ENPRO INDUSTRIES, INC
Form 10-Q
May 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2013

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 001-31225

ENPRO INDUSTRIES, INC.

(Exact name of registrant, as specified in its charter)

North Carolina	**01-0573945**
(State or other jurisdiction	**(I.R.S. Employer**

of incorporation)	**Identification No.)**

5605 Carnegie Boulevard, Suite 500, Charlotte,

North Carolina	**28209**
(Address of principal executive offices)	**(Zip Code)**

(704) 731-1500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of April 30, 2013, there were 20,881,443 shares of common stock of the registrant outstanding. 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 Ended March 31, 2013 and 2012

(in millions, except per share amounts)

	2013	2012
Net sales	$ 286.9	$ 311.5
Cost of sales	192.7	204.3
Gross profit	94.2	107.2
Operating expenses:		
Selling, general and administrative	72.6	73.5
Other	0.9	1.5
	73.5	75.0
Operating income	20.7	32.2
Interest expense	(11.1)	(10.7)
Interest income	0.1	0.1
Income before income taxes	9.7	21.6
Income tax expense	(1.1)	(7.8)
Net income	$ 8.6	$ 13.8
Comprehensive income	$ 1.0	$ 21.3
Basic earnings per share	$ 0.41	$ 0.67
Diluted earnings per share	$ 0.39	$ 0.64

See notes to consolidated financial statements (unaudited).

ENPRO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Quarters Ended March 31, 2013 and 2012

(in millions)

	2013	2012
OPERATING ACTIVITIES		
Net income	$ 8.6	$ 13.8
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	7.4	6.5
Amortization	6.7	6.0
Accretion of debt discount	1.8	1.7
Deferred income taxes	(4.3)	7.9
Stock-based compensation	(1.8)	2.5
Excess tax benefits from stock-based compensation	(2.0)	
Change in assets and liabilities, net of effects of acquisitions of businesses:		
Accounts receivable	(19.5)	(11.6)
Inventories	(2.3)	(15.6)
Accounts payable	4.2	9.9
Other current assets and liabilities	(8.3)	(15.6)
Other non-current assets and liabilities	(8.3)	(2.1)
Net cash provided by (used in) operating activities	(17.8)	3.4
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(9.8)	(5.5)
Payments for capitalized internal-use software	(3.5)	(0.4)
Acquisitions, net of cash acquired	(2.2)	(0.5)
Other	0.1	
Net cash used in investing activities	(15.4)	(6.4)
FINANCING ACTIVITIES		
Net proceeds from (repayments of) short-term borrowings	7.4	(0.3)
Proceeds from debt	63.3	41.8
Repayments of debt	(42.5)	(30.4)
Other	2.0	
Net cash provided by financing activities	30.2	11.1
Effect of exchange rate changes on cash and cash equivalents	(2.4)	0.6
Net increase (decrease) in cash and cash equivalents	(5.4)	8.7
Cash and cash equivalents at beginning of period	53.9	30.7
Cash and cash equivalents at end of period	$ 48.5	$ 39.4
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		

Interest	$ 16.7	$ 15.9
Income taxes (net of refunds of $3.3 in 2012)	$ 5.4	$ (0.1)

See notes to consolidated financial statements (unaudited).

ENPRO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share amounts)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 48.5	$ 53.9
Accounts receivable	204.4	187.2
Inventories	131.9	130.8
Prepaid expenses and other current assets	24.9	22.3
Total current assets	409.7	394.2
Property, plant and equipment	186.7	185.5
Goodwill	217.1	220.4
Other intangible assets	216.4	222.5
Investment in GST	236.9	236.9
Other assets	115.2	111.4
Total assets	$ 1,382.0	$ 1,370.9
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Short-term borrowings from GST	$ 17.9	$ 10.1
Notes payable to GST	11.2	10.7
Current maturities of long-term debt	150.9	1.0
Accounts payable	87.1	83.9
Accrued expenses	101.1	121.8
Total current liabilities	368.2	227.5
Long-term debt	57.1	184.3
Notes payable to GST	248.1	237.4
Pension liability	106.4	112.7
Other liabilities	55.9	61.9
Total liabilities	835.7	823.8
Commitments and contingencies		
Shareholders equity		
Common stock $.01 par value; 100,000,000 shares authorized; issued, 20,928,542 shares in 2013 and 20,904,857 shares in 2012	0.2	0.2
Additional paid-in capital	423.6	425.4
Retained earnings	154.5	145.9
Accumulated other comprehensive loss	(30.6)	(23.0)
Common stock held in treasury, at cost 203,895 shares in 2013 and 204,382 shares in 2012	(1.4)	(1.4)
Total shareholders equity	546.3	547.1
Total liabilities and shareholders equity	$ 1,382.0	$ 1,370.9

See notes to consolidated financial statements (unaudited).

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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; self-lubricating non-rolling bearing products; precision engineered components and lubrication systems for reciprocating compressors; and heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines, including parts and services.

Basis of Presentation

The accompanying interim consolidated financial statements are unaudited, and certain related information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted in accordance with Rule 10-01 of Regulation S-X. They were prepared following the same policies and procedures used in the preparation of our annual financial statements and reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of results for the periods presented. The Consolidated Balance Sheet as of December 31, 2012, was derived from the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2012. 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, 2012 included within our annual report on Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amount of assets and liabilities and 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 significant intercompany accounts and transactions between our consolidated operations have been eliminated.

Certain prior period amounts have been revised to conform to current classifications. Cash payments of $0.4 million for the three months ended March 31, 2012 that are associated with the development or purchase of internal-use software have been presented as investing cash flows on the Consolidated Statement of Cash Flows. They were previously classified as operating cash flows. We concluded this revision was not material to the prior period s cash flow statement and no other financial amounts or disclosures were affected.

Recently Issued Authoritative Accounting Guidance

In February 2013, accounting guidance was amended to require companies to report, in one place, information about reclassifications out of accumulated other comprehensive income. Companies are also required to present reclassifications by component when reporting changes in the accumulated other comprehensive income balances. These changes became effective prospectively in fiscal years and interim periods within those years beginning after December 15, 2012. Other than the change in presentation, there was no effect on the consolidated financial results.

2. Earnings Per Share

	Quarters Ended March 31, 2013	Quarters Ended March 31, 2012
	(in millions, except per share amounts)	
Numerator (basic and diluted):		
Net income	$ 8.6	$ 13.8
Denominator:		
Weighted-average shares basic	20.7	20.6
Share-based awards	0.2	0.3
Convertible debentures	1.4	0.5
Weighted-average shares diluted	22.3	21.4
Earnings per share:		
Basic	$ 0.41	$ 0.67
Diluted	$ 0.39	$ 0.64

As discussed further in Note 8, we previously issued Convertible Senior Debentures (the Convertible Debentures). Under the terms of the Convertible Debentures, upon conversion, we will settle the par amount of our obligations in cash and the remaining obligations, if any, in common shares. Pursuant to applicable accounting guidelines, we include the conversion option effect in diluted earnings per share during such periods when our average stock price exceeds the stated conversion price.

3. Inventories

	March 31, 2013	December 31, 2012
	(in millions)	
Finished products	$ 71.9	$ 72.0
Deferred costs relating to long-term contracts	14.4	16.6
Work in process	43.6	33.4
Raw materials and supplies	37.0	36.3
	166.9	158.3
Reserve to reduce certain inventories to LIFO basis	(12.4)	(12.4)
Progress payments	(22.6)	(15.1)
Total	$ 131.9	$ 130.8

The deferred costs and progress payments shown in the table above relate to engine contracts accounted for under the completed contract method of accounting. In addition, we have made progress payments to our vendor on long lead time manufactured engine component parts. These payments of $9.6 million and $8.2 million as of March 31, 2013 and December 31, 2012, respectively, are included in other current assets in the accompanying Consolidated Balance Sheets.

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.

4. Percentage-of-Completion Long-Term Contracts

During the third quarter of 2011, the Engine Products and Services segment began using percentage-of-completion (POC) accounting for new and nearly new engine contracts rather than the completed-contract method. We made this change because, as a result of enhancements to our financial management and reporting systems, we are able to reasonably estimate the revenue, costs, and progress towards completion of engine builds. If we are not able to meet those conditions for a particular engine contract, we recognize revenues using the completed-contract method. We will also continue to use the completed-contract method for engines that were in production at June 30, 2011.

Progress towards completion under POC is measured by reference to costs incurred to date as a percentage of estimated total project costs. Recognized revenues and profits are subject to revisions during the engine build period in the event the assumptions regarding the overall contract outcome are revised. The cumulative effect of a revision in estimates is recorded in the period such a revision becomes likely and estimable. Losses on contracts in progress are recognized in the period a loss becomes likely and estimable.

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

	March 31, 2013	December 31, 2012
	(in millions)	
Cumulative revenues recognized on uncompleted contracts	$ 96.3	$ 76.9
Cumulative billings on uncompleted contracts	98.4	71.2
	$ (2.1)	$ 5.7

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

	March 31, 2013	December 31, 2012
	(in millions)	
Accounts receivable (revenue in excess of billings)	$ 5.0	$ 10.3
Accrued expenses (deferred revenue)	(7.1)	(4.6)
	$ (2.1)	$ 5.7

See Note 3 for a presentation of the deferred costs and progress payments associated with engine contracts accounted for under the completed-contract method.

5. Goodwill and Other Intangible Assets

The changes in the net carrying value of goodwill by reportable segment for the three months ended March 31, 2013, are as follows:

	Sealing Products	Engineered Products	Engine Products and Services	Total
		(in millions)		
Gross goodwill as of December 31, 2012	$ 180.6	$ 169.2	$ 7.1	$ 356.9
Accumulated impairment losses	(27.8)	(108.7)		(136.5)
Goodwill as of December 31, 2012	152.8	60.5	7.1	220.4
Decrease due to foreign currency translation	(1.1)	(2.2)		(3.3)
Gross goodwill as of March 31, 2013	179.5	167.0	7.1	353.6
Accumulated impairment losses	(27.8)	(108.7)		(136.5)
Goodwill as of March 31, 2013	$ 151.7	$ 58.3	$ 7.1	$ 217.1

Identifiable intangible assets are as follows:

	As of March 31, 2013		As of December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(in millions)		
Amortized:				
Customer relationships	$ 190.0	$ 74.0	$ 190.0	$ 70.7
Existing technology	53.5	14.1	53.8	13.3
Trademarks	33.0	15.1	33.2	14.8
Other	23.3	16.2	23.6	15.7
	299.8	119.4	300.6	114.5
Indefinite-Lived:				
Trademarks	36.0		36.4	
Total	$ 335.8	$ 119.4	$ 337.0	$ 114.5

Amortization expense for the quarters ended March 31, 2013 and 2012, was $6.2 million and $5.4 million, respectively.

6. Accrued Expenses

	March 31, 2013	December 31, 2012
	(in millions)	

Salaries, wages and employee benefits	$ 40.6	$ 47.2
Interest	10.2	28.8
Other	50.3	45.8
	$ 101.1	$ 121.8

7. Related Party Transactions

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

On June 5, 2010, GST commenced an asbestos claims resolution process under Chapter 11 of the United States Bankruptcy Code, which is ongoing. The resulting deconsolidation of GST from our financial results, discussed more fully in Note 14, required certain intercompany indebtedness described below to be reflected on our Consolidated Balance Sheets.

As of March 31, 2013 and December 31, 2012, Coltec Finance Company Ltd., a wholly-owned subsidiary of Coltec, had aggregate, short-term borrowings of $17.9 million and $10.1 million, respectively, from GST s subsidiaries in Mexico and Australia. These unsecured obligations were denominated in the currency of the lending party, and bear interest based on the applicable one-month interbank offered rate for each foreign currency involved.

Effective as of January 1, 2010, Coltec entered into an original issue amount $73.4 million Amended and Restated Promissory Note due January 1, 2017 (the Coltec Note) in favor of GST LLC, and our subsidiary Stemco LP entered into an original issue amount $153.8 million Amended and Restated Promissory Note due January 1, 2017, in favor of GST LLC (the Stemco Note , and together with the Coltec Note, the Notes Payable to GST). The Notes Payable to GST amended and replaced promissory notes in the same principal amounts which were initially issued in March 2005, and which expired on January 1, 2010.

The Notes Payable to GST bear interest at 11% per annum, of which 6.5% is payable in cash and 4.5% is added to the principal amount of the Notes Payable to GST as payment-in-kind (PIK) interest, with interest due on January 31 of each year. In conjunction with the interest payment in 2013 and 2012, PIK interest of $11.2 million and $10.7 million, respectively, was added to the principal balance of the Notes Payable to GST. If GST LLC is unable to pay ordinary course operating expenses, under certain conditions, GST LLC can require Coltec and Stemco to pay in cash the accrued PIK interest necessary to meet such ordinary course operating expenses, subject to certain caps. The interest due under the Notes Payable to GST may be satisfied through offsets of amounts due under intercompany services agreements pursuant to which we provide certain corporate services, make available access to group insurance coverage to GST, make advances to third party providers related to payroll and certain benefit plans sponsored by GST, and permit employees of GST to participate in certain of our benefit plans.

The Coltec Note is secured by Coltec s pledge of certain of its equity ownership in specified U.S. subsidiaries. The Stemco Note is guaranteed by Coltec and secured by Coltec s pledge of its interest in Stemco. The Notes are subordinated to any obligations under our senior secured revolving credit facility described in Note 8.

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

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

	Financial Statement Location	Quarters Ended March 31, 2013	2012
		(in millions)	
Sales to GST	Net sales	$ 6.1	$ 4.6
Purchases from GST	Cost of sales	$ 7.3	$ 4.7
Interest expense	Interest expense	$ 7.2	$ 6.9

	Financial Statement Location	March 31, 2013	December 31, 2012
		(in millions)	
Due from GST	Accounts receivable	$ 7.6	$ 20.5
Income tax receivable	Other assets	$ 34.1	$ 32.8
Due to GST	Accounts payable	$ 6.7	$ 5.0
Accrued interest	Accrued expenses	$ 7.0	$ 27.4

Additionally, we had outstanding foreign exchange forward contracts with GST LLC involving the Australian dollar, Canadian dollar, Mexican peso and U.S. dollar with a notional amount of $21.9 million as of March 31, 2013. These related party contracts were eliminated in consolidation prior to the deconsolidation of GST.

8. Long-Term Debt

Convertible Debentures

As of March 31, 2013, we had $172.5 million outstanding in aggregate principal amount of Convertible Debentures, originally issued in October 2005 net of an original issue discount of $61.3 million. The Convertible Debentures bear interest at the annual rate of 3.9375%, with interest due on April 15 and October 15 of each year, and will mature on October 15, 2015, unless they are converted prior to that date. The Convertible Debentures are direct, unsecured and unsubordinated obligations and rank equal in priority with all unsecured and unsubordinated indebtedness and senior in right of payment to all subordinated indebtedness. The Convertible Debentures do not contain any financial covenants.

Holders may convert the Convertible Debentures into cash and shares of our common stock, under certain circumstances described more fully in our most recent Form 10-K. As of April 1, 2013, the Convertible Debentures became convertible by holders of the Convertible Debentures. This conversion right was triggered because the closing price per share of EnPro s common stock exceeded $43.93, or 130% of the conversion price of $33.79, for at least twenty (20) trading days during the thirty (30) consecutive trading day period ending on March 31, 2013. The Convertible Debentures will be convertible until June 30, 2013, and may be convertible thereafter if one or more of the conversion conditions is satisfied during future measurement periods. Because the Convertible Debentures are currently convertible, the principal balance less the remaining unamortized debt discount was reflected in current maturities of long-term debt as of March 31, 2013.

We used a portion of the net proceeds from the sale of the Convertible Debentures to enter into call options, i.e., hedge and warrant transactions, which entitle us to purchase shares of our stock from a financial institution at $33.79 per share and entitle the financial institution to purchase shares of our stock from us at $46.78 per share. This will reduce potential dilution to our common stock holders from conversion of the Convertible Debentures and have the effect to us of increasing the conversion price of the Convertible Debentures to $46.78 per share.

The debt discount, $21.7 million as of March 31, 2013, is being amortized through interest expense until the maturity date of October 15, 2015, resulting in an effective interest rate of approximately 9.5%. Interest expense related to the Convertible Debentures for the quarters ended March 31, 2013 and 2012 includes $1.7 million of contractual interest coupon in both periods and $1.8 million and $1.7 million, respectively, of debt discount amortization.

Credit Facility

Our primary U.S. operating subsidiaries, other than GST LLC, have a senior secured revolving credit facility with a maximum availability of $175 million. Actual borrowing availability under the credit facility is determined by reference to a borrowing base of specified percentages of eligible accounts receivable, inventory, equipment and real property elected to be pledged, and is reduced by usage of the facility, including outstanding letters of credit and any reserves. Under certain conditions, we may request an increase to the facility maximum availability to $225 million in total. Any increase is dependent on obtaining future lender commitments for those amounts, and no current lender has any obligation to provide such commitment. The credit facility matures on July 17, 2015 unless, prior to that date, the Convertible Debentures are paid in full, refinanced on certain terms or defeased, in which case the facility will mature on March 30, 2016. The terms of the facility, including fees and customary covenants and restrictions, are described more fully in our most recent Form 10-K.

The borrowing availability at March 31, 2013, under our senior secured revolving credit facility was $66.3 million after giving consideration to $3.8 million of letters of credit outstanding and $56.0 million of outstanding revolver borrowings.

9. Pensions and Postretirement Benefits

The components of net periodic benefit cost for the Company s U.S. and foreign defined benefit pension and other postretirement plans for the quarters ended March 31, 2013 and 2012, are as follows:

	Quarters Ended March 31,			
	Pension Benefits		**Other Benefits**	
	2013	**2012**	**2013**	**2012**
	(in millions)			
Service cost	$ 1.7	$ 1.2	$ 0.2	$ 0.2
Interest cost	2.7	2.5	0.1	0.1
Expected return on plan assets	(3.1)	(2.2)		
Amortization of prior service cost		0.1		
Net loss component	2.2	2.2		
Deconsolidation of GST	(0.5)	(0.6)		
Net periodic benefit cost	$ 3.0	$ 3.2	$ 0.3	$ 0.3

In the three months ended March 31, 2013, we contributed $7.2 million to our U.S. defined benefit pension plans and anticipate additional contributions of approximately $12 million prior to December 31, 2013.

10. Derivative Instruments

We use derivative financial instruments to manage our exposure to various risks. The use of these financial instruments modifies the exposure with the intent of reducing our risk. We do not use financial instruments for trading purposes, nor do we use leveraged financial instruments. The counterparties to these contractual arrangements are major financial institutions and GST LLC as described in Note 7. We use multiple financial institutions for derivative contracts to minimize the concentration of credit risk. The current accounting rules require derivative instruments, excluding certain contracts that are issued and held by a reporting entity that are both indexed to its own stock and classified in shareholders equity, be reported in the Consolidated Balance Sheets at fair value and that changes in a derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances on our foreign subsidiaries balance sheets, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. We strive to control our exposure to these risks through our normal operating activities and, where appropriate, through derivative instruments. We have entered into contracts to hedge forecasted transactions occurring at various dates through December 2014 that are denominated in foreign currencies. The notional amount of foreign exchange contracts hedging foreign currency transactions was $101.1 million and $130.4 million at March 31, 2013 and December 31, 2012, respectively.

Prior to 2013, we applied cash flow hedge accounting to certain of our foreign currency derivatives. We elected to discontinue this accounting treatment in the first quarter of 2013, consequently, all gains and losses that had been deferred in accumulated other comprehensive loss at December 31, 2012 were reclassified to income in the quarter ended March 31, 2013. See Note 13 for additional information. The notional amounts of all of our foreign exchange contracts were recorded at their fair market value as of March 31, 2013 with changes in market value recorded in income. The earnings impact of any foreign exchange contract that is specifically related to the purchase of inventory is recorded in cost of sales and the changes in market value of all other contracts are recorded in selling, general and administrative expense in the Consolidated Statements of Operations. The balances of derivative assets are recorded in other current assets and the balances of derivative liabilities are recorded in accrued expenses in the Consolidated Balance Sheets.

11. Business Segment Information

We have three reportable segments. The Sealing Products segment manufactures and sells sealing products including: metallic, non-metallic and composite material gaskets, dynamic seals, compression packing, resilient metal seals, elastomeric seals, hydraulic components, expansion joints, heavy-duty truck wheel-end component systems including brake products, flange sealing and isolation products, pipeline casing spacers/isolators, casing end seals, modular sealing systems for sealing pipeline penetrations, hole forming products, manhole infiltration sealing systems, safety-related signage for pipelines, bellows and bellows assemblies, pedestals for semiconductor manufacturing, polytetrafluoroethylene (PTFE) products, conveyor belting, and sheeted rubber products.

The Engineered Products segment manufactures self-lubricating non-rolling bearing products, aluminum blocks for hydraulic applications, and precision engineered components and lubrication systems for reciprocating compressors and provides repair services for those compressors.

The Engine Products and Services segment manufactures and services heavy-duty medium-speed diesel, natural gas and dual fuel reciprocating engines.

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

Segment operating results and other financial data for the quarters ended March 31, 2013 and 2012 were as follows:

	2013	**2012**
	(in millions)	
Sales		
Sealing Products	$ 146.6	$ 149.5
Engineered Products	91.8	100.6
Engine Products and Services	49.4	62.0
	287.8	312.1
Intersegment sales	(0.9)	(0.6)
Total sales	$ 286.9	$ 311.5
Segment Profit		
Sealing Products	$ 21.3	$ 22.5
Engineered Products	5.8	9.0
Engine Products and Services	4.8	11.8
Total segment profit	31.9	43.3
Corporate expenses	(9.1)	(9.1)
Interest expense, net	(11.0)	(10.6)
Other expense, net	(2.1)	(2.0)
Income before income taxes	$ 9.7	$ 21.6

Segment assets are as follows:

	March 31, 2013	**December 31, 2012**
Sealing Products	$ 537.8	