnings of subsidiaries, net of tax	25.5	16.8	—	(42.3)	—
Net income	\$ 9.9	\$ 25.5	\$ 16.8	\$ (42.3)	\$ 9.9
Comprehensive income (loss)	\$ —	\$ 7.3	\$ (2.5)	\$ (4.8)	\$ —

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (UNAUDITED)
Six Months Ended June 30, 2019
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 533.5	\$ 296.8	\$ (83.0)	\$ 747.3
Cost of sales	—	389.7	202.4	(83.0)	509.1
Gross profit	—	143.8	94.4	—	238.2
Operating expenses:					
Selling, general and administrative	24.2	89.2	58.2	—	171.6
Other	0.4	0.6	1.4	—	2.4
Total operating expenses	24.6	89.8	59.6	—	174.0
Operating income (loss)	(24.6)	54.0	34.8	—	64.2
Interest income (expense), net	(6.4)	(2.9)	0.6	—	(8.7)
Other expense	—	(2.6)	(0.1)	—	(2.7)
Income (loss) before income taxes	(31.0)	48.5	35.3	—	52.8
Income tax benefit (expense)	3.8	(8.4)	(11.2)	—	(15.8)
Income (loss) before equity in earnings of subsidiaries	(27.2)	40.1	24.1	—	37.0
Equity in earnings of subsidiaries, net of tax	64.2	24.1	—	(88.3)	—
Net income	\$ 37.0	\$ 64.2	\$ 24.1	\$ (88.3)	\$ 37.0
Comprehensive income	\$ 41.2	\$ 65.2	\$ 26.7	\$ (91.9)	\$ 41.2

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (UNAUDITED)
Six Months Ended June 30, 2018
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 531.6	\$ 311.8	\$ (81.0)	\$ 762.4
Cost of sales	—	399.8	202.7	(81.0)	521.5
Gross profit	—	131.8	109.1	—	240.9
Operating expenses:					
Selling, general and administrative	23.4	95.6	62.5	—	181.5
Other	0.1	4.7	0.5	—	5.3
Total operating expenses	23.5	100.3	63.0	—	186.8
Operating income (loss)	(23.5)	31.5	46.1	—	54.1
Interest income (expense), net	(12.2)	(3.1)	0.4	—	(14.9)
Other expense	—	(0.4)	(0.2)	—	(0.6)
Income (loss) before income taxes	(35.7)	28.0	46.3	—	38.6
Income tax benefit (expense)	7.6	(10.2)	(13.5)	—	(16.1)
Income (loss) before equity in earnings of subsidiaries	(28.1)	17.8	32.8	—	22.5
Equity in earnings of subsidiaries, net of tax	50.6	32.8	—	(83.4)	—
Net income	\$ 22.5	\$ 50.6	\$ 32.8	\$ (83.4)	\$ 22.5
Comprehensive income	\$ 22.4	\$ 44.5	\$ 24.6	\$ (69.1)	\$ 22.4

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (UNAUDITED)
Six Months Ended June 30, 2019
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
NET CASH PROVIDED BY (USED IN)					
OPERATING ACTIVITIES	\$ 83.8	\$ (5.0)	\$ 17.6	\$ (18.4)	\$ 78.0
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	—	(12.1)	(4.9)	—	(17.0)
Proceeds from sale of property, plant, and equipment	—	0.6	0.4	—	1.0
Other	—	(2.3)	(0.2)	—	(2.5)
Net cash used in investing activities	—	(13.8)	(4.7)	—	(18.5)
FINANCING ACTIVITIES					
Net payments on loans between subsidiaries	(55.2)	52.3	2.9	—	—
Intercompany dividends	—	—	(18.4)	18.4	—
Proceeds from debt	—	217.7	—	—	217.7
Repayments of debt	—	(253.5)	—	—	(253.5)
Repurchase of common stock	(14.6)	—	—	—	(14.6)
Dividends paid	(10.6)	—	—	—	(10.6)
Other	(3.4)	—	—	—	(3.4)
Net cash provided by (used in) financing activities	(83.8)	16.5	(15.5)	18.4	(64.4)
Effect of exchange rate changes on cash and cash equivalents	—	—	(0.4)	—	(0.4)
Net decrease in cash and cash equivalents	—	(2.3)	(3.0)	—	(5.3)
Cash and cash equivalents at beginning of period	—	2.3	127.3	—	129.6
Cash and cash equivalents at end of period	\$ —	\$ —	\$ 124.3	\$ —	\$ 124.3

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (UNAUDITED)
Six Months Ended June 30, 2018
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 64.6	\$ 131.4	\$ 27.6	\$ (114.0)	\$ 109.6
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	—	(22.9)	(5.2)	—	(28.1)
Proceeds from sale of property, plant and equipment	—	25.9	0.4	—	26.3
Other	—	(1.8)	(0.2)	—	(2.0)
Net cash provided by (used in) investing activities	—	1.2	(5.0)	—	(3.8)
FINANCING ACTIVITIES					
Net payments on loans between subsidiaries	0.6	(0.3)	(0.3)	—	—
Intercompany dividends	—	—	(114.0)	114.0	—
Proceeds from debt	—	358.6	—	—	358.6
Repayments of debt	—	(489.7)	—	—	(489.7)
Repurchase of common stock	(49.5)	—	—	—	(49.5)
Dividends paid	(10.3)	—	—	—	(10.3)
Other	(5.4)	(1.2)	—	—	(6.6)
Net cash used in financing activities	(64.6)	(132.6)	(114.3)	114.0	(197.5)
Effect of exchange rate changes on cash and cash equivalents	—	—	(4.2)	—	(4.2)
Net decrease in cash and cash equivalents	—	—	(95.9)	—	(95.9)
Cash and cash equivalents at beginning of period	—	—	189.3	—	189.3
Cash and cash equivalents at end of period	\$ —	\$ —	\$ 93.4	\$ —	\$ 93.4

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING BALANCE SHEETS (UNAUDITED)
As of June 30, 2019
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	\$ —	\$ —	\$ 124.3	\$ —	\$ 124.3
Accounts receivable, net	0.6	193.2	84.3	—	278.1
Intercompany receivables	—	18.0	12.0	(30.0)	—
Inventories	—	174.2	78.1	—	252.3
Income tax receivable	25.9	1.5	9.1	—	36.5
Prepaid expenses and other current assets	5.7	25.1	9.4	—	40.2
Total current assets	<u>32.2</u>	<u>412.0</u>	<u>317.2</u>	<u>(30.0)</u>	<u>731.4</u>
Property, plant and equipment, net	—	203.4	86.2	—	289.6
Goodwill	—	261.7	73.0	—	334.7
Other intangible assets, net	—	232.9	53.0	—	285.9
Intercompany receivables	4.1	2.9	—	(7.0)	—
Investment in subsidiaries	1,233.8	395.1	—	(1,628.9)	—
Other assets	12.8	41.9	29.0	—	83.7
Total assets	<u>\$ 1,282.9</u>	<u>\$ 1,549.9</u>	<u>\$ 558.4</u>	<u>\$ (1,665.9)</u>	<u>\$ 1,725.3</u>
LIABILITIES AND EQUITY					
Current liabilities					
Current maturities of long-term debt	\$ —	\$ 0.3	\$ —	\$ —	\$ 0.3
Accounts payable	1.9	77.7	35.4	—	115.0
Intercompany payables	—	12.0	18.0	(30.0)	—
Accrued expenses	15.2	99.6	59.6	—	174.4
Total current liabilities	<u>17.1</u>	<u>189.6</u>	<u>113.0</u>	<u>(30.0)</u>	<u>289.7</u>
Long-term debt	345.1	82.8	—	—	427.9
Intercompany payables	—	1.3	5.7	(7.0)	—
Other liabilities	44.5	42.4	44.6	—	131.5
Total liabilities	<u>406.7</u>	<u>316.1</u>	<u>163.3</u>	<u>(37.0)</u>	<u>849.1</u>
Shareholders' equity	876.2	1,233.8	395.1	(1,628.9)	876.2
Total liabilities and equity	<u>\$ 1,282.9</u>	<u>\$ 1,549.9</u>	<u>\$ 558.4</u>	<u>\$ (1,665.9)</u>	<u>\$ 1,725.3</u>

ENPRO INDUSTRIES, INC.
CONDENSED CONSOLIDATING BALANCE SHEETS (UNAUDITED)
As of December 31, 2018
(in millions)

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	\$ —	\$ 2.3	\$ 127.3	\$ —	\$ 129.6
Accounts receivable, net	—	210.3	76.3	—	286.6
Intercompany receivables	—	19.0	8.9	(27.9)	—
Inventories	—	155.3	77.8	—	233.1
Income tax receivable	42.9	0.3	6.4	—	49.6
Prepaid expenses and other current assets	4.9	20.3	8.0	—	33.2
Total current assets	<u>47.8</u>	<u>407.5</u>	<u>304.7</u>	<u>(27.9)</u>	<u>732.1</u>
Property, plant and equipment, net	2.2	209.7	89.3	—	301.2
Goodwill	—	261.0	72.7	—	333.7
Other intangible assets, net	—	242.2	55.1	—	297.3
Intercompany receivables	—	53.9	—	(53.9)	—
Investment in subsidiaries	1,246.4	387.7	—	(1,634.1)	—
Other assets	13.6	25.3	12.6	—	51.5
Total assets	<u>\$ 1,310.0</u>	<u>\$ 1,587.3</u>	<u>\$ 534.4</u>	<u>\$ (1,715.9)</u>	<u>\$ 1,715.8</u>
LIABILITIES AND EQUITY					
Current liabilities					
Current maturities of long-term debt	\$ 2.1	\$ 0.3	\$ —	\$ —	\$ 2.4
Accounts payable	2.1	99.0	38.1	—	139.2
Intercompany payables	—	8.9	19.0	(27.9)	—
Accrued expenses	13.9	82.8	53.7	—	150.4
Total current liabilities	<u>18.1</u>	<u>191.0</u>	<u>110.8</u>	<u>(27.9)</u>	<u>292.0</u>
Long-term debt	345.0	117.5	—	—	462.5
Intercompany payables	51.1	—	2.8	(53.9)	—
Other liabilities	38.1	32.4	33.1	—	103.6
Total liabilities	<u>452.3</u>	<u>340.9</u>	<u>146.7</u>	<u>(81.8)</u>	<u>858.1</u>
Shareholders' equity	857.7	1,246.4	387.7	(1,634.1)	857.7
Total liabilities and equity	<u>\$ 1,310.0</u>	<u>\$ 1,587.3</u>	<u>\$ 534.4</u>	<u>\$ (1,715.9)</u>	<u>\$ 1,715.8</u>

18. Subsequent Events

On July 2, 2019, we acquired The Aseptic Group (comprising Aseptic Process Equipment SAS and Aseptic Services SARL), a privately-held France-based company which distributes, designs, and manufactures aseptic fluid transfer products for the pharmaceutical and biopharmaceutical industries. The Aseptic group will become part of EnPro's Garlock division within the Sealing Products segment. The purchase price allocation is subject to the completion of the valuation of certain assets and liabilities.

On July 19, 2019, we entered into an agreement to acquire the outstanding equity securities of LeanTeq, LLC and LeanTeq Co., Ltd. (collectively "LeanTeq"), a privately-held, Taiwan-based company. LeanTeq provides refurbishment services for critical components and assemblies used in state-of-the-art semiconductor equipment. The equipment is used to produce the latest and most technologically advanced microchips for smartphones, autonomous vehicles, high-speed wireless connectivity (5G), artificial intelligence, and other leading-edge applications. Upon completion of the acquisition, LeanTeq will become part of EnPro's Technetics division within the Sealing Products segment. The transaction is subject to customary closing conditions, including Taiwan investment commission approval and other regulatory approvals, and is expected to close in the fourth quarter of 2019.

The acquisition agreement provides that two LeanTeq equity holders who are managers of LeanTeq (the "LeanTeq Executives") will apply approximately 10% of the total transaction consideration paid in the acquisition to purchase equity interests of our subsidiary (the "Acquisition Subsidiary") acquiring LeanTeq pursuant to an agreement (the "LLC Agreement") to be entered into upon the closing of the LeanTeq acquisition (the "Closing"). Under the LLC Agreement, each of the LeanTeq Executives will also have the right to sell to us, and we will have the right to purchase from each of the LeanTeq Executives, the LeanTeq Executive's equity interests in the Acquisition Subsidiary, following the third anniversary of the Closing, a change-of-control of the Acquisition Subsidiary or EnPro, dissolution of the Acquisition Subsidiary, termination of employment, death or disability of the LeanTeq Executive, and certain other circumstances such as a dispute regarding our performance of the LLC Agreement. The consideration payable in two installments in such purchase and sale arrangements is generally to be based upon a multiple of twelve-month adjusted EBITDA based upon certain financial metrics of the Acquisition Subsidiary, plus cash and less indebtedness of the Acquisition Subsidiary prior to the relevant installment payment, subject to certain adjustments dependent upon the circumstances of the purchase and sale.

The combined purchase price of these two transactions is approximately \$345.0 million. EnPro is financing these two transactions through a combination of funds from cash, an expanded revolving credit facility, a new term loan facility, and the rollover investment from the LeanTeq Executives.

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

The following is management's discussion and analysis of certain significant factors that have affected our financial condition, cash flows and operating results during the periods included in the accompanying unaudited consolidated financial statements and the related notes. You should read this in conjunction with those financial statements and the audited consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2018.

Forward-Looking Information

This quarterly report on Form 10-Q includes statements that reflect projections or expectations of the future financial condition, results of operations and business of EnPro that are subject to risk and uncertainty. We believe those statements to be "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," "likely," and other expressions generally identify forward-looking statements.

We cannot guarantee actual results or events will not differ materially from those projected, estimated, assigned or anticipated in any of the forward-looking statements contained in this report. Important factors that could result in those differences include those specifically noted in the forward-looking statements and those identified in Item 1A, "Risk Factors" of our annual report on Form 10-K for the year ended December 31, 2018, which include:

- general economic conditions in the markets served by our businesses, some of which are cyclical and experience periodic downturns;
- prices and availability of raw materials;

- the impact of fluctuations in currency exchange rates;
- unanticipated delays or problems in introducing new products;
- the incurrence of contractual penalties for the late delivery of long lead-time products;
- announcements by competitors of new products, services or technological innovations;
- timely consummation of announced acquisitions;
- changes in our pricing policies or the pricing policies of our competitors; and
- the amount of any payments required to satisfy contingent liabilities, including those related to discontinued operations of our predecessors, including liabilities for certain products, environmental matters, employee benefit obligations and other matters.

We caution our shareholders not to place undue reliance on these statements, which speak only as of the date on which such statements were made.

Whenever you read or hear any subsequent written or oral forward-looking statements attributed to us or any person acting on our behalf, you should keep in mind the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Overview and Outlook

Overview. We design, develop, manufacture, service and market proprietary engineered industrial products. We have 50 primary manufacturing facilities located in 12 countries, including the United States.

We manage our business as three segments: a Sealing Products segment, an Engineered Products segment, and a Power Systems segment.

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, custom-engineered mechanical seals for applications in the aerospace industry and other markets, PTFE products, and heavy-duty commercial vehicle parts used in the wheel-end, braking, suspension, and tire and mileage optimization systems. These products are used in a variety of industries, including chemical and petrochemical processing, petroleum extraction and refining, pulp and paper processing, power generation, food and pharmaceutical processing, primary metal manufacturing, mining, water and waste treatment, heavy-duty trucking, aerospace, medical, filtration and semiconductor fabrication. In many of these industries, performance and durability are vital for safety and environmental protection. Many of our products are used in highly demanding applications, e.g., where extreme temperatures, extreme pressures, corrosive environments, strict tolerances, and/or worn equipment make product performance difficult.

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. These products are used in a wide range of applications, including the automotive, pharmaceutical, pulp and paper, natural gas, health, power generation, machine tools, air treatment, refining, petrochemical and general industrial markets.

Our Power Systems segment designs, manufactures, sells and services heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines, including parts and services. The United States government and the general markets for marine propulsion, power generation, and pump and compressor applications use these products and services.

In May 2014, our Fairbanks Morse division and a consortium partner entered into a multi-year, Euro-denominated contractual arrangement with Electricite de France (“EDF”) to supply 23 3.5 MWe opposed-piston, diesel engine-generator sets to EDF for emergency backup power at 20 of EDF’s nuclear power plants in France. From the date the contract was signed until the end of the first quarter of 2015, the U.S. Dollar strengthened significantly against the Euro, resulting in total U.S. Dollar equivalent revenues, calculated at the exchange rate in effect at the end of the first quarter of 2015, falling below total projected U.S. Dollar costs for the EDF contract, and for the first quarter of 2015 we recorded a loss provision on the contract as a result of the effect of foreign exchange rates. This evaluation was based upon the 2015 first-quarter-end U.S. Dollar to Euro exchange rate of \$1.10 compared to an exchange rate of \$1.36 when the contract was signed. We have not entered into

any transactions to hedge the impact of future foreign exchange rate changes on this contract. The evaluation of the impact of exchange rates on the contract is updated on a quarterly basis for the duration of the contract, with the amount of any change in a quarter in the impact of exchange rates on the loss provision affecting segment profit of the Power Systems segment for the quarter by the amount of such change.

For the six months ended June 30, 2019, we recognized a \$1.1 million increase to the loss provision. We experienced \$0.7 million of unfavorability related to the weakening of the Euro versus the U.S. Dollar during the period, a \$0.9 million increase in projected total project costs, partially offset by \$0.5 million increase in total contract revenues resulting from a favorable adjustment to future billing amounts as a result of a contractual cost indices adjustment. For the six months ended June 30, 2018, we recognized no change to the loss provision. During this period, we experienced \$1.8 million of unfavorability related to the weakening of the Euro versus the U.S. Dollar offset by a \$1.8 million increase in total contract revenues resulting from a favorable adjustment to future billing amounts as a result of a contractual cost indices adjustment. At June 30, 2019 and December 31, 2018, the cumulative program loss recognized was \$17.9 million and \$16.8 million, respectively.

As of June 30, 2019, Fairbanks Morse had completed the model unit and delivered 14 of the remaining 22 engine-generator sets under the EDF contract. The contract includes contractual penalties for late delivery and our profitability under the contract could be further adversely affected to the extent any penalties apply to any late deliveries. In addition, our profitability could be adversely affected if we do not realize certain anticipated internal efficiency gains while performing under the contract, additional service is required on delivered engine-generator sets for which Fairbanks Morse may not be compensated under the contract, or other claims are made with respect to the contract.

On July 2, 2019, we acquired The Aseptic Group (comprising Aseptic Process Equipment SAS and Aseptic Services SARL), a privately-held company which distributes, designs, and manufactures aseptic fluid transfer products for the pharmaceutical and biopharmaceutical industries. The Aseptic Group will become part of EnPro's Garlock division within the Sealing Products segment.

Headquartered in Limonest, France, The Aseptic Group is a recognized supplier of high purity fluid path components that has been serving some of the world's largest pharmaceutical companies for over 20 years. The Aseptic Group is at the forefront of developing products and capabilities to support the latest manufacturing techniques currently being adopted to produce next generation biopharmaceutical drugs.

On July 19, 2019, we entered into an agreement to acquire the outstanding equity securities of LeanTeq, LLC and LeanTeq Co., Ltd. (collectively "LeanTeq"), a privately-held, Taiwan-based company. LeanTeq provides refurbishment services for critical components and assemblies used in state-of-the-art semiconductor equipment. The equipment is used to produce the latest and most technologically advanced microchips for smartphones, autonomous vehicles, high-speed wireless connectivity (5G), artificial intelligence, and other leading-edge applications. Upon completion of the acquisition, LeanTeq will become part of EnPro's Technetics division within the Sealing Products segment. The transaction is subject to customary closing conditions, including Taiwan investment commission approval and other regulatory approvals, and is expected to close in the fourth quarter of 2019.

LeanTeq was founded in 2011, is headquartered in Taoyuan City, Taiwan, and has two locations in Taiwan and one in the United States (Silicon Valley). LeanTeq partners closely with original equipment manufacturers throughout the development and production lifecycle to achieve Process of Record qualifications, enabling long-term, recurring aftermarket revenue. Aftermarket refurbishment services represent approximately 65% of LeanTeq's total sales. LeanTeq's suite of services includes cleaning, coating, analytical testing, inspection and verification, kit assembly, failure analysis, and other value-added services.

The acquisition agreement provides that two LeanTeq equity holders who are managers of LeanTeq (the "LeanTeq Executives") will apply approximately 10% of the total transaction consideration paid in the acquisition to purchase equity interests of our subsidiary (the "Acquisition Subsidiary") acquiring LeanTeq pursuant to an agreement (the "LLC Agreement") to be entered into upon the closing of the LeanTeq acquisition (the "Closing"). Under the LLC Agreement, each of the LeanTeq Executives will also have the right to sell to us, and we will have the right to purchase from each of the LeanTeq Executives, the LeanTeq Executive's equity interests in the Acquisition Subsidiary, following the third anniversary of the Closing, a change-of-control of the Acquisition Subsidiary or EnPro, dissolution of the Acquisition Subsidiary, termination of employment, death or disability of the LeanTeq Executive, and certain other circumstances such as a dispute regarding our performance of the LLC Agreement. The consideration payable in two installments in such purchase and sale arrangements is generally to be based upon a multiple of twelve-month adjusted EBITDA based upon certain financial metrics of the

Acquisition Subsidiary, plus cash and less indebtedness of the Acquisition Subsidiary prior to the relevant installment payment, subject to certain adjustments dependent upon the circumstances of the purchase and sale.

The combined purchase price of the LeanTeq and The Aseptic Group acquisitions is approximately \$345.0 million. EnPro is financing these two transactions through a combination of funds from cash, a revolving credit facility, an anticipated new term loan facility, and rollover equity from LeanTeq Executives.

Outlook

Our Power Systems segment reported strong results, with both sales and earnings up significantly compared to the first six months of the prior year due to strong demand for military marine engines and aftermarket parts and services. The growth in Power Systems was offset by unexpected weakness within Engineered Products, anticipated market headwinds in the semiconductor capital equipment market, a negative translation impact due to a stronger dollar, and decreased sales in Sealing Products as a result of exiting the gas turbine business in 2018.

The second quarter saw a substantial year-over-year increase in profitability that was primarily the result of strength in aftermarket parts and services in Power Systems, productivity improvements and lower warranty charges in Sealing Products, and cost control measures across the company.

In connection with our growth strategy, we will continue to evaluate making additional acquisitions that meet our strict acquisition criteria; however, the effect of such acquisitions, including the LeanTeq acquisition expected to close in the fourth quarter, cannot be predicted and therefore is not reflected in this outlook.

Results of Operations

	<u>Quarters Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(in millions)			
Sales				
Sealing Products	\$ 239.3	\$ 255.7	\$ 463.8	\$ 487.6
Engineered Products	79.0	85.4	158.5	171.3
Power Systems	69.8	53.7	127.1	105.8
	<u>388.1</u>	<u>394.8</u>	<u>749.4</u>	<u>764.7</u>
Intersegment sales	(1.1)	(1.2)	(2.1)	(2.3)
Net sales	<u>\$ 387.0</u>	<u>\$ 393.6</u>	<u>\$ 747.3</u>	<u>\$ 762.4</u>
Segment Profit				
Sealing Products	\$ 29.4	\$ 19.3	\$ 50.2	\$ 43.0
Engineered Products	10.1	12.1	16.3	26.5
Power Systems	9.0	(0.2)	15.7	3.8
Total segment profit	48.5	31.2	82.2	73.3
Corporate expenses	(7.2)	(8.5)	(16.2)	(17.2)
Interest expense, net	(4.2)	(7.1)	(8.7)	(14.9)
Other expense, net	(2.2)	(1.8)	(4.5)	(2.6)
Income before income taxes	<u>\$ 34.9</u>	<u>\$ 13.8</u>	<u>\$ 52.8</u>	<u>\$ 38.6</u>

Segment profit is total segment sales reduced by operating expenses, restructuring and other expenses 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.

Other expense, net in the table above contains all items included in other (operating) expense and other expense (non-operating) on our Consolidated Statements of Operations for the quarters and six months ended June 30, 2019 and 2018 with the exception of \$1.0 million, \$4.0 million, \$2.3 million, and \$4.4 million, respectively, of restructuring costs. As noted

previously, restructuring costs are considered to be a part of segment profit. Additionally, other expense, net in the table above for the quarters and six months ended June 30, 2019 and 2018 also includes \$1.0 million, \$0.3 million, \$1.7 million and \$1.1 million, respectively, of miscellaneous expenses that are either not associated with a particular segment or not considered part of administering the corporate headquarters. These expenses are included in selling, general and administrative expense on our Consolidated Statements of Operations.

Second Quarter of 2019 Compared to the Second Quarter of 2018

Sales of \$387.0 million in the second quarter of 2019 decreased 1.7% from \$393.6 million in the second quarter of 2018. The following table summarizes the impact of foreign currency on sales by segment:

Sales increase/(decrease)	Percent Change Second Quarter 2019 vs. Second Quarter 2018		
	Foreign Currency	Organic	Total
EnPro Industries, Inc.	(1.5)%	(0.2)%	(1.7)%
Sealing Products	(1.0)%	(5.4)%	(6.4)%
Engineered Products	(4.0)%	(3.5)%	(7.5)%
Power Systems	— %	30.0 %	30.0 %

Following is a discussion of operating results for each segment during the second quarter of 2019:

Sealing Products. Sales of \$239.3 million in the second quarter of 2019 reflect a 6.4% decrease compared to the \$255.7 million reported in the same period of 2018. Excluding the unfavorable foreign exchange translation (\$2.6 million), sales were down 5.4% or \$13.8 million. This decline was due primarily to softness in the semiconductor capital equipment and heavy-duty trucking markets as well as the 2018 exit from the industrial gas turbine business, offset by strengthening in aerospace and midstream oil and gas markets.

Segment profit of \$29.4 million in the second quarter of 2019 was an increase of 52.3% from \$19.3 million reported in the same period of 2018. Operating margins for the segment increased from 7.5% in the second quarter of 2018 to 12.3% in the second quarter of 2019. Excluding a year-over-year decrease in restructuring costs (\$3.1 million), a year-over-year increase in acquisition-related costs (\$1.3 million), and unfavorable foreign exchange translation (\$0.4 million), segment profit increased \$8.7 million, or 37.7% compared to the prior year. The increase in segment profit was driven by improved profitability resulting from 2018 restructuring actions taken, including the exit of the industrial gas turbine and the manufacturing brake drum friction businesses (\$4.6 million), reduced warranty charges associated with unusual warranty claims for two products sold by our heavy-duty trucking business incurred in 2018 (\$4.5 million), increased pricing (\$3.1 million), and manufacturing efficiencies (\$2.8 million), partially offset by decrease in sales volume (\$4.8 million) and higher material costs (\$2.3 million).

Engineered Products. Sales in the second quarter of 2019 decreased 7.5% to \$79.0 million from \$85.4 million reported in the same period of 2018. Excluding the impact of unfavorable foreign exchange translation (\$3.4 million), sales were down 3.5% or \$3.0 million primarily due to weakness in automotive and general industrial markets.

Segment profit in the second quarter of 2019 was \$10.1 million compared to \$12.1 million in the same period of 2018, a decrease of \$2.0 million, or 16.5%. Operating margins for the segment were 12.8%, which was down from 14.2% in the second quarter of 2018. Excluding the impact of unfavorable foreign exchange translation (\$0.6 million), acquisition expenses (\$0.2 million), and increased restructuring costs of (\$0.2 million), segment profit decreased \$1.1 million, or 9.0%, driven mainly by lower sales volume (\$1.9 million) partially offset by a more favorable product mix (\$0.7 million).

Power Systems. Sales of \$69.8 million in the second quarter of 2019 increased \$16.1 million, or 30.0%, from \$53.7 million in the same period of 2018. The increase was driven by strong military marine engine and aftermarket parts and services sales, partially offset by lower sales to the power generation market.

The segment reported a profit of \$9.0 million in the second quarter of 2019 compared to a loss of \$0.2 million in the second quarter of 2018. Operating margins for the segment were 12.9% in the second quarter of 2019 compared to (0.4)% in the second quarter of 2018. Excluding the year-over-year favorable impact of foreign exchange on the EDF contract (\$3.7 million), and the year-over-year reduction in restructuring charges (\$0.2 million), segment profit increased \$5.3 million, or 150.7%. This was mainly driven by a change in product mix, with higher aftermarket parts and services revenue having a positive impact on margins (\$6.1 million).

Corporate expenses for the second quarter of 2019 decreased \$1.3 million as compared to the same period in 2018. The decrease was driven primarily by reduced personnel expenses and research and development costs, in part due to timing of spend within in 2019 compared to 2018 (\$1.1 million), overall reduced medical costs (\$0.6 million), and reduced foreign withholding taxes and franchise taxes (\$0.2 million), partially offset by increased incentive compensation costs (\$0.7 million).

Interest expense, net in the second quarter of 2019 decreased by \$2.9 million as compared to the same period of 2018, primarily due to a decrease in average outstanding debt, a lower average interest rate on outstanding debt in the current quarter in comparison to prior year, and to higher interest credits in the current year associated with our cross currency swap agreements.

Other expense, net in the second quarter of 2019 increased by \$0.4 million as compared to the same period of 2018, due mainly to a \$1.5 million increase in pension (non-service) costs, partially offset by a \$1.4 million decrease in environmental reserve costs and other costs from previously disposed businesses.

The effective tax rates for the second quarter ended June 30, 2019 and 2018 were 31.4% and 28.6%, respectively. These effective tax rates reflect the impact of the reduction in the U.S. federal statutory income tax rate to 21.0%, which became effective January 1, 2018, partially offset by the minimum tax on certain non-U.S. earnings, and higher tax rates in most foreign jurisdictions.

Net income was \$23.9 million, or \$1.15 per share, in the second quarter of 2019 compared to net income of \$9.9 million, or \$0.47 per share, in the same period of 2018. Earnings per share is expressed on a diluted basis.

Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018

Sales of \$747.3 million in the first six months of 2019 decreased 2.0% from \$762.4 million in the first six months of 2018. The following table summarizes the impact of foreign currency on sales by segment:

Sales increase/(decrease)	Percent Change Six Months Ended June 30, 2019 vs. Six Months Ended June 30, 2018		
	Foreign Currency	Organic	Total
EnPro Industries, Inc.	(1.8)%	(0.2)%	(2.0)%
Sealing Products	(1.2)%	(3.7)%	(4.9)%
Engineered Products	(4.4)%	(3.1)%	(7.5)%
Power Systems	(0.1)%	20.2 %	20.1 %

Following is a discussion of operating results for each segment during the first six months of 2019:

Sealing Products. Sales of \$463.8 million in the first six months of 2019 reflect a 4.9% decrease compared to the \$487.6 million reported in the same period of 2018. Excluding the unfavorable foreign exchange translation (\$5.8 million), sales were down 3.7% or \$17.9 million. This decline was due primarily to softness in the semiconductor capital equipment and heavy-duty trucking markets as well as the 2018 exit from the industrial gas turbine business, offset by strengthening in aerospace and midstream oil and gas markets.

Segment profit of \$50.2 million in the first six months of 2019 increased 16.7% from \$43.0 million reported in the same period of 2018. Operating margins for the segment increased from 8.8% in the first six months of 2018 to 10.8% in the first six months of 2019. Excluding a year-over-year decrease in restructuring costs (\$2.3 million), a year-over-year increase in acquisition-related costs (\$1.5 million), and unfavorable foreign exchange translation (\$0.8 million), segment profit increased \$7.1 million, or 15.2% compared to the prior year. The increase in segment profit was driven by savings and improved profitability resulting from 2018 restructuring actions taken, including the exit of the industrial gas turbine and the manufacturing brake drum friction businesses (\$6.4 million), reduced warranty charges associated with unusual warranty claims for two products sold by our heavy-duty trucking business incurred in 2018 (\$5.1 million), increased pricing (\$5.2 million), and manufacturing efficiencies (\$2.8 million), partially offset by a decrease in sales volume (\$7.9 million) and higher material costs (\$4.5 million).

Engineered Products. Sales in the first six months of 2019 decreased 7.5% to \$158.5 million from \$171.3 million reported in the same period of 2018. Excluding the impact of unfavorable foreign exchange translation (\$7.6 million), sales were down 3.1% or \$5.2 million primarily due to weakness in automotive and general industrial markets.

Segment profit in the first six months of 2019 was \$16.3 million compared to \$26.5 million in the same period of 2018, a decrease of \$10.2 million, or 38.5%. Operating margins for the segment were 10.3%, which was down from 15.5% in the first six months of 2018. Excluding the impact of unfavorable foreign exchange translation (\$1.2 million), increased acquisition expenses (\$0.5 million), and increased restructuring charges (\$0.1 million) segment profit decreased \$8.4 million, or 31.1%, driven mainly by increased manufacturing costs (\$3.2 million), decreased sales volume (\$2.8 million), increased marketing and selling costs (\$0.9 million), and increased spending on research and development (\$0.8 million).

Power Systems. Sales of \$127.1 million in the first six months of 2019 increased \$21.3 million, or 20.1%, from \$105.8 million in the same period of 2018. Excluding the impact of unfavorable foreign exchange translation (\$0.1 million), segment profit increased by \$21.4 million, or 20.2%. The increase was driven by strong military marine engine and aftermarket parts and services sales, partially offset by lower sales to the power generation market.

The segment reported a profit of \$15.7 million in the first six months of 2019 compared to \$3.8 million in the first six months of 2018, an increase of 313.2%. Operating margins for the segment were 12.4% in the first six months of 2019 compared to 3.6% in the first six months of 2018. Excluding the year-over-year favorable impact of foreign exchange on the EDF contract (\$1.1 million) and a reduction in restructuring charges (\$0.2 million), segment profit increased \$10.6 million, or 180.3%. This was mainly driven by a change in product mix, with higher aftermarket parts and services revenue having a positive impact on margins (\$11.6 million).

Corporate expenses for the first six months of 2019 decreased \$1.0 million as compared to the same period in 2018. The decrease was driven primarily by overall decreased medical costs (\$1.2 million), decreased research and development costs (\$0.7 million), decreased consulting fees (\$0.5 million), and reduced foreign withholding taxes and franchise taxes (\$0.4 million), partially offset by the 2018 reversal of a portion of share based compensation costs recognized in prior years due to the decline in our share price (\$1.1 million), and current year restructuring costs (\$0.4 million).

Interest expense, net in the first six months of 2019 decreased by \$6.2 million as compared to the same period of 2018, primarily due to a decrease in outstanding debt and to higher interest credits in the current year associated with our cross currency swap agreements.

Other expense, net in the first six months of 2019 increased by \$1.9 million as compared to the same period of 2018, due mainly to a \$2.6 million increase in pension (non-service) costs. These increases were partially offset by a \$0.5 million decrease in environmental reserve costs and other costs from previously disposed of businesses.

The effective tax rates for the six months ended June 30, 2019 and 2018 were 29.8% and 41.8%, respectively. The effective tax rates for the six months ended June 30, 2019 and 2018 reflect the impact of the reduction in the U.S. federal statutory income tax rate to 21.0%, which became effective January 1, 2018, partially offset by the minimum tax on certain non-U.S. earnings, and higher tax rates in most foreign jurisdictions. The effective tax rate for the six months ended June 30, 2018 was also impacted by a \$5.4 million discrete tax charge to prior benefits recognized for domestic production activities as a result of interpretive guidance issued by the IRS.

Net income was \$37.0 million, or \$1.78 per share, in the first six months of 2019 compared to net income of \$22.5 million, or \$1.05 per share, in the same period of 2018. Earnings per share is expressed on a diluted basis.

Liquidity and Capital Resources

Cash requirements for, but not limited to, working capital, capital expenditures, acquisitions, and debt repayments have been funded from cash balances on hand, revolver borrowings and cash generated from operations. We are proactively pursuing acquisition opportunities. It is possible our cash requirements for one or more acquisition opportunities could exceed our cash balance at the time of closing. Should we need additional capital, we have resources available, which are discussed in this section under the heading "Capital Resources."

As of June 30, 2019, we held all of our \$124.3 million of cash and cash equivalents outside of the United States. If the funds held outside the United States were needed for our operations in the U.S., we have several methods to repatriate without significant tax effects, including repayment of intercompany loans or distributions of previously taxed income. In addition, as of June 30, 2019, we had a net current income tax receivable totaling \$24.6 million.

Because of the transition tax and GILTI provisions, undistributed earnings of our foreign subsidiaries totaling \$242.2 million at June 30, 2019 have been subjected to U.S. income tax. Whether through the application of the 100 percent dividends-received deduction provided in the Tax Act, or the distribution of these previously-taxed earnings, we do not intend to distribute foreign earnings that will be subject to any significant incremental U.S. or foreign tax.

We are financing the acquisitions of LeanTeq and The Aseptic Group through a combination of funds from cash, an expanded revolving credit facility, a new term loan facility, and the rollover investment from the LeanTeq Executives.

Cash Flows

Operating activities provided \$78.0 million and \$109.6 million of cash in the first six months of 2019 and 2018, respectively. The decrease was due primarily to less net income tax refunds and less asbestos insurance receipts in 2019, partially offset by higher net income, improved working capital in our Power Systems segment, and less pension payments.

Investing activities used \$18.5 million and \$3.8 million of cash during the first six months of 2019 and 2018, respectively. The increase in cash usage was driven by \$26.3 million received in 2018 for the sale of fixed assets, primarily from sale of land and building at Oxford, Massachusetts as we exited our industrial gas turbine business of our Technetics division in the Sealing Products segment, partially offset by lower capital expenditures in 2019 (\$11.1 million).

Financing activities used \$64.4 million in cash in the first six months of 2019, primarily from \$14.6 million in cash used to repurchase shares, \$10.6 million in dividends paid, and \$34.6 million in net repayments on our revolving credit facility. Financing activities in the first six months of 2018 used cash of \$197.5 million, primarily from \$49.5 million in cash used to repurchase shares, \$10.3 million in dividends paid, and \$131.1 million in net repayments on our revolving credit facility. Funding for this activity was mainly derived from tax refunds and repatriation of previously taxed earnings from our foreign subsidiaries.

Capital Resources

Senior Secured Revolving Credit Facility. On June 28, 2018, we entered into a Second Amended and Restated Credit Agreement (the “Amended Credit Agreement”) among EnPro Industries, Inc. and EnPro Holdings, Inc., a wholly owned subsidiary of the Company, as borrowers, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer. The Amended Credit Agreement provides for a five-year, senior secured revolving credit facility of \$350.0 million (the “Revolving Credit Facility”). The Amended Credit Agreement also provides that the borrowers may seek incremental term loans and/or additional revolving credit commitments in an amount equal to the greater of \$225.0 million and 100% of consolidated EBITDA (as defined) for the most recently ended four-quarter period for which we have reported financial results, plus additional amounts based on a consolidated senior secured leverage ratio.

Borrowing availability under the Revolving Credit Facility 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 net leverage ratio. In addition, a commitment fee of 0.20% accrues with respect to the unused amount of the Revolving Credit Facility.

The Company and EnPro Holdings, Inc. are the permitted borrowers under the Revolving Credit Facility. We have the ability to add foreign subsidiaries as borrowers under the Revolving Credit Facility for up to \$100.0 million (or its foreign currency equivalent) in aggregate borrowings, subject to certain conditions. Each of our domestic, consolidated subsidiaries are required to guarantee the obligations of the borrowers under the Revolving Credit Facility, and each of our existing domestic, consolidated subsidiaries has entered into the Amended Credit Agreement to provide such a guarantee.

Borrowings under the Revolving Credit Facility are secured by a first priority pledge of the following assets:

- 100% of the capital stock of each domestic, consolidated subsidiary of the Company;
- 65% of the capital stock of any first tier foreign subsidiary of the Company and its domestic, consolidated subsidiaries; and
- substantially all of the assets (including, without limitation, machinery and equipment, inventory and other goods, accounts receivable, certain owned real estate and related fixtures, bank accounts, general intangibles, financial assets, investment property, license rights, patents, trademarks, trade names, copyrights, chattel paper, insurance proceeds, contract rights, hedge agreements, documents, instruments, indemnification rights, tax refunds and cash) of the Company and its domestic, consolidated subsidiaries

The Amended Credit Agreement contains certain financial covenants and required financial ratios, including:

- a maximum consolidated total net leverage ratio of not more than 4.0 to 1.0 (with total debt, for the purposes of such ratio, to be net of up to \$100 million of unrestricted cash of EnPro Industries, Inc. and its domestic, consolidated subsidiaries), which ratio may be increased at the borrowers' option to not more than 4.25 to 1.0 for the four-quarter period following a significant acquisition; and
- a minimum consolidated interest coverage ratio of at least 2.5 to 1.0.

The Amended Credit Agreement contains affirmative and negative covenants (subject, in each case, to customary exceptions and qualifications), including covenants that limit our ability to, among other things:

- grant liens on our assets;
- incur additional indebtedness (including guarantees and other contingent obligations);
- make certain investments (including loans and advances);
- merge or make other fundamental changes;
- sell or otherwise dispose of property or assets;
- pay dividends and other distributions and prepay certain indebtedness;
- make changes in the nature of our business;
- enter into transactions with our affiliates;
- enter into burdensome contracts; and
- modify or terminate documents related to certain indebtedness.

We were in compliance with all covenants of the Revolving Credit Facility as of June 30, 2019.

The borrowing availability at June 30, 2019 under the Revolving Credit Facility was \$250.4 million, representing the full \$350 million amount of the Revolving Credit Facility less \$17.5 million reserved for outstanding letters of credit and \$82.1 million of outstanding borrowings.

Senior Notes. In October 2018, we completed the offering of \$350.0 million aggregate principal amount of 5.75% Senior Notes due 2026 (the "Senior Notes").

The Senior Notes were issued to investors at 100% of the principal amount thereof. The Senior Notes are unsecured, unsubordinated obligations of EnPro and mature on October 15, 2026. Interest on the Senior Notes accrues at a rate of 5.75% per annum and is payable semi-annually in cash in arrears on April 15 and October 15 of each year, commencing April 15, 2019. 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 October 15, 2021, 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 October 15, 2021 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 October 15, 2021 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 held by such holder 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, paying dividends and repurchasing shares of our common stock, subject in each case to specified exceptions and qualifications set forth in the indenture.

Share Repurchase Program. In October 2018, 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, 2019, we repurchased 0.2 million shares for \$15.0 million. The remaining amount of authorized purchases in the program at June 30, 2019 was \$35.0 million. The program will expire in October 2020.

LeanTeq Financing. To ensure we have the funds to complete the LeanTeq acquisition upon the receipt of appropriate regulatory approvals, we have secured committed financing of \$100.0 million to close the transaction. However, our intent is to

finance the acquisition at closing with a new \$150.0 million term loan and additional borrowings under our Revolving Credit Facility, which will be increased by \$50.0 million to \$400.0 million

Critical Accounting Policies and Estimates

Please refer to our annual report on Form 10-K for the fiscal year ended December 31, 2018, for a discussion of our critical accounting policies and estimates.

Contingencies

General

A detailed description of environmental 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 19 sites. At 15 of these sites, the future cost per site for us or our subsidiary is expected to exceed \$100,000. Of these 19 sites, 15 are sites where we or one or more of our subsidiaries formerly conducted business operations but no longer do, and 4 are sites where we conduct manufacturing operations. Investigations have been completed for 16 sites and are in progress at the other 3 sites. Our costs at 14 of the 19 sites relate to remediation projects for soil and/or groundwater contamination at or near former operating facilities that were sold or closed.

As of June 30, 2019 and December 31, 2018, we had accrued liabilities aggregating \$28.5 million and \$31.1 million, respectively, for estimated future expenditures relating to environmental contingencies. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other parties potentially being fully or partially 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. In addition, based on our prior ownership of Crucible, we may have additional contingent liabilities in one or more significant environmental matters, which are included in the 19 sites referred to above. 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 these contingent liabilities. See Note 16 to the Consolidated Financial Statements for additional information regarding our environmental contingencies and see the section titled “Crucible Steel Corporation a/k/a Crucible, Inc.” in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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 19 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 a predecessor of our EnPro Holdings, Inc. subsidiary (which, including its corporate predecessors is referred to as “EnPro Holdings”) when it sold a majority interest in Crucible Materials Corporation (the successor of Crucible) in 1985. The United States Environmental Protection Agency (the “EPA”) notified our subsidiary in September 2003 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. EnPro Holdings 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. In September 2018, EnPro Holdings

withdrew from the Cooperating Parties Group but remains a party to the May 2007 Administrative Order on Consent. The RI/FS was completed and submitted to the EPA at the end of April 2015. The RI/FS recommends a targeted dredge and cap remedy with monitored natural recovery and adaptive management for the Lower Passaic River Study Area. The cost of such remedy is estimated to be \$726 million. Previously, 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 \$1.73 billion, although estimates of the costs and the timing of costs are inherently imprecise. On March 3, 2016, the EPA issued the final Record of Decision (ROD) as to the remedy for the lower eight miles of the Lower Passaic River Study Area, with the maximum estimated cost being reduced by the EPA from \$1.73 billion to \$1.38 billion, primarily due to a reduction in the amount of cubic yards of material that will be dredged. In October 2016, Occidental Chemical Corporation, the successor to the entity that operated the Diamond Alkali chemical manufacturing facility, reached an agreement with the EPA to develop the design for this proposed remedy at an estimated cost of \$165 million. The EPA has estimated that it will take approximately four years to develop this design.

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. In September 2017, EPA hired a third-party allocator to develop an allocation of costs among a large number of the parties identified by EPA as having potential responsibility, including the Company. On June 30, 2018, Occidental Chemical Corporation sued over 120 parties, including the Company, in the United States District Court for New Jersey seeking recovery of response costs under the Federal Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”). In a proposed pre-trial order, Occidental Chemical Corporation has proposed that any alternative dispute resolution process, including mediation, shall begin no later than September 16, 2019.

Based on our evaluation of the site, during 2014 we accrued a liability of \$3.5 million related to environmental remediation costs associated with the lower eight miles of the Lower Passaic River Study Area, which is our estimate of the low end of a range of reasonably possible costs, with no estimate within the range being a better estimate than the minimum. Since 2016, we incurred \$0.6 million in costs related to this matter. Our future remediation costs could be significantly greater than the \$2.9 million remaining accrual at June 30, 2019. With respect to the upper nine miles of the Lower Passaic River Study Area, we are unable to estimate a range of reasonably possible costs.

Another such matter involves the Onondaga Lake Superfund Site (the “Onondaga Site”) located near Syracuse, New York, which is also included in the 19 sites referred to above. Crucible operated a steel mill facility adjacent to Onondaga Lake from 1911 to 1983. The New York State Department of Environmental Conservation (“NYSDEC”) has contacted us and EnPro Holdings, as well as other parties, demanding reimbursement of unquantified environmental response costs incurred by NYSDEC and the EPA at the Onondaga Site. NYSDEC and EPA have alleged that contamination from the Crucible facility contributed to the need for environmental response actions at the Onondaga Site. We have also received notice from the Natural Resource Trustees for the Onondaga Lake Superfund Site (which are the U.S. Department of Interior, NYSDEC, and the Onondaga Nation) alleging that EnPro Holdings is considered to be a potentially responsible party for natural resource damages at the Onondaga Site. In addition, Honeywell International Inc. (“Honeywell”), which has undertaken certain remediation activities at the Onondaga Site under the supervision of NYSDEC and the EPA, has informed us that it has claims against EnPro Holdings related to investigation and remediation at the Onondaga Site. We have entered into tolling agreements with NYSDEC, the EPA and Honeywell. On May 4, 2016, we received from Honeywell a summary of its claims, including for a portion of its costs for the remediation of the Onondaga Site in accordance with its settlement with NYSDEC and EPA. Based on limited information available with respect to estimated remediation costs and the respective allocation of responsibility for remediation among potentially responsible parties, we previously were unable to estimate a reasonably possible range of loss associated with Crucible’s activities that may have affected the Onondaga Site. During 2016, we reserved \$1.5 million for reimbursement of EPA response costs and certain estimated costs associated with the remedial investigation.

We have engaged and are continuing to engage in discussions with Honeywell with respect to these issues and possible resolution of Honeywell's claim. If the claim were to be litigated, a court would consider a number of factors in allocating investigation and remediation costs, including, among others, each party’s level of culpability, the amount and relative toxicity of each party’s waste, each party’s involvement and degree of care exercised with regard to the generation, transportation, treatment, storage or disposal of the waste, the contribution of each party’s waste to the method of remediation, and the degree of cooperation by each party with government officials to prevent any harm to public health or the environment. A court has broad discretion in how these factors are applied. In light of information made available during the course of those discussions and our continued evaluation of this matter, we determined that we had sufficient information as of the end of the fourth quarter of 2018 to estimate the low end of a reasonably possible range of loss associated with this matter, although we continued to be unable to estimate the upper end of such a range. Accordingly, for the fourth quarter of 2018, we increased our reserve for this matter by \$5.0 million, to reflect an aggregate reserve of \$6.5 million, which is our estimate of the low end of the reasonably possible range of loss. In light of the discretionary allocation factors and other uncertainties described above, the costs to resolve this matter may significantly exceed the amount of this reserve.

Except with respect to specific Crucible environmental matters for which we have accrued a portion of the liability set forth above, including the Lower Passaic River Study Area and the Onondaga site, 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.

In addition to the Crucible environmental matters discussed above, EnPro Holdings received a notice from the EPA dated February 19, 2014 asserting that EnPro Holdings is a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") as the successor to a former operator in 1954 and 1955 of two uranium mines in Arizona. On October 15, 2015, EnPro Holdings received another notice from the EPA asserting that it is a potentially responsible party as the successor to the former operator of six additional uranium mines in Arizona. In 2015, we reserved \$1.1 million for the minimum amount of probable loss associated with the first two mines identified by the EPA, including the cost of the investigative work to be conducted at such mines. During 2016, we reserved an additional \$1.1 million for the minimum amount of probable loss associated with the six additional mines, which includes estimated costs of investigative work to be conducted at the eight mines. We entered into an Administrative Settlement Agreement and Order on Consent for Interim Removal Action with the EPA effective November 7, 2017 for the performance of this work. In the third quarter of 2017, we increased the reserve by \$1.9 million to perform investigations required by the Settlement Agreement to determine the nature and extent of contamination at each site with the investigations anticipated to be completed by the end of 2020. In the fourth quarter of 2018, we increased the reserve by \$1.0 million for the estimated reimbursement of the EPA's costs to oversee these investigations. The balance in the reserve as of June 30, 2019 is \$2.4 million. We cannot at this time estimate a reasonably possible range of loss associated with remediation or other incremental costs related to these mines.

In connection with the former operation of a division of EnPro Holdings located in Water Valley, Mississippi, which was divested to BorgWarner, Inc. ("BorgWarner") in 1996, EnPro Holdings has been managing trichloroethylene soil and groundwater contamination at the site. In February 2016, the Mississippi Department of Environmental Quality (MDEQ) issued an order against EnPro Holdings requiring evaluation of potential vapor intrusion into residential properties and commercial facilities located over the groundwater plume as well as requiring additional groundwater investigation and remediation. MDEQ performed the initial vapor intrusion investigations at certain residential and commercial sites, with the findings all being below the applicable screening level. In April 2016, the parties entered into a new order including negotiated time frames for groundwater remediation. Pursuant to that order, MDEQ performed a second round of vapor intrusion sampling beginning in August 2016. Results from sampling outside of three residences were above screening levels. Follow-up sampling directly underneath those residences (either sub-slab or in crawl spaces) were all below applicable screening levels. Two separate sampling events at another residence were also below applicable screening levels. Due to an increasing trend in vapor concentrations, MDEQ requested that we develop and implement initial corrective action measures to address vapor intrusion resulting from groundwater contamination in this residential area. These measures were developed and approved by MDEQ. Due to an inability to obtain access to private properties where the corrective action system was to be located, we developed an alternate remedial approach which has been approved by MDEQ. In addition, vapor intrusion sampling at the manufacturing facility owned by BorgWarner was conducted during the first quarter of 2017. The results showed exceedances of screening levels at various areas in the plant and exceedances of levels requiring responsive actions in a limited area of the plant.

Implementation of the immediate responsive actions has been completed and corrective action consisting of a permanent vapor intrusion remediation system became operational in May 2017 with further improvements made to the system in December 2017 and January 2018. Indoor air sampling is conducted at four locations biweekly and have been below levels requiring responsive action at three sampling locations since June 2017 and at all four locations since February 2018. We are also continuing soil and groundwater investigation work in the area inside the plant where the vapor intrusion remediation system is located and around the outside of the plant and implementing corrective action plans for both the contamination remaining at the plant as well as contamination that has migrated off-site. All of the work to be performed at the residential area, the plant and off-site is set forth in an agreed Order that we and MDEQ entered into on September 11, 2017.

During 2016, we established an additional \$1.3 million reserve with respect to this matter. During the year ended December 31, 2017, we reserved an additional \$5.7 million for further investigation, additional remediation, long-term monitoring costs, and legal fees to support regulatory compliance for the above noted actions. In the fourth quarter of 2018, we reserved an additional \$3.5 million for additional remediation, long-term monitoring costs and legal fees to support regulatory compliance for the above noted activities. The remaining reserve at June 30, 2019 is \$3.4 million. As the corrective actions are implemented and their performance monitored, further modifications to the remediation system at the site may be required which may result in additional costs beyond the current reserve.

On April 7, 2017, the State of Mississippi through its Attorney General filed suit against EnPro Holdings and Goodrich Corporation (EnPro's former corporate parent), in Mississippi Circuit Court in Yalobusha County seeking recovery of all costs and expenses to be incurred by the State in remediating the groundwater contamination, punitive damages and attorney's fees. We are aggressively defending this case. The additional reserve established in the year ended December 31, 2017, noted above, does not include any estimate of contingent loss associated with this lawsuit other than due to remediation and other actions with respect to this site based on existing MDEQ orders described above. On January 31, 2019, some of these property owners (representing ownership of 34 residential or commercial properties), Yalobusha County, and the Board of

Trustees of the Yalobusha General Hospital filed suit against EnPro and Goodrich in Mississippi Circuit Court and Yalobusha County seeking recovery for alleged damage to their properties, including diminution in value, from groundwater contamination that has come onto their properties. These cases have been removed to the federal U.S. District Court and plaintiffs' challenge to such removal has been denied by the federal court. In addition, it is our understanding that other area homeowners, owners of commercial facilities and possibly other private parties and individuals may be separately evaluating possible legal action relating to potential vapor intrusion and groundwater contamination.

We cannot estimate a reasonably possible range of loss from these lawsuits or any potential additional legal actions at this time. Based upon limited information regarding any incremental remediation or other actions that may be required at the site, we cannot estimate a minimum loss or a reasonably possible range of loss related to this matter.

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 and is no longer conducting operations. 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, related to Coltec's period of ownership of Crucible. Based on Coltec's prior ownership of Crucible, we may have certain other contingent liabilities, including liabilities in one or more significant environmental matters included in the matters discussed in "Environmental" above. We are investigating these matters. Except with respect to those matters for which we have an accrued liability as discussed in "Environmental" above, we are unable to estimate a reasonably possible range of loss related to these contingent liabilities. See Note 16 to the Consolidated Financial Statements for information about certain liabilities relating to Coltec's ownership of Crucible.

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 six months ended June 30, 2019 and 2018 are as follows:

	2019	2018
	(in millions)	
Balance at beginning of year	\$ 11.7	\$ 5.3
Net charges to expense	2.7	5.8
Settlements made	(3.3)	(2.3)
Balance at end of period	<u>\$ 11.1</u>	<u>\$ 8.8</u>

BorgWarner

A subsidiary of BorgWarner has asserted claims against our subsidiary, GGB France E.U.R.L. ("GGB France"), regarding certain bearings supplied by GGB France to BorgWarner and used by BorgWarner in manufacturing hydraulic control units included in motor vehicle automatic transmission units, mainly that the bearings caused performance problems with and/or damage to the transmission units, leading to associated repairs and replacements. BorgWarner and GGB France participated in a technical review before a panel of experts to determine, among other things, whether there were any defects in such bearings that were a cause of the damages claimed by BorgWarner, including whether GGB France was required to notify BorgWarner of a change in the source of a raw material used in the manufacture of such bearings. This technical review was a required predicate to the commencement of a legal proceeding for damages. The expert panel issued a final report on technical and financial matters on April 6, 2017. In the final report, the expert panel concluded that GGB France had a duty to notify BorgWarner regarding the change of source of raw material used in the bearings, but that the failure of the hydraulic control units was attributable to both the raw material supplier change and the insufficient design of the units by BorgWarner. The expert panel provided detail on a possible allocation of damages alleged to have been incurred by BorgWarner and its customer. Although the language of the report is not clear, the report appears to note a potential allocation of recoverable damages 65% to GGB and 35% to BorgWarner. It also indicates that, though it is for a court to ultimately determine, the aggregate damages to BorgWarner and its customer was in the range of 7.9 million EUR to 10.2 million EUR, with 1.8 million EUR to 2.1 million EUR of this range being for damages to BorgWarner and the remainder being for damages to its customer. The experts noted

the lower end of the range as being more likely and noted a lack of sufficient evidence provided substantiating the customer's damages. Applying a 65% liability allocation to GGB to the total aggregate range yields a range of 5.1 million EUR to 6.6 million EUR. In the final report, the expert panel deferred to a court the determination of whether GGB France had breached its contractual obligations to BorgWarner. On October 25, 2017, BorgWarner initiated a legal proceeding against GGB with respect to this matter by filing a writ of claim with the Commercial Court of Brive, France. The parties have begun briefing their legal positions, and we expect court hearings to begin in late 2019.

We continue to believe that GGB France has valid factual and legal defenses to these claims and we are vigorously defending these claims. Among GGB France's legal defenses are a contractual disclaimer of consequential damages, which, if controlling, would limit liability for consequential damages and provide for the replacement of the bearings at issue, at an aggregate replacement value we estimate to be approximately 0.4 million EUR; that the determination of any duty to notify of the change in the source of the raw material is a legal matter to be determined by the presiding court; and the insufficiency of evidence of damage to BorgWarner's customer provided to the expert panel. Based on the final report from the expert panel and GGB France's legal defenses described above, we estimate GGB France's reasonably possible range of loss associated with this matter to be approximately 0.4 million EUR to 6.6 million EUR plus a potential undetermined amount of apportioned proceeding expenses, with no amount within the range being a better estimate than the minimum of the range. Accordingly, GGB France has retained the accrual of 0.4 million EUR associated with this matter, which was established in 2016.

Asbestos Insurance Matters

The historical business operations of certain of our subsidiaries 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 2010, certain of these subsidiaries, including Garlock Sealing Technologies, LLC ("GST"), filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of North Carolina (the "Bankruptcy Court"). An additional subsidiary filed a Chapter 11 bankruptcy petition with the Bankruptcy Court in 2017. The filings were part of a claims resolution process for an efficient and permanent resolution of all pending and future asbestos claims through court approval of a plan of reorganization to establish a facility to resolve and pay these asbestos claims.

These claims against GST and other subsidiaries were resolved pursuant to a joint plan of reorganization (the "Joint Plan") filed with the Bankruptcy Court which was consummated on July 29, 2017. Under the Joint Plan, GST and EnPro Holdings retained their rights to seek reimbursement under insurance policies for any amounts they have paid in the past to resolve asbestos claims, including contributions made to the asbestos claims resolution trust established under the Joint Plan (the "Trust"). These policies include a number of primary and excess general liability insurance policies that were purchased by EnPro Holdings and were in effect prior to January 1, 1976 (the "Pre-Garlock Coverage Block"). The policies provide coverage for "occurrences" happening during the policy periods and cover losses associated with product liability claims against EnPro Holdings and certain of its subsidiaries. Asbestos claims against GST are not covered under these policies because GST was not a subsidiary of EnPro Holdings prior to 1976. The Joint Plan provides that EnPro Holdings may retain the first \$25 million of any settlements and judgments collected for non-GST asbestos claims related to insurance policies in the Pre-Garlock Coverage Block and EnPro Holdings and the Trust will share equally in any settlements and judgments EnPro Holdings may collect in excess of \$25 million. To date, EnPro Holdings has collected almost \$22 million in settlements for non-GST asbestos claims from the Pre-Garlock Coverage Block and anticipates further collections once the Trust begins making claims payments.

As of June 30, 2019, approximately \$11.3 million of available products hazard limits or insurance receivables existed under primary and excess general liability insurance policies other than the Pre-Garlock Coverage Block (the "Garlock Coverage Block") from solvent carriers with investment grade ratings, which we believe is available to cover GST asbestos claims payments and certain expense payments, including contributions to the Trust. We consider such amount of available insurance coverage under the Garlock Coverage Block 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. The remaining \$11.3 million is available to pending and estimated future claims. There are specific agreements in place with carriers regarding the remaining available coverage. Based on those agreements and the terms of the policies in place and prior decisions concerning coverage, we believe that all of the \$11.3 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. Assuming the insurers pay according to the agreements and policies, we anticipate that the following additional amounts should be collected in the years set out below:

2019 – \$8.8 million
2020 – \$2.5 million

We also believe that EnPro Holdings will bill, and could collect over time, as much as \$10 million of insurance coverage for non-GST asbestos claims to reimburse it for Trust payments to non-GST Trust claimants. After EnPro Holdings

collects the first approximately \$3 million of that coverage, remaining collections for non-GST asbestos claims from the Pre-Garlock Coverage Block will be shared equally with the Trust.

GST has received \$8.8 million of insurance recoveries from insolvent carriers since 2007, and may receive additional payments from insolvent carriers in the future. No anticipated insolvent carrier collections are included in the \$11.3 million of anticipated collections. The insurance available to cover current and future asbestos claims is from comprehensive general liability policies that cover EnPro Holdings and certain of its other subsidiaries in addition to GST for periods prior to 1985 and therefore could be subject to potential competing claims of other covered subsidiaries and their assignees.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in foreign currency exchange rates and interest rates that could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We intend to use derivative financial instruments as risk management tools and not for speculative investment purposes. For information about our interest rate risk, see “Quantitative and Qualitative Disclosures about Market Risk – Interest Rate Risk” in our annual report on Form 10-K for the year ended December 31, 2018.

Foreign Currency Risk

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances of our foreign subsidiaries, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. Our objective is to control our exposure to these risks and limit the volatility in our reported earnings due to foreign currency fluctuations through our normal operating activities and, where appropriate, through foreign currency forward contracts and option contracts. The notional amount of foreign exchange contracts hedging foreign currency transactions was \$3.3 million and \$7.7 million at June 30, 2019 and December 31, 2018, respectively.

In September 2018, we entered into cross currency swap agreements with a notional amount of \$200.0 million to manage foreign currency risk by effectively converting a portion of the interest payments related to our fixed-rate U.S. Dollar (“USD”)-denominated Senior Notes, including the semi-annual interest payments thereunder, to interest payments on fixed-rate Euro-denominated debt of 172.8 million EUR with a weighted average interest rate of 2.8%, with interest payment dates of March 15 and September 15 of each year. The swap agreement matures on September 15, 2022.

In May 2019, we entered into additional cross currency swap agreements with a notional amount of \$100.0 million to manage foreign currency risk by effectively converting a portion of the interest payments related to our fixed-rate USD-denominated Senior Notes, including the semi-annual interest payments thereunder, to interest payments on fixed-rate Euro-denominated debt of 89.6 million EUR with a weighted average interest rate of 3.5% , with interest payment dates of April 15 and October 15 of each year. The swap agreement matures on October 15, 2026.

During the term of the swap agreements, we will receive semi-annual payments from the counterparties due to the difference between the interest rate on the Senior Notes and the interest rate on the Euro debt underlying the swap. There was no principal exchange at the inception of the arrangements, and there will be no exchange at maturity. At maturity (or earlier at our option), we and the counterparties will settle the swap agreements at their fair value in cash based on the aggregate notional amount and the then-applicable currency exchange rate compared to the exchange rate at the time the swap agreements were entered into.

Commodity Risk

We source a wide variety of materials and components from a network of global suppliers. While such materials are typically available from numerous suppliers, commodity raw materials such as steel, engineered plastics, copper and polymers, are subject to price fluctuations (including increases due to new or increased tariffs), which could have a negative impact on our results. We strive to pass along commodity price increases to customers to avoid profit margin erosion and utilize lean initiatives to further mitigate the impact of commodity raw material price fluctuations as we achieve improved efficiencies. We do not hedge commodity risk with any market risk sensitive instruments.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). The purpose of our disclosure controls and procedures is to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, including this report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on the controls evaluation, our chief executive officer and chief financial officer have concluded that due to a material weakness in our internal control over financial reporting described below, our disclosure controls and procedures were not effective as of June 30, 2019.

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement in our annual or interim financial statements will not be prevented or detected on a timely basis.

Subsequent to June 30, 2019, we identified deficiencies that constituted resulted in a material weakness in the Company’s internal control over financial reporting with respect to the design and maintenance of controls over the accounting for income taxes. Specifically, we did not design and maintain effective controls to (1) sufficiently review and validate information received from foreign subsidiaries in their quarterly tax packages, including adjustments made to the packages in consolidation, which are used in the determination of the completeness and accuracy of our consolidated provision for income taxes and (2) sufficiently review the completeness and accuracy of input data used in the calculation of a new annual federal tax which became effective in 2018 under the 2017 Jobs and Tax Act and certain recurring tax credits. These deficiencies led to certain errors related to items affecting the provision for income tax expense and related accounts reported for the year ended December 31, 2018, which had the effect of understating income tax expense for the year by approximately \$5.0 million.

Remediation Plan

As part of our commitment to strengthening our internal control over financial reporting, we are implementing remedial actions under the oversight of the Audit Committee of our Board of Directors to address these deficiencies, including:

- enhancement of the Company’s quarterly tax package to require additional tax package preparer explanations, responses, representations, and formal documentation of local review and approval;
- implementation of additional tax package data validation steps;
- expansion of the Company’s key control regarding the review of quarterly tax packages to provide additional specific actions to be performed by corporate tax personnel in the review process, definition of specific content to be documented as part of the tax package review process and local formal concurrence to all significant corporate adjustments;
- formal confirmation that special taxes and credits are based upon input factors that are reviewed and approved; and
- enhancement of the quarterly review of the Effective Tax Rate (“ETR”) for each significant country and the reasons for any significant deviations from statutory or prior year ETRs by appropriate personnel.

We will continue to monitor the design and effectiveness of these and other processes, procedures and controls and make any further changes management determines appropriate.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting has occurred during the quarter ended June 30, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

A description of environmental and other legal matters is included in [Note 16 to the Consolidated Financial Statements](#) in this report, which is incorporated herein by reference. Those matters are also discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations. In addition to the matters noted and discussed in those sections of this report, 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 that 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.

Item 1A. Risk Factors

We have identified a material weakness in our internal control over financial reporting and there can be no assurance that material weaknesses will not be identified in the future.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. As disclosed in Part I, Item 4, management identified deficiencies in its internal control over financial reporting, and these deficiencies constituted a material weakness in the Company’s internal control over financial reporting. A material weakness (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, management concluded that the Company’s internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in “Internal Control-Integrated Framework (2013 version)” and accordingly that the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) were not effective. This material weakness resulted in a revision to our consolidated financial statements at and for the year ended December 31, 2018, though the errors corrected in such revision were not material, and were related solely to the determination of the provision for income taxes. We are actively engaged in developing and implementing a remediation plan designed to address the deficiencies in our internal control over financial reporting that led to this material weakness. Although we intend to continue to actively monitor and improve our internal control over financial reporting, we cannot assure you that other material weaknesses will not occur in the future. Ineffective internal control over financial reporting could cause investors to lose confidence in our reported financial information, which could have a negative effect on the value of our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth all purchases made by or on behalf of the Company or any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) under the Exchange Act, of shares of our common stock during each month in the second quarter of 2019.

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased</u>	<u>(b) Average Price Paid per Share (or Unit)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs</u>
April 1 – April 30, 2019	58,800	\$70.77	58,800 (1)	43,484,157 (1)
May 1 - May 31, 2019	70,221	\$62.52	70,221 (1)	39,093,940 (1)
June 1 – June 30, 2019	66,391 (1) (2)	\$62.42 (1) (2)	65,609 (1)	35,000,000 (1)
Total	195,412 (1) (2)	\$64.97 (1) (2)	194,630 (1)	35,000,000 (1)

(1) On October 31, 2018, our board of directors authorized the repurchase of up to \$50.0 million of our outstanding common shares, and we announced the share repurchase authorization in a press release issued on October 31, 2018. Pursuant to this authorization, we purchased 58,800 shares at an average purchase price of \$70.77 per share during April 2019,

70,221 shares at an average purchase price of \$62.52 per share during May 2019 and 65,609 shares at an average purchase price of \$62.40 per share during June 2019 (with \$35,000,000 remaining authority at quarter end).

- (2) In June 2019, a total of 782 shares were transferred to a rabbi trust that we established in connection with our Deferred Compensation Plan for Non-Employee Directors, pursuant to which non-employee directors may elect to defer directors' fees into common stock units. EnPro Holdings furnished these shares in exchange for management and other services provided by EnPro. Of these shares, 77 were valued at a price of \$63.87, the closing trading price of our common stock on June 19, 2019, and 705 of these shares were valued at a price of \$63.84 per share, the closing trading price of our common stock on June 30, 2019. Accordingly, the total 782 shares were valued at a weighted average price of \$63.84. We do not consider the transfer of shares from EnPro Holdings in this context to be pursuant to a publicly announced plan or program.

Item 6. Exhibits.

The exhibits to this report on Form 10-Q are listed in the accompanying Exhibit Index.

EXHIBIT INDEX

- 2.1 [Securities Purchase Agreement dated as of July 19, 2019 between EnPro Industries, Inc., the Sellers listed therein, Shareholder Representative Services LLC, and the Optionholder listed therein relating to the purchase and sale of 100% of the interests of LeanTeq Co., LTD and LeanTeq LLC \(incorporated by reference to Exhibit 2.1 to the Form 8-K filed on July 22, 2019 by EnPro Industries, Inc. \(File No. 001-31225\)\)](#)
- 2.2 [Modified Joint Plan of Reorganization of Garlock Sealing Technologies LLC, et al. and OldCo, LLC, Successor by Merger to Coltec Industries Inc dated May 20, 2016, as modified on June 21, 2016, July 29, 2016, December 2, 2016, April 3, 2017, May 14, 2017, May 19, 2017, June 8, 2017, and June 9, 2017, filed in the United States Bankruptcy Court for the Western District of North Carolina \(Charlotte Division\) \(incorporated by reference to Exhibit 2.1 to the Form 8-K filed on July 31, 2017 by EnPro Industries, Inc. \(File No. 001-31225\)\)](#)
- 10.1 [Amendment to Management Continuity Agreement dated as of April 11, 2019 between EnPro Industries, Inc. and Stephen E. Macadam \(incorporated by reference to Exhibit 10.1 to the Form 8-K dated April 11, 2019 filed by EnPro Industries, Inc. \(File No. 001-31225\)\)](#)
- 31.1* [Certification of Chief Executive Officer pursuant to Rule 13a – 14\(a\)/15d – 14\(a\)](#)
- 31.2* [Certification of Chief Financial Officer pursuant to Rule 13a – 14\(a\)/15d – 14\(a\)](#)
- 32* [Certification pursuant to Section 1350](#)
- 101.SCH* InlineXBRL Taxonomy Extension Schema Document
- 101.CAL* InlineXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* InlineXBRL Taxonomy Extension Definitions Linkbase Document
- 101.LAB* InlineXBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* InlineXBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, North Carolina on this 2nd day of August, 2019.

ENPRO INDUSTRIES, INC.

By: /s/ Robert S. McLean

Robert S. McLean

Executive Vice President, General Counsel and Secretary

By: /s/ Steven R. Bower

Steven R. Bower

Senior Vice President, Chief Accounting Officer and Controller