ENPRO INDUSTRIES, INC
Form 10-Q
May 08, 2014

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

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-31225

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

North Carolina (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)

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

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

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

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

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

As of May 2, 2014, there were 22,717,810 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)
Three Months Ended March 31, 2014 and 2013
(in millions, except per share amounts)

	2014		2013	
Net sales	$287.2		$286.9	
Cost of sales	190.7		192.7	
Gross profit	96.5		94.2	
Operating expenses:				
Selling, general and administrative	78.9		72.6	
Other	0.2		0.9	
Total operating expenses	79.1		73.5	
Operating income	17.4		20.7	
Interest expense	(11.1	)	(11.1	)
Interest income	0.2		0.1	
Other expense	(4.2	)	—	
Income before income taxes	2.3		9.7	
Income tax expense	(1.0	)	(1.1	)
Net income	$1.3		$8.6	
Comprehensive income	$0.3		$1.0	
Basic earnings per share	$0.06		$0.41	
Diluted earnings per share	$0.05		$0.39	

See notes to consolidated financial statements (unaudited).

ENPRO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Three Months Ended March 31, 2014 and 2013
(in millions)

	2014	2013
OPERATING ACTIVITIES		
Net income	$1.3	$8.6
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	7.5	7.4
Amortization	6.7	6.7
Accretion of debt discount	1.8	1.8
Loss on exchange of debt	3.6	—
Deferred income taxes	(12.3)	(4.3)
Stock-based compensation	2.2	(1.8)
Excess tax benefits from stock-based compensation	(0.6)	(2.0)
Change in assets and liabilities, net of effects of acquisitions of businesses:		
Accounts receivable	(21.0)	(19.5)
Inventories	(9.3)	(2.3)
Accounts payable	2.8	4.2
Other current assets and liabilities	(10.5)	(8.3)
Other non-current assets and liabilities	2.8	(8.3)
Net cash used in operating activities	(25.0)	(17.8)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(6.7)	(9.8)
Payments for capitalized internal-use software	(2.8)	(3.5)
Acquisitions, net of cash acquired	(1.9)	(2.2)
Other	0.1	0.1
Net cash used in investing activities	(11.3)	(15.4)
FINANCING ACTIVITIES		
Net proceeds from short-term borrowings	0.7	7.4
Proceeds from debt	70.3	63.3
Repayments of debt	(34.5)	(42.5)
Other	(4.7)	2.0
Net cash provided by financing activities	31.8	30.2
Effect of exchange rate changes on cash and cash equivalents	(0.1)	(2.4)
Net decrease in cash and cash equivalents	(4.6)	(5.4)
Cash and cash equivalents at beginning of period	64.4	53.9
Cash and cash equivalents at end of period	$59.8	$48.5
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$18.1	$16.7
Income taxes, net	$13.3	$5.4

See notes to consolidated financial statements (unaudited).

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

	March 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$59.8	$64.4
Accounts receivable	215.7	193.1
Inventories	160.6	149.1
Prepaid expenses and other current assets	47.5	41.0
Total current assets	483.6	447.6
Property, plant and equipment	186.0	187.5
Goodwill	219.6	220.2
Other intangible assets	198.4	200.1
Investment in GST	236.9	236.9
Other assets	104.0	100.4
Total assets	$1,428.5	$1,392.7
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings from GST	$23.1	$22.0
Notes payable to GST	11.7	11.2
Current maturities of long-term debt	107.1	156.6
Accounts payable	90.4	86.8
Accrued expenses	121.7	140.9
Total current liabilities	354.0	417.5
Long-term debt	44.3	8.5
Notes payable to GST	259.3	248.1
Pension liability	42.9	47.4
Other liabilities	61.1	57.8
Total liabilities	761.6	779.3
Commitments and contingencies		
Temporary equity	9.4	15.9
Shareholders’ equity		
Common stock – $.01 par value; 100,000,000 shares authorized; issued, 22,906,663 shares in 2014 and 21,153,389 shares in 2013	0.2	0.2
Additional paid-in capital	470.6	410.9
Retained earnings	174.6	173.3
Accumulated other comprehensive income	13.4	14.4
Common stock held in treasury, at cost – 201,750 shares in 2014 and 202,269 shares in 2013	(1.3)	(1.3)
Total shareholders’ equity	657.5	597.5
Total liabilities and equity	$1,428.5	$1,392.7

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; self-lubricating non-rolling bearing products; precision engineered components and lubrication systems for reciprocating compressors; and heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines, including parts and services.
Basis of Presentation
The accompanying interim consolidated financial statements are unaudited, and certain related information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted in accordance with Rule 10-01 of Regulation S-X. They were prepared following the same policies and procedures used in the preparation of our annual financial statements and reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of results for the periods presented. The Consolidated Balance Sheet as of December 31, 2013 was derived from the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2013. The results of operations for the interim periods are not necessarily indicative of the results for the fiscal year. These consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2013 included within our annual report on Form 10-K.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amount of assets and liabilities and the disclosures regarding contingent assets and liabilities at period end and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.
All intercompany accounts and transactions between our consolidated operations have been eliminated.

2. Acquisitions
In March 2014, we acquired the remaining interest of the Stemco Crewson LLC joint venture. We now own all of the ownership interests in Stemco Crewson LLC. The joint venture was formed in 2009 with joint venture partner Tramec, LLC to expand our brake product offering to include automatic brake adjusters. The purchase of the remaining interest in the joint venture will allow us to accelerate investment in new product development and commercial strategies focused on market share growth for these products.
In March 2014, we acquired the business of Strong-Tight Co. Ltd., a manufacturer and seller of gaskets and industrial sealing products by acquiring certain assets and assuming certain liabilities of the business. This acquisition adds an established Asian marketing presence and manufacturing facilities from which we can serve the Asian market.
Both of the acquired businesses are included in our Sealing Products segment. The total purchase price of these acquisitions was $5.6 million, of which $1.9 million was paid in March 2014, net of cash acquired, with the remainder to be paid in several installments later in 2014 and subsequent to 2014. Because the assets, liabilities and results of operations for these acquisitions are not significant to our consolidated financial position or results of operations, pro forma financial information and additional disclosures are not presented.

3. Earnings Per Share

	Three Months Ended March 31, 2014	2013
	(in millions, except per share amounts)	
Numerator (basic and diluted):		
Net income	$1.3	$8.6
Denominator:		
Weighted-average shares – basic	21.3	20.7
Share-based awards	0.1	0.2
Convertible debentures and related warrants	3.7	1.4
Weighted-average shares – diluted	25.1	22.3
Earnings per share:		
Basic	$0.06	$0.41
Diluted	$0.05	$0.39

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

We used a portion of the net proceeds from the original sale of the Convertible Debentures to enter into call options, consisting of hedge and warrant transactions, which entitle us to purchase shares of our stock from a financial institution at $33.79 per share and entitle the financial institution to purchase shares of our stock from us at $46.78 per share. The warrant transactions have a dilutive effect during such periods that the average price per share of our common stock exceeds the $46.78 per share strike price of the warrants.

4. Inventories

	March 31, 2014	December 31, 2013
	(in millions)	
Finished products	$75.8	$84.3
Work in process	49.4	36.0
Raw materials and supplies	49.4	42.8
	174.6	163.1
Reserve to reduce certain inventories to LIFO basis	(14.0)	(14.0)
Total inventories	$160.6	$149.1

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

5. Long-Term Contracts

During the third quarter of 2011, the Power Systems segment (formerly referred to as the Engine Products and Services segment as discussed further in Note 12) began using percentage-of-completion (“POC”) accounting for new and nearly new engine contracts rather than the completed-contract method. We made this change as a result of enhancements to our financial management and reporting systems which enable us 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.

Additional information regarding engine contracts accounted for under the POC method is as follows:

	March 31, 2014	December 31, 2013
	(in millions)	
Cumulative revenues recognized on uncompleted POC contracts	$161.2	$141.1
Cumulative billings on uncompleted POC contracts	156.2	146.6
	$5.0	$(5.5)

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

	March 31, 2014	December 31, 2013
	(in millions)	
Accounts receivable (POC revenue recognized in excess of billings)	$12.0	$4.3
Accrued expenses (POC billings where revenue has not yet been earned)	(7.0)	(9.8)
	$5.0	$(5.5)

At March 31, 2014 and December 31, 2013, deposits and progress payments for long lead time components accounted for under the POC method totaled $4.1 million and $4.5 million, respectively, and are reflected in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets.

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

	March 31, 2014	December 31, 2013
	(in millions)	
Incurred costs relating to long-term contracts	$15.8	$14.2
Progress payments related to long-term contracts	(33.2)	(25.6)
Net balance associated with completed-contract inventories	$(17.4)	$(11.4)

Incurred costs related to long-term contracts in the table above represent inventoried work in process and finished products related to engine contracts accounted for under the completed-contract method. In addition to inventoried costs, we also incur costs associated with deposits and progress payments to our vendors for long lead time manufactured components associated with engine projects that are reflected in prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets. At March 31, 2014 and December 31, 2013, deposits and progress payments for these long lead time components accounted for under the completed-contract method totaled $6.1 million and $6.1 million, respectively.

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

At March 31, 2014 and December 31, 2013, progress payments related to long-term contracts were in excess of incurred costs resulting in a net liability balance. As such, the net liability balances are reflected in accrued expenses on the accompanying Consolidated Balance Sheets.

6. Goodwill and Other Intangible Assets

The changes in the net carrying value of goodwill by reportable segment for the three months ended March 31, 2014, are as follows:

	Sealing Products	Engineered Products	Power Systems	Total
	(in millions)			
Gross goodwill as of December 31, 2013	$181.5	$168.1	$7.1	$356.7
Accumulated impairment losses	(27.8)	(108.7)	—	(136.5)
Goodwill as of December 31, 2013	153.7	59.4	7.1	220.2
Change due to foreign currency translation	0.1	(0.7)	—	(0.6)
Gross goodwill as of March 31, 2014	181.6	167.4	7.1	356.1
Accumulated impairment losses	(27.8)	(108.7)	—	(136.5)
Goodwill as of March 31, 2014	$153.8	$58.7	$7.1	$219.6

Identifiable intangible assets are as follows:

	As of March 31, 2014		As of December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in millions)			
Amortized:				
Customer relationships	$192.5	$88.3	$191.2	$85.0
Existing technology	53.9	19.9	53.9	18.8
Trademarks	36.1	17.3	33.7	16.9
Other	23.4	18.5	23.4	17.9
	305.9	144.0	302.2	138.6
Indefinite-Lived:				
Trademarks	36.5	—	36.5	—
Total	$342.4	$144.0	$338.7	$138.6

Amortization expense for the three months ended March 31, 2014 and 2013, was $5.8 million and $6.2 million, respectively.

7. Accrued Expenses

	March 31, 2014	December 31, 2013
	(in millions)	
Salaries, wages and employee benefits	$36.7	$45.3
Interest	9.6	30.0
Customer advances	24.0	23.7
Income and other taxes	17.9	10.8
Other	33.5	31.1
	$121.7	$140.9

8. Related Party Transactions

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

On June 5, 2010, GST commenced an asbestos claims resolution process under Chapter 11 of the United States Bankruptcy Code, which is ongoing. The resulting deconsolidation of GST from our financial results, discussed more fully in Note 15, required certain intercompany indebtedness described below to be reflected on our Consolidated Balance Sheets.

As of March 31, 2014 and December 31, 2013, Coltec Finance Company Ltd., a wholly-owned subsidiary of Coltec, had aggregate, short-term borrowings of $23.1 million and $22.0 million, respectively, from GST's subsidiaries in Mexico and Australia. These unsecured obligations were denominated in the currency of the lending party, and bear interest based on the applicable one-month interbank offered rate for each foreign currency involved.

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

The Notes Payable to GST bear interest at 11% per annum, of which 6.5% is payable in cash and 4.5% is added to the principal amount of the Notes Payable to GST as payment-in-kind ("PIK") interest, with interest due on January 31 of each year. In conjunction with the interest payments in 2014 and 2013, $16.9 million and $16.2 million, respectively, was paid in cash and PIK interest of $11.7 million and $11.2 million, respectively, was added to the principal balance of the Notes Payable to GST. If GST LLC is unable to pay ordinary course operating expenses, under certain conditions, they can require Coltec and Stemco to pay in cash the accrued PIK interest necessary to meet such ordinary course operating expenses, subject to certain caps. The interest due under the Notes Payable to GST may be satisfied through offsets of amounts due under intercompany services agreements pursuant to which we provide certain corporate services, make available access to group insurance coverage to GST, make advances to third party providers related to payroll and certain benefit plans sponsored by GST, and permit employees of GST to participate in certain of our benefit plans.

The Coltec Note is secured by Coltec's pledge of certain of its equity ownership in specified U.S. subsidiaries. The Stemco Note is guaranteed by Coltec and secured by Coltec's pledge of its interest in Stemco. The Notes Payable to GST are subordinated to any obligations under our senior secured revolving credit facility described in Note 9.

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

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

	Financial Statement Location	Three Months Ended March 31, 2014	2013
		(in millions)	
Sales to GST	Net sales	$6.9	$6.1
Purchases from GST	Cost of sales	$6.2	$7.3
Interest expense to GST	Interest expense	$7.5	$7.2

	Financial Statement Location	March 31, 2014	December 31, 2013
		(in millions)	
Due from GST	Accounts receivable	$8.1	$18.3

Income tax receivable from GST	Other assets	$60.4	$46.9
Due to GST	Accounts payable	$7.6	$6.7
Accrued interest to GST	Accrued expenses	$7.4	$28.5

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

9. Long-Term Debt

Convertible Debentures

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

Holders may convert the Convertible Debentures into cash and shares of our common stock, under certain circumstances described more fully in our most recent Form 10-K. As of April 1, 2014, the Convertible Debentures remained convertible by holders of the Convertible Debentures. This conversion right was triggered because the closing price per share of EnPro’s common stock exceeded $43.93, or 130% of the conversion price of $33.79, for at least twenty (20) trading days during the thirty (30) consecutive trading day period ending on March 31, 2014. The Convertible Debentures will be convertible until June 30, 2014, and may be convertible thereafter if one or more of the conversion conditions is satisfied during future measurement periods. Because the Convertible Debentures are currently convertible, the outstanding principal balance less the remaining unamortized debt discount was reflected in current maturities of long-term debt as of March 31, 2014. In addition, we classified the excess cash required to redeem the Convertible Debentures over their carrying value as temporary equity.

In March 2014, we entered into privately negotiated transactions with certain holders of approximately $56.1 million in aggregate principal amount of the Convertible Debentures to exchange them for an aggregate of approximately 1.7 million shares of EnPro's common stock, plus cash payments of accrued and unpaid interest and for fractional shares. We recognized a $3.6 million pre-tax loss on the exchange ($2.3 million net of tax) which is included in other (non-operating) expense in the accompanying Consolidated Statement of Operations. There was also a $0.8 million additional tax benefit recorded directly to equity. The transactions reduced the aggregate principal amount of the Convertible Debentures outstanding to approximately $116.4 million. The exchange transactions did not reduce the respective obligations under the hedge and warrant transactions entered into in connection with the original sale of the Convertible Debentures, which remain in force with respect to the original amount of the Convertible Debentures.

The debt discount, $9.4 million as of March 31, 2014, is being amortized through interest expense until the maturity date of October 15, 2015, resulting in an effective interest rate of approximately 9.5%. Interest expense related to the Convertible Debentures for the three months ended March 31, 2014 and 2013 includes $1.6 million and $1.7 million, respectively, of contractual interest coupon and $1.8 million and $1.8 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 under our senior secured revolving credit facility at March 31, 2014 was $78.8 million after giving consideration to $4.8 million of letters of credit outstanding and $43.4 million of outstanding revolver borrowings.

10. Pensions and Postretirement Benefits

The components of net periodic benefit cost for the Company's U.S. and foreign defined benefit pension and other postretirement plans for the three months ended March 31, 2014 and 2013, are as follows:

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
	(in millions)			
Service cost	$2.0	$1.7	$0.2	$0.2
Interest cost	2.8	2.7	0.1	0.1
Expected return on plan assets	(4.2)	(3.1)	—	—
Amortization of net loss	0.7	2.2	—	—
Deconsolidation of GST	(0.2)	(0.5)	—	—
Net periodic benefit cost	$1.1	$3.0	$0.3	$0.3

In the three months ended March 31, 2014, we contributed $5.1 million to our U.S. defined benefit pension plans and anticipate additional contributions of approximately $15 million prior to December 31, 2014.

11. Derivative Instruments

We use derivative financial instruments to manage our exposure to various risks. The use of these financial instruments modifies the exposure with the intent of reducing our risk. We do not use financial instruments for trading purposes, nor do we use leveraged financial instruments. The counterparties to these contractual arrangements are major financial institutions and GST LLC as described in Note 8. 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 $7.4 million and $51.1 million at March 31, 2014 and December 31, 2013, respectively.

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

12. Business Segment Information

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

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

Our Power Systems segment designs, manufactures, sells and services heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines. Effective the first quarter of 2014, we changed the name of what had previously been called the Engine Products and Services segment to the Power Systems segment to more accurately reflect that the segment's products are the principal components of systems that generate electrical power and other types of energy. There was no change to the composition of this segment and there is no impact on the sales, segment profit, assets or cash flows of the previously reported segment.

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, 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 three months ended March 31, 2014 and 2013 were as follows:

	2014	2013
	(in millions)	
Sales		
Sealing Products	$155.0	$146.6
Engineered Products	91.8	91.8
Power Systems	41.1	49.4