

ENPRO INDUSTRIES, INC  
 Form 10-K  
 February 25, 2015  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)  
 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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	01-0573945
(State or other jurisdiction of incorporation)	(I.R.S. employer identification no.)

5605 Carnegie Boulevard, Suite 500, Charlotte, North Carolina	28209
(Address of principal executive offices)	(Zip code)

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

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

Title of each class	Name of each exchange on which registered
Common stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 such 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The aggregate market value of voting and nonvoting common stock of the registrant held by non-affiliates of the registrant as of June 30, 2014 was \$1,729,571,463. As of February 20, 2015, there were 24,200,666 shares of common stock of the registrant outstanding, which includes 199,376 shares of common stock held by a subsidiary of the registrant and accordingly are not entitled to be voted.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2015 annual meeting of shareholders are incorporated by reference into Part III.

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ENPRO INDUSTRIES, INC.

PART I

## ITEM 1. BUSINESS

As used in this report, the terms “we,” “us,” “our,” “EnPro” and “Company” mean EnPro Industries, Inc. and its subsidiaries (unless the context indicates another meaning). The term “common stock” means the common stock of EnPro Industries, Inc., par value \$0.01 per share. The terms “convertible debentures” and “debentures” mean the 3.9375% Convertible Senior Debentures due 2015 issued by the Company in October 2005. The term “senior notes” means the 5.875% Senior Notes due 2022 issued by the Company in September 2014.

## Background

We are a leader in designing, developing, manufacturing, and marketing proprietary engineered industrial products. We serve a wide variety of customers in varied industries around the world. As of December 31, 2014, we had 63 primary manufacturing facilities located in 13 countries, including the United States. We were incorporated under the laws of the State of North Carolina on January 11, 2002, as a wholly owned subsidiary of Goodrich Corporation (“Goodrich”). The incorporation was in anticipation of Goodrich’s announced distribution of its Engineered Industrial Products segment to existing Goodrich shareholders. The distribution took place on May 31, 2002 (the “Distribution”). Our sales by geographic region in 2014, 2013 and 2012 were as follows:

	2014	2013	2012
	(in millions)		
United States	\$674.1	\$620.3	\$654.2
Europe	315.9	308.6	305.0
Other	229.3	215.3	225.0
Total	\$1,219.3	\$1,144.2	\$1,184.2

On June 5, 2010 (the “Petition Date”), three of our subsidiaries 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 as a result of tens of thousands of pending and expected future asbestos personal injury claims. For a discussion of the effects of these proceedings on our financial statements, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Garlock Sealing Technologies LLC and Garrison Litigation Management Group, Ltd.” and “– Contingencies, Subsidiary Bankruptcy” and “– Contingencies, Asbestos,” and Notes 18 and 19 to our Consolidated Financial Statements, included in this report. Because of the filing, the results of these subsidiaries have been deconsolidated from our results since the Petition Date. The deconsolidated entities had sales for the years ended December 31, 2014, 2013 and 2012 as follows:

	2014	2013	2012
	(in millions)		
United States	\$125.9	\$122.8	\$123.6
Europe	14.6	21.2	17.3
Other	100.1	100.8	99.2
Total	\$240.6	\$244.8	\$240.1

We maintain an Internet website at [www.enproindustries.com](http://www.enproindustries.com). We will make this annual report, in addition to our other annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our Corporate Governance Guidelines and the charters for each of our Board Committees (Audit and Risk Management, Compensation and Human Resources, Executive, and Nominating and Corporate Governance committees) are also available on our website, and copies of this information are available in print to any shareholder who requests it. Information included on or linked to our website is not incorporated by reference into this annual report.



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### Acquisitions and Dispositions

On February 12, 2015, we acquired the stock of ATDynamics, Inc. ("ATDynamics"), a privately-held company offering innovative aerodynamic products to the commercial trucking industry for \$29 million in cash. ATDynamics will become part of EnPro's Stemco division within the Sealing Products segment. ATDynamics, headquartered in Hayward, California, is the leading designer and manufacturer of a suite of clean technology products engineered to reduce fuel consumption in the global freight transportation industry. The purchase price allocation is still subject to the completion of the valuation of certain assets and liabilities as well as the purchase price adjustments pursuant to the acquisition agreement.

In December 2014, we acquired Fabrico, Inc. ("Fabrico"), a privately-held company offering mission-critical components for the combustion and hot path sections of industrial gas and steam turbines. The business is headquartered in Oxford, Massachusetts with additional facilities in Charlton, Massachusetts and Greenville, South Carolina. The addition of Fabrico significantly expands our presence and scale in the land-based turbine seal and combustion market.

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 offerings to include automatic brake adjusters. The purchase of the remaining interest in the joint venture will allow us to accelerate investment in new product development and commercial strategies focused on market share growth for these products.

In March 2014, we acquired the business of Strong-Tight Co. Ltd., a Taiwanese manufacturer and seller of gaskets and industrial sealing products. This acquisition adds an established Asian marketing presence and manufacturing facilities for our gasket and sealing products business.

All of the businesses acquired in 2014 are included in our Sealing Products segment. We paid \$61.9 million in 2014, net of cash acquired, for these businesses. The acquisition of Fabrico includes a contingent consideration arrangement that requires additional consideration to be paid based on the future gross profit of Fabrico during the two-years subsequent to the acquisition. The range of undiscounted amounts we could pay under the contingent consideration agreement is between \$0 and \$7.0 million. The fair value of the contingent consideration recognized on the acquisition date was \$1.9 million.

In January 2013, we acquired certain assets and assumed certain liabilities of a small distributor of industrial seals in Singapore which is managed as part of the Garlock operations in the Sealing Products segment. The acquisition was paid for with \$2.0 million of cash.

In April 2012, the Company acquired Motorwheel Commercial Vehicle Systems, Inc. ("Motorwheel"). Motorwheel is a leading U.S. manufacturer of lightweight brake drums for heavy-duty trucks and other commercial vehicles. Motorwheel also sells wheel-end component assemblies for the heavy-duty market, sells fasteners for wheel-end applications and provides related services to its customers, including product development, testing and certification. Motorwheel is managed as part of the Stemco operations in the Sealing Products segment. The business operates manufacturing facilities in Chattanooga, Tennessee and Berea, Kentucky. We paid for the Motorwheel acquisition with approximately \$85 million of cash.

In December 2014, we sold substantially all of the assets and transferred certain liabilities of the GRT business unit. GRT, which was a single manufacturing facility in Paragould, Arkansas, manufactures and sells conveyor belts and sheet rubber for many applications across a diversified array of end markets. It was previously managed as part of the Garlock operations in the Sealing Products segment. The business was sold for \$42.3 million, net of transaction expenses; \$3.0 million of the sales proceeds being held in an escrow account for 18 months to fund indemnification payments, if any, to the buyer under the sale agreement. GRT reported net sales of \$31.3 million, \$30.1 million and \$35.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### Operations

We manage our business as three segments: a Sealing Products segment, an Engineered Products segment, and a Power Systems segment. Our reportable segments are managed separately based on differences in their products and services and their end-customers. For financial information with respect to our business segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations," and

Note 17 to our Consolidated Financial Statements. Item 7 and Note 17 contain information about sales and profits for each segment, and Note 17 contains information about each segment's assets.

Sealing Products Segment

Overview. Our Sealing Products segment includes three operating divisions, Garlock, Technetics and Stemco, that serve a wide variety of industries where performance and durability are vital for safety and environmental protection. Our products are

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used in many demanding environments, such as those characterized by high pressure, high temperature and chemical corrosion, and many of our products support critical applications with a low tolerance for failure.

The Garlock family of companies designs, manufactures and sells sealing products, including: metallic, non-metallic and composite material gaskets; dynamic seals; compression packing; hydraulic components; expansion joints; flange sealing and isolation products; pipeline casing spacers/isolators; casing end seals; modular sealing systems for sealing pipeline penetrations; and safety-related signage for pipelines.

Gasket products are used for sealing flange joints in chemical, petrochemical and pulp and paper processing facilities where high pressures, high temperatures and corrosive chemicals create the need for specialized and highly engineered sealing products. We sell these gasket products under the Garlock®, Gylon®, Blue-Gard®, Stress-Saver®, Edge®, Graphonic® and Flexseal® brand names. These products have a long-standing reputation for performance and reliability within the industries we serve.

Dynamic elastomeric seals are used in rotating applications to contain the lubricants that protect the bearings from excessive friction and heat generation. Because these sealing products are utilized in dynamic applications, they are subject to wear. Durability, performance, and reliability are, therefore, critical requirements of our customers. These rotary seals are used in demanding applications in the steel industry, mining and pulp and paper processing under well-known brand names including KLOZURE® and Model 64®.

Dynamic bearing isolator seals are used in power transmission systems to contain lubricants within bearing housings while also preventing contamination ingress. Bearing isolators provide users long-life sealing due to the non-contact seal design, and therefore are used in many OEM electric motors and gear boxes. GST LLC continues to innovate and build a patent portfolio of bearing isolator products. Its well-known brands include GUARDIAN™, ISO-GARD™, EnDuro™ and SGI™.

Gar-Seal® brand PTFE-lined butterfly valves are used to control the flow of corrosive, abrasive or toxic media in the chemical processing industry.

Compression packing is used to provide sealing in pressurized, static and dynamic applications such as pumps and valves. Major markets for compression packing products are the pulp and paper, mining, petrochemical and hydrocarbon processing industries. Branded products for these markets include EVSP™, Synthepak and Graph-lock®. Critical service flange gaskets, seals and electrical flange isolation kits are used in high-pressure wellhead equipment, flow lines, water injection lines, sour hydrocarbon process applications and crude oil and natural gas pipeline/transmission line applications. These products are sold under the brand names Pikotek®, VCS/LineSeal®, VCFS™, Flowlok™, PGE™, LineBacker®, Backer® 61™ NSF, GasketSeal and ElectroStop®. Additional products for pipeline wall penetration sealing systems are supplied to water, construction and infrastructure industries under the Link-Seal® and Century-Line® brand names.

Technetics Group designs, manufactures and sells high performance metal seals; elastomeric seals; bellows and bellows assemblies; pedestals for semiconductor manufacturing; and a wide range of polytetrafluoroethylene ("PTFE") products. These products are used in a variety of industries, including electronics and semiconductor, aerospace, land-based turbines, power generation, oil and gas, food and beverage and other industries. Brands include Helicoflex®, Belfab®, Feltmetal®, Plastomer™, BioGuardian™ and Origraf®.

Stemco designs, manufactures and sells heavy-duty truck wheel-end component systems including: seals; hubcaps; mileage counters; bearings; locking nuts; brake products; suspension components; and RF-based tire pressure monitoring and inflation systems and automated mileage collection devices, as well as trailer end fairings designed to increase fuel efficiency. Its products primarily serve the medium and heavy-duty truck market. Product brands include STEMCO®, STEMCO Kaiser®, STEMCO Duroline®, STEMCO Crewson®, STEMCO Motor Wheel®, Grit Guard®, Guardian HP®, Voyager®, Discover®, Endeavor®, Pro-Torq®, Sentinel®, Data Trac®, DataTrac®, QwikKit®, Centrifuse®, Aeris™, BAT RF® and TrailerTail®.

Garlock Sealing Technologies LLC ("GST LLC") is one of three of our subsidiaries that filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code on the Petition Date. GST LLC is one of the businesses within our broader Garlock group. GST LLC and its subsidiaries operate five primary facilities, including facilities in Palmyra, New York and Houston, Texas. Because GST LLC and its subsidiaries remain wholly-owned indirect subsidiaries of ours, we have continued to include a description of their products, customers, competition, and

raw materials in this segment discussion.

Customers. Our Sealing Products segment sells products to industrial agents and distributors, original equipment manufacturers (“OEMs”), engineering and construction firms and end users worldwide. Sealing products are offered to global customers, with approximately 37% of sales delivered to customers outside the United States in 2014.

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customers include Saudi Aramco, Motion Industries, Applied Industrial Technologies, Electricite de France, AREVA, Bayer, BASF Corporation, Chevron, General Electric Company, Georgia-Pacific Corporation, Eastman Chemical Company, Exxon Mobil Corporation, Minara Resources, Queensland Alumina, AK Steel Corporation, Volvo Corporation, Utility Trailer, Great Dane, Mack Trucks, International Truck, PACCAR, ConMet, Applied Materials, Carlisle Interconnect Technologies, Schlumberger, China Nuclear Power Engineering Company Ltd., and Flextronics. In 2014, the largest customer accounted for approximately 7% of segment revenues.

**Competition.** Competition in the sealing markets we serve is based on proven product performance and reliability, as well as price, customer service, application expertise, delivery terms, breadth of product offering, reputation for quality, and the availability of product. Our leading brand names, including Garlock® and Stemco®, have been built upon long-standing reputations for reliability and durability. In addition, the breadth, performance and quality of our product offerings allow us to achieve premium pricing and have made us a preferred supplier among our agents and distributors. We believe that our record of product performance in the major markets in which this segment operates is a significant competitive advantage for us. Major competitors include A.W. Chesterton Company, Klinger Group, Teadit, Lamons, SIEM/Flexitallic, SKF USA Inc., Federal-Mogul Corporation, Saint-Gobain, Eaton Corporation, Parker Hannifin Corporation, and Miropro Co. Ltd.

**Raw Materials and Components.** Our Sealing Products segment uses PTFE resins, aramid fibers, specialty elastomers, elastomeric compounds, graphite and carbon, common and exotic metals, cold-rolled steel, leather, aluminum die castings, nitrile rubber, powdered metal components, and various fibers and resins. We believe all of these raw materials and components are readily available from various suppliers.

### **Engineered Products Segment**

**Overview.** Our Engineered Products segment includes two high performance industrial products businesses: GGB and Compressor Products International (CPI).

GGB designs, manufactures and sells self-lubricating, non-rolling, metal polymer, solid polymer, and filament wound bearing products, as well as aluminum bushing blocks for hydraulic applications. The bearing surfaces are made of PTFE or a mixture that includes PTFE to provide maintenance-free performance and reduced friction. GGB's bearing products typically perform as sleeve bearings or thrust washers under conditions of no lubrication, minimal lubrication or pre-lubrication. These products are used in a wide variety of markets such as the automotive, pump and compressor, construction, power generation and general industrial markets. GGB has approximately 20,000 bearing part numbers of different designs and physical dimensions. GGB is a leading and well recognized brand name and sells products under the DU®, DP®, DX®, DS™, HX™, EP™, SY™ and GAR-MAX™ names.

CPI designs, manufactures, sells and services components for reciprocating compressors and engines. These components, which include packing and wiper rings, piston and rider rings, compressor valve assemblies, divider block valves, compressor monitoring systems, lubrication systems and related components are utilized primarily in the refining, petrochemical, natural gas gathering, storage and transmission, and general industrial markets. Brand names for our products include Hi-Flo™, Valvealert™, Mentor™, Triple Circle™, CPI Special Polymer Alloys™, Twin Ring™, Lian ProFlo™, Neomag™, CVP™, XDCT™, POPR™ and Protecting Compressors World Wide™.

**Customers.** The Engineered Products segment sells its products to a diverse customer base using a combination of direct sales and independent distribution networks worldwide, with approximately 73% of sales delivered to customers outside the United States in 2014. GGB has customers worldwide in all major industrial sectors, and supplies products directly to customers through GGB's own local distribution system and indirectly to the market through independent agents and distributors with their own local networks. CPI sells its products and services globally through its internal sales force, independent sales representatives, distributors, and service centers. In 2014, the largest customer accounted for approximately 2% of segment revenues.

**Competition.** GGB has a number of competitors, including Kolbenschmidt Pierburg AG, Saint-Gobain's Norglide division, and Federal-Mogul Corporation. In the markets in which GGB competes, competition is based primarily on performance of the product for specific applications, product reliability, delivery, and price. CPI competes against other component manufacturers and service providers, such as Cook Compression, Hoerbiger Corporation, Graco and numerous smaller component manufacturers. In the markets served by CPI, the primary competitive drivers are trusted solutions with personalized customer care, product quality, availability, engineering support, and price.

Raw Materials. GGB's major raw material purchases include steel coil, bronze powder, bronze coil, PTFE and aluminum. GGB sources components from a number of external suppliers. CPI's major raw material purchases include PTFE, polyetheretherketone (PEEK), compound additives, bronze, steel, and stainless steel bar stock. We believe all of these raw materials and components are readily available from various suppliers.

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### Power Systems Segment

**Overview.** Our Power Systems segment (formerly Engine Products and Services) designs, manufactures, sells and services heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines. We market these products and services under the Fairbanks Morse Engine™ brand name. Products in this segment include licensed heavy-duty, medium-speed diesel, natural gas and dual fuel reciprocating engines, in addition to our own designs. The reciprocating engines range in size from 700 to 31,970 horsepower and from five to 20 cylinders. The government and the general industrial market for marine propulsion, power generation, and pump and compressor applications use these products. We have been building engines for over 115 years under the Fairbanks Morse Engine™ brand name and we have a large installed base of engines for which we supply aftermarket parts and service. Fairbanks Morse Engine has been a key supplier to the U.S. Navy for medium-speed diesel engines and has supplied engines to the U.S. Navy for over 70 years.

**Customers.** Our Power Systems segment sells its products and services to customers worldwide, including major shipyards, municipal utilities, institutional and industrial organizations, sewage treatment plants, nuclear power plants and offshore oil and gas platforms, with approximately 12% of sales delivered to customers outside the United States in 2014. We market our products through a direct sales force of engineers in North America and through independent agents worldwide. Our representative customers include Northrop Grumman, General Dynamics, Lockheed Martin, the U.S. Navy, the U.S. Coast Guard, Toshiba America Nuclear Energy Corp., Electricite du France, EcoPetrol, and Exelon. In 2014, the largest customer accounted for approximately 13% of segment revenues.

**Competition.** Major competitors for our Power Systems segment include MTU, Caterpillar Inc., and Wartsila Corporation. Price, delivery time, engineering and service support, and engine efficiency relating to fuel consumption and emissions drive competition.

**Raw Materials and Components.** The Power Systems segment purchases multiple ferrous and non-ferrous castings, forgings, plate stock and bar stock for fabrication and machining into engines. In addition, we buy a considerable amount of precision-machined engine components. We believe all of these raw materials and components are readily available from various suppliers, but may be subject to long and variable lead times.

### Research and Development

The goal of our research and development effort is to strengthen our product portfolios for traditional markets while simultaneously creating distinctive and breakthrough products. We utilize a process to move product innovations from concept to commercialization, and to identify, analyze, develop and implement new product concepts and opportunities aimed at business growth.

We employ scientists, engineers and technicians throughout our operations to develop, design and test new and improved products. We work closely with our customers to identify issues and develop technical solutions. The majority of our research and development spending typically is directed toward the development of new sealing products for the most demanding environments, the development of truck and trailer fleet information systems, the development of bearing products and materials with increased load carrying capability and superior friction and wear characteristics, and the development of power systems to meet current and future emissions requirements while improving fuel efficiencies.

### Backlog

At December 31, 2014, we had a backlog of orders valued at \$385.9 million compared with \$293.8 million at December 31, 2013. Approximately 34% of the backlog, primarily at Fairbanks Morse Engine, is expected to be filled beyond 2015. Backlog represents orders on hand we believe to be firm. However, there is no certainty the backlog orders will result in actual sales at the times or in the amounts ordered. In addition, for most of our business, backlog is not particularly predictive of future performance because of our short lead times and some seasonality.

### Quality Assurance

We believe product quality is among the most important factors in developing and maintaining strong, long-term relationships with our customers. In order to meet the exacting requirements of our customers, we maintain stringent standards of quality control. We routinely employ in-process inspection by using testing equipment as a process aid during all stages of development, design and production to ensure product quality and reliability. These include state-of-the-art CAD/CAM equipment, statistical process control systems, laser tracking devices, failure mode and

effect analysis, and coordinate measuring machines. We are able to extract numerical quality control data as a statistical measurement of the quality of the parts being manufactured from our CNC machinery. In addition, we perform quality control tests on parts that we outsource. As

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a result, we are able to significantly reduce the number of defective parts and therefore improve efficiency, quality and reliability.

As of December 31, 2014, 44 of our manufacturing facilities were ISO 9000, QS 9000 and/or TS 16949 certified. Twenty-one of our facilities are ISO 14001 certified. OEMs are increasingly requiring these standards in lieu of individual certification procedures and as a condition of awarding business.

### Patents, Trademarks and Other Intellectual Property

We maintain a number of patents and trademarks issued by the U.S. and other countries relating to the name and design of our products and have granted licenses to some of these patents and trademarks. We routinely evaluate the need to protect new and existing products through the patent and trademark systems in the U.S. and other countries. We also have unpatented proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operation of our products and their use. We do not consider our business as a whole to be materially dependent on any particular patent, patent right, trademark, trade secret or license granted or group of related patents, patent rights, trademarks, trade secrets or licenses granted.

In general, we are the owner of the rights to the products that we manufacture and sell. However, we also license patented and other proprietary technology and processes from various companies and individuals in order to broaden our product offerings. We are dependent on the ability of these third parties to diligently protect their intellectual property rights. In several cases, the intellectual property licenses are integral to the manufacture of our products. For example, Fairbanks Morse Engine licenses technology from MAN Diesel and its subsidiaries for certain of the four-stroke reciprocating engines it produces. The terms of the licenses vary by engine type. One set of licenses is set to expire on June 30, 2015, subject to negotiations to renew these licenses for a multi-year period. Licenses for the remaining engine types have terms, subject to potential renewal, expiring in 2018 or 2019. A loss of these licenses or a failure on the part of the licensor to protect its own intellectual property could reduce our revenues. These licenses are subject to renewal and it is possible we may not successfully renegotiate these licenses or they could be terminated for a material breach. If this were to occur, our business, financial condition, results of operations and cash flows could be adversely affected.

### Employees and Labor Relations

We currently have approximately 4,900 employees worldwide in our continuing operations. Approximately 2,600 employees are located within the U.S., and approximately 2,300 employees are located outside the U.S., primarily in Europe, Canada and China. Approximately 16% of our U.S. employees are members of trade unions covered by three collective bargaining agreements with contract termination dates from February 2017 to November 2018. Union agreements relate, among other things, to wages, hours, and conditions of employment. The wages and benefits furnished are generally comparable to industry and area practices. Our deconsolidated subsidiaries, primarily GST LLC, have about 1,000 additional employees worldwide.

## ITEM 1A. RISK FACTORS

In addition to the risks stated elsewhere in this annual report, set forth below are certain risk factors that we believe are material. If any of these risks occur, our business, financial condition, results of operations, cash flows and reputation could be harmed. You should also consider these risk factors when you read “forward-looking statements” elsewhere in this report. You can identify forward-looking statements by terms such as “may,” “hope,” “will,” “could,” “should,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of those terms or other comparative terms. Those forward-looking statements are only predictions and can be adversely affected if any of these risks occur.

### Risks Related to Our Business

Certain of our subsidiaries filed petitions to resolve asbestos litigation.

The historical business operations of certain subsidiaries of our subsidiary, Coltec Industries Inc (“Coltec”), principally 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 products, which contained encapsulated asbestos fibers. Anchor is an inactive and insolvent indirect subsidiary of Coltec. There is no remaining insurance coverage available to Anchor and it has no assets. Our subsidiaries’ exposure to asbestos litigation and their relationships with insurance carriers has been actively managed through another Coltec subsidiary, Garrison Litigation

Management Group, Ltd. (“Garrison,” collectively with GST LLC and Anchor, “GST”). On the Petition Date, GST LLC, Anchor and Garrison filed voluntary petitions for

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reorganization under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of North Carolina in Charlotte (the “Bankruptcy Court”) to address these claims. These subsidiaries have been deconsolidated from our financial statements since the Petition Date. The amount that will be necessary to fully and finally resolve the asbestos liabilities of these companies is uncertain. Several risks and uncertainties result from these filings that could have a material adverse effect on our business, financial condition, results of operations and cash flows. Those risks and uncertainties include the following:

possible changes in the value of the deconsolidated subsidiaries reflected in our financial statements. Our investment in GST is subject to periodic reviews for impairment. To estimate the fair value, the Company considers many factors and uses both discounted cash flow and market valuation approaches. The asbestos claims value is an important part of the value of that investment. The actual value will be determined in the Chapter 11 process, either through negotiations with claimant representatives or, absent a negotiated resolution, by the Bankruptcy Court after contested proceedings, and accordingly adverse developments with respect to the terms of the resolution of such claims may materially adversely affect the value of our investment in GST;

the uncertainty of the number and per claim value of pending and potential future asbestos claims. On the Petition Date, according to Garrison, there were more than 90,000 total asbestos claims pending against GST LLC, of which approximately 5,800 were claims alleging the disease mesothelioma. Based on discovery in the Chapter 11 proceedings, GST has learned that more than 1,900 of those claims were not, in fact, pending mesothelioma claims. As a result of the initiation of the Chapter 11 proceedings, the resolution of asbestos claims is subject to the jurisdiction of the Bankruptcy Court and the filing of the Chapter 11 cases automatically stayed the prosecution of pending asbestos bodily injury and wrongful death lawsuits, and initiation of new such lawsuits, against GST. An estimation trial for the purpose of estimating the number and value of allowed mesothelioma claims for plan feasibility purposes commenced on July 22, 2013 and concluded on August 22, 2013. GST, on the one hand, and the claimants’ representatives, on the other hand, proposed different approaches to estimating allowed asbestos personal injury claims against GST, and the Bankruptcy Court ruled that each could present its proposed approach. GST offered a merits-based approach that focused on its legal defenses to liability and took account of claimants’ recoveries from other sources, including trusts established in Chapter 11 cases filed by GST’s co-defendants, in estimating potential future recoveries by claimants from GST. The claimants’ representatives offered a settlement-based theory of estimation. On January 10, 2014, Bankruptcy Judge George Hodges announced his estimation decision. Citing with approval the methodology put forth by GST at trial, the judge determined that \$125 million is the amount sufficient to satisfy GST's liability for present and future mesothelioma claims. The judge's liability determination is for mesothelioma claims only. The court has not yet determined amounts for GST's liability for other asbestos claims and for administrative costs that would be required to review and process claims and payments, which will increase that \$125 million amount. Our recorded asbestos liability as of the Petition Date was \$472.1 million. Until the second quarter of 2014, neither we nor GST endeavored to update the estimate since the Petition Date except as necessary to reflect payments of accrued fees and the disposition of cases on appeal. As a result of those necessary updates, the liability estimate as of December 31, 2013 was \$466.8 million. On May 29, 2014, GST filed an amended proposed plan of reorganization and a proposed disclosure statement. That amended plan provided \$275 million in total funding for (a) present and future asbestos claims against GST that have not been resolved by settlement or verdict prior to the Petition Date, and (b) administrative and litigation costs. The \$275 million amount was determined based on an economic analysis of the feasibility of the proposed plan. The amended plan also provided that GST would pay in full unpaid claims that had been resolved by settlement or verdict prior to the Petition Date. GST estimates its aggregate liability for settled asbestos claims to be no more than \$10 million. Given the decision of the Bankruptcy Court in January 2014 with respect to its estimate of GST’s liability for present and future mesothelioma claims at \$125 million and GST’s filing of an amended plan of reorganization setting out its intention to fund a plan with total consideration of \$285 million in May 2014, GST at that time believed that its ultimate payment to resolve all present and future asbestos claims against it would be no less than the \$285 million set out in its proposed plan. Similarly, while GST believed it to be an unlikely worst case scenario, GST believes its ultimate costs to resolve all asbestos claims against it could be no more than the total value of GST. As a result, GST believed it appropriate to revise its liability estimate to the low end of the range between those two values and revised its estimate of its ultimate payment to resolve all

present and future asbestos claims to \$285 million. In January 2015, we announced that GST and we had reached agreement with the court-appointed legal representative of future asbestos claimants (the "Future Claimants' Representative") that includes a second amended proposed plan of reorganization. Under this revised plan, not less than \$367.5 million will be required to fund the resolution of all GST asbestos claims, \$30 million of which will be funded by Coltec. The Future Claimants' Representative has agreed to support, recommend and vote in favor of the revised plan. If approved by the Bankruptcy Court and implemented, the revised plan will provide certainty and finality to the expenditures necessary to resolve all current and future asbestos claims against GST. As a result, GST believes the low end of the reasonably possible range of values that will be necessary for it to fund to resolve all present and future claims is now \$337.5 million. Accordingly, GST has revised its estimate of its ultimate asbestos liability to \$337.5 million. Of GST's

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estimate of liability of \$337.5 million, \$77.5 million represents contributions required under the January 2015 revised plan of reorganization to be made to a settlement facility to be established under the revised plan over seven years following the consummation of the plan. In addition, the revised plan of reorganization provides that, during the 40-year period following consummation of the revised plan, GST would, if necessary, make supplementary annual contributions, subject to specified maximum annual amounts that decline over the period, to maintain a specified balance at specified dates of a litigation fund to be established under the plan to fund the defense and payment of claims of claimants who elect to pursue litigation under the plan rather than accept the settlement option under the plan. The maximum aggregate amount of all such contingent supplementary contributions over that period is \$132 million. GST's estimate of its ultimate asbestos liability of \$337.5 million does not include any amount of these contingent supplementary contributions as GST believes that initial contributions to the litigation fund may likely be sufficient to permit the balance of that facility to exceed the specified thresholds over the 40-year period and, accordingly, that the low end of a range of reasonably possible loss associated with these contingent supplementary contributions is \$0;

the financial viability of our subsidiaries' insurance carriers and their reinsurance carriers, and our subsidiaries' ability to collect on claims from them. Agreements with certain of these insurance carriers and the terms of applicable policies define specific annual amounts to be paid or limit the amount that can be recovered in any one year, and accordingly substantial insurance payments for submitted claims have been deferred and are payable in installments through 2018, and an additional \$36.9 million of other insurance payments may be payable only upon the conclusion of the bankruptcy process;

the potential for asbestos exposure to extend beyond the filed entities arising from corporate veil piercing efforts or other claims by asbestos plaintiffs. During the course of the proceedings before the Bankruptcy Court, the claimant representatives have asserted that affiliates of GST, including the Company and Coltec, should be held responsible for the asbestos liabilities of GST under various theories of derivative corporate responsibility including veil-piercing and alter ego. Claimant representatives filed a motion with the bankruptcy court asking for permission to sue us based on those theories. In a decision dated June 7, 2012, the Bankruptcy Court denied the claimant representatives' motion without prejudice, thereby potentially allowing the representatives to re-file the motion. Under GST's revised plan of reorganization and pursuant to an agreement that we have reached with GST, all claims against affiliates based on GST asbestos claims, including any corporate veil piercing, alter ego or other derivative claims, are settled in exchange for the payment of \$30 million by Coltec and other consideration under the plan; and

the costs of the bankruptcy proceeding and the length of time necessary to resolve the case, either through settlement or various court proceedings. Through December 31, 2014, GST has recorded Chapter 11 case-related fees and expenses totaling \$118.5 million. We have recorded an additional \$7.2 million in case-related fees and expenses incurred directly by EnPro and Coltec.

For a further discussion of the filings and the asbestos exposure of our subsidiaries, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview and Outlook," "– Contingencies – Asbestos" and "– Contingencies – Subsidiary Bankruptcy," and Notes 18 and 19 to our Consolidated Financial Statements, included in this report.

We cannot assure you that GST will be able to obtain Bankruptcy Court approval of its revised plan of reorganization and the settlement and resolution of claims and related releases of liability embodied therein or what the final terms of such plan will be at consummation, and the time period for the resolution of the bankruptcy proceedings is not presently determinable.

On January 14, 2015, GST filed a revised plan of reorganization that provides for (a) the resolution of present and future asbestos claims against GST, and (b) administrative and litigation costs. The plan incorporates the Bankruptcy Court's determination in January 2014 that \$125 million is sufficient to satisfy GST's aggregate liability for present and future mesothelioma claims; however, it also provides additional funds to provide full payment for non-mesothelioma claims and to gain the support of the Future Claimants' Representative of the plan. The revised plan of reorganization provides for the establishment of two facilities—a settlement facility (which would receive contributions of \$220 million from GST and \$30 million from Coltec upon consummation of the plan and additional contributions from GST aggregating \$77.5 million plus interest over the seven years following consummation of the plan) and a litigation

fund (which would receive \$30 million from GST upon consummation of the plan) to fund the defense and payment of claims of claimants who elect to pursue litigation under the plan rather than accept the settlement option under the plan. Funds contained in the settlement facility and the litigation fund would provide the exclusive remedies for current and future GST asbestos claimants other than claimants whose claims had been resolved by settlement or verdict prior to the Petition Date and were not paid prior to the Petition Date. The plan provides that GST will pay in full claims that had been resolved by settlement or verdict prior to the Petition Date that were not paid prior to the Petition Date (with respect to claims resolved by verdict, such payment will be made only to the extent the verdict becomes final). The amount of such claims resolved by verdict is \$2.5 million. GST estimates the range of

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its aggregate liability for the unpaid settled asbestos claims to be from \$3.1 million to \$16.4 million, and the revised plan provides that if the actual amount is less than \$10.0 million GST will contribute the difference to the settlement facility. In addition, the revised plan provides that, during the 40-year period following confirmation of the plan, GST would, if necessary, make supplementary annual contributions, subject to specified maximum annual amounts that decline over the period, to maintain a specified balance at specified dates of the litigation fund. The maximum aggregate amount of all such contingent supplementary contributions over that period is \$132 million. Under the plan, EnPro would guarantee GST's payment of the \$77.5 million of deferred contributions plus accrued interest to the settlement facility and, to the extent they are required, the supplementary contributions to the litigation fund. Under the terms of the plan, EnPro would retain 100% of the equity interests of GST LLC. The plan also provides for the extinguishment of all derivative claims against us based on GST asbestos products and operations.

The revised plan has not yet been confirmed by the Bankruptcy Court (and other necessary approvals have not been obtained), and there is no certainty that the Bankruptcy Court will confirm the plan (or grant other necessary preliminary approvals) or that the conditions to effectiveness of the plan will be satisfied or waived. The failure of the plan to be confirmed and/or to be consummated could result in, among other consequences, the pursuit of an alternative form of reorganization or liquidation, which may be less favorable to GST and to us. Confirmation and consummation of the plan are subject to a number of risks and uncertainties, including the actions and decisions of creditors and other third parties that have an interest in the bankruptcy proceedings, delays in the confirmation or effective date of a plan of reorganization due to factors beyond GST's or our control, which would result in greater costs and the impairment of value of GST, objections and other challenges to the confirmation of the plan, including appeals, and risks and uncertainties affecting GST and Coltec's ability to fund anticipated contributions under the plan as a result of adverse changes in their results of operations, financial condition and capital resources, including as a result of economic factors beyond their control. The process of confirming the plan or an alternative plan of reorganization generally mandates that certain requirements, including with respect to the adequacy of disclosure and solicitation of acceptances, must be met. Under the Bankruptcy Code, to confirm a plan of reorganization, a bankruptcy court must conclude, among other things, that (i) the plan has been proposed in good faith and not by any means forbidden by law; (ii) confirmation of the plan is not likely to be followed by a liquidation or need for further financial reorganization, (iii) the value of distributions to non-accepting holders of claims within a particular class under such plan will not be less than the value of distributions such holders would receive under Chapter 7 liquidation, and (iv) each class of claims that is impaired by the plan has accepted the plan. In addition, even if all classes of impaired claims have not accepted a plan, a bankruptcy court may nevertheless confirm a plan so long as (i) at least one impaired class has accepted such plan and (ii) such plan does not discriminate unfairly and is fair and equitable with respect to each impaired class of claimants that has not accepted such plan.

GST contends that all classes of claims, including asbestos claims, are not impaired under the second amended plan because the plan provides for payment in full of the allowed amounts of all claims and does not otherwise alter the rights of holders of claims. GST further contends that, because the Bankruptcy Code provides that classes of unimpaired claims are deemed to accept a plan, the Bankruptcy Court may confirm the plan without soliciting formal acceptance of classes of creditors, including the class of present asbestos claims. If the Bankruptcy Court disagrees with GST and determines that the class of present asbestos claims is impaired under the second amended plan and if such class does not accept the plan, GST believes that the Bankruptcy Court may nevertheless confirm such plan because the Bankruptcy Court may conclude that the support of the Future Claimants' Representative on behalf of the class of future claimants provides an accepting impaired class and the plan does not discriminate unfairly and is fair and equitable to the class of present asbestos claimants. There can be no assurance, however, that the Bankruptcy Court will accept GST's contentions and confirm the second amended plan or that, if the Bankruptcy Court does confirm the plan, that the Bankruptcy Court's order doing so will be upheld on appeal. If the second amended plan is not confirmed and an alternative reorganization plan and/or settlement cannot be agreed upon, the ultimate outcome and the timing of resolution of the case would be highly uncertain. In that circumstance, there remains a possibility that the Bankruptcy Court's liability estimate could be reversed on appeal and subsequently revised, and that GST could eventually be forced to liquidate, although we believe an eventual GST liquidation to be highly unlikely. However, we cannot assure you that GST will not have to liquidate, and that, in the event of reversal on appeal of the

liability estimate, GST's assets will be sufficient to satisfy all claims against it, in which case claims that would otherwise have been resolved under GST's second amended plan may be brought against us.

Accordingly, we cannot assure you that GST will be able to obtain necessary Bankruptcy Court approval of the second amended plan or that the plan will be consummated or that the terms and conditions of any reorganization plan that may ultimately be consummated will be similar to the plan. In addition, in each asbestos-driven Chapter 11 case that has been resolved previously, the amount of the debtor's liability has been determined as part of a consensual plan of reorganization agreed to by the debtor, its asbestos claimants and a legal representative for potential future claimants. In the absence of such a consensual arrangement, the GST asbestos claims resolution process remains uncertain and could take an undetermined time to complete and could materially adversely affect us in other ways.

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Even if the amended proposed plan of reorganization is confirmed, we may be subject to claims that were not settled or discharged in GST's bankruptcy cases, which could have a material adverse effect on our results of operations and profitability.

We expect that substantially any GST asbestos-related claims that arose prior to the Petition Date and that might be asserted against us as an affiliate of GST will be resolved and settled during GST's Chapter 11 proceedings. Pursuant to the revised plan of reorganization, the provisions of the plan would constitute a good-faith resolution of any such claims by asbestos claimants against GST and against us to the extent arising from GST's products or operations, and the entry of the order confirming the plan will constitute the Bankruptcy Court's approval of such resolution of all such claims. Circumstances in which claims and/or other obligations against us that arose prior to the Petition Date that would otherwise be settled as part of the plan may not be discharged include instances where particular claimants are found to have received inadequate notice of the plan and/or the proposed treatment of asbestos claims embodied therein, where the claim is not derivative of the liability of GST, such as where those claims are against our subsidiaries other than GST based upon allegations of exposure to asbestos contained in their products, or where claimants have made workers' compensation claims based on allegations of exposure to asbestos during the course of their employment. Prior to the Petition Date, several thousand of those claims against Coltec were dismissed without payment. Several thousand others were pending on the Petition Date but were stayed by the Bankruptcy Court during the pendency of GST's bankruptcy proceeding but would not be discharged under the terms of GST LLC's amended plan of reorganization. Coltec has never paid any indemnity dollars to resolve any such claim, but there can be no assurance that it will not be required to pay such a claim in the future.

Our business and some of the markets we serve are cyclical and distressed market conditions could have a material adverse effect on our business.

The markets in which we sell our products, particularly chemical companies, petroleum refineries, heavy-duty trucking, semiconductor manufacturing, capital equipment and the automotive industry, are, to varying degrees, cyclical and have historically experienced periodic downturns. Prior downturns have been characterized by diminished product demand, excess manufacturing capacity and subsequent erosion of average selling prices in these markets resulting in negative effects on our net sales, gross margins and net income. The recent recession affected our results of operations. A prolonged and severe downward cycle in our markets could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We face intense competition that could have a material adverse effect on our business.

We encounter intense competition in almost all areas of our businesses. Customers for many of our products are attempting to reduce the number of vendors from which they purchase in order to reduce inventories. To remain competitive, we need to invest continuously in manufacturing, marketing, customer service and support and our distribution networks. We also need to develop new products to continue to meet the needs and desires of our customers. We may not have sufficient resources to continue to make such investments or maintain our competitive position. Additionally, some of our competitors are larger than we are and have substantially greater financial resources than we do. As a result, they may be better able to withstand the effects of periodic economic downturns. Certain of our products may also experience transformation from unique branded products to undifferentiated price sensitive products. This product commoditization may be accelerated by low cost foreign competition. Changes in the replacement cycle of certain of our products, including because of improved product quality or improved maintenance, may affect aftermarket demand for such products. Initiatives designed to distinguish our products through superior service, continuous improvement, innovation, customer relationships, technology, new product acquisitions, bundling with key services, long-term contracts or market focus may not be effective. Pricing and other competitive pressures could adversely affect our business, financial condition, results of operations and cash flows. If we fail to retain the independent agents and distributors upon whom we rely to market our products, we may be unable to effectively market our products and our revenue and profitability may decline.

The marketing success of many of our businesses in the U.S. and abroad depends largely upon our independent agents' and distributors' sales and service expertise and relationships with customers in our markets. Many of these agents have developed strong ties to existing and potential customers because of their detailed knowledge of our products. A loss of a significant number of these agents or distributors, or of a particular agent or distributor in a key market or

with key customer relationships, could significantly inhibit our ability to effectively market our products, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.



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Increased costs for raw materials, the termination of existing supply agreements or disruptions of our supply chain could have a material adverse effect on our business.

The prices for some of the raw materials we purchase increased in 2014. While we have been successful in passing along some or all of these higher costs, there can be no assurance we will be able to continue doing so without losing customers. Additionally, our Power Systems segment has entered into long-term contracts to manufacture and sell engines which do not allow for price adjustments to recover additional costs resulting from increases in the costs of materials and components during the contract period, and accordingly material increases in relevant costs could adversely affect the profitability of these long-term contracts and the profits of that segment. Similarly, the loss of a key supplier or the unavailability of a key raw material could adversely affect our business, financial condition, results of operations and cash flows.

Reductions in the U.S. Navy's requirements for engines offered by Fairbanks Morse Engine could materially adversely affect the results of our Power Systems segment and our business with the U.S. Navy and other governmental agencies is subject to government contracting risks.

Sales of new engines for use by the U.S. Navy by our Power Systems segment, which have been a significant component of that segment's revenues, are based on the U.S. Navy's long-term ship-building programs. We currently anticipate that the U.S. Navy's requirements for new engines of this type are likely to decline, which decline may be exacerbated by any curtailment in military budgets affecting the U.S. Navy's ship-building programs. Although the Power Systems segment has expanded its activities in other markets, including the sale of diesel engine generator sets for emergency back-up power at nuclear power plants in France and the establishment of an exclusive distribution arrangement with a German engine manufacturer in the power generation industry in the U.S., any such decline in demand from the U.S. Navy could materially adversely affect the results of our Power Systems segment.

Our business with the U.S. Navy, and other governmental agencies, including sales to prime contractors that supply these agencies, is subject to government contracting risks. U.S. government contracts are subject to termination by the government, either for the convenience of the government or for default as a result of our failure to perform under the applicable contract. If terminated by the government as a result of our default, we could be liable for additional costs the government incurs in acquiring undelivered goods or services from another source and any other damages it suffers. In addition, if we or one of our divisions were charged with wrongdoing with respect to a U.S. government contract, the U.S. government could suspend us from bidding on or receiving awards of new government contracts pending the completion of legal proceedings. If convicted or found liable, the U.S. government could subject us to fines, penalties, repayments and treble and other damages, and/or bar us from bidding on or receiving new awards of U.S. government contracts and void any contracts found to be tainted by fraud. The U.S. government also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other seriously improper conduct.

We have exposure to some contingent liabilities relating to previously owned businesses, which could have a material adverse effect on our financial condition, results of operations or cash flows in any fiscal period.

We have contingent liabilities related to previously owned businesses of our predecessors, including environmental liabilities and liabilities for certain products and other matters. In some instances we have indemnified others against those liabilities, and in other instances we have received indemnities from third parties against those liabilities.

Claims could arise relating to products or other matters related to our discontinued operations. Some of these claims could seek substantial monetary payments. For example, we could potentially be subject to the liabilities related to environmental liabilities associated with the pre-1983 operations of Crucible Steel Corporation a/k/a Crucible, Inc., the firearms manufactured prior to March 1990 by Colt Firearms, a former operation of Coltec, and electrical transformers manufactured prior to May 1994 by Central Moloney, another former Coltec operation. Coltec has ongoing obligations with regard to workers compensation, retiree medical and other retiree benefit matters associated with discontinued operations in connection with Coltec's periods of ownership of those operations.

We have insurance, reserves, and funds held in trust to address some of these liabilities. However, if our insurance coverage is depleted, our reserves are not adequate, or the funds held in trust are insufficient, environmental and other liabilities relating to discontinued operations could have a material adverse effect on our financial condition, results of operations and cash flows.



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We conduct a significant amount of our sales activities outside of the U.S., which subjects us to additional business risks, including foreign exchange risks, that may cause our profitability to decline.

Because we sell our products in a number of foreign countries, we are subject to risks associated with doing business internationally. In 2014, we derived approximately 45% of our net sales from sales of our products outside of the U.S. Our international operations are, and will continue to be, subject to a number of risks, including:

- unfavorable fluctuations in foreign currency exchange rates, including long-term contracts denominated in foreign currencies;
- adverse changes in foreign tax, legal and regulatory requirements;
- difficulty in protecting intellectual property;
- trade protection measures and import or export licensing requirements;
- cultural norms and expectations that may sometimes be inconsistent with our Code of Conduct and our requirements about the manner in which our employees, agents and distributors conduct business;
- differing labor regulations;
- political and economic instability, including instabilities associated with European sovereign debt uncertainties and the future continuity of membership of the European Union; and
- acts of hostility, terror or war.

Any of these factors, individually or together, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operations outside the United States require us to comply with a number of United States and international regulations. For example, our operations in countries outside the United States are subject to the Foreign Corrupt Practices Act (the “FCPA”), which prohibits United States companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. Our activities in countries outside the United States create the risk of unauthorized payments or offers of payments by one of our employees or agents that could be in violation of the FCPA, even though these parties are not always subject to our control. We have internal control policies and procedures and have implemented training and compliance programs with respect to the FCPA. However, we cannot assure that our policies, procedures and programs always will protect us from reckless or criminal acts committed by our employees or agents. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances. In addition, we are subject to and must comply with all applicable export controls and economic sanctions laws and embargoes imposed by the United States and other various governments. Changes in export control or trade sanctions laws may restrict our business practices, including cessation of business activities in sanctioned countries or with sanctioned entities, and may result in modifications to compliance programs and increase compliance costs, and violations of these laws or regulations may subject us to fines, penalties and other sanctions, such as loss of authorizations needed to conduct aspects of our international business or debarments from export privileges. Violations of the FCPA or export controls or sanctions laws and regulations may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition.

We intend to continue to pursue international growth opportunities, which could increase our exposure to risks associated with international sales and operations. As we expand our international operations, we may also encounter new risks that could adversely affect our revenues and profitability. For example, as we focus on building our international sales and distribution networks in new geographic regions, we must continue to develop relationships with qualified local agents, distributors and trading companies. If we are not successful in developing these relationships, we may not be able to increase sales in these regions.

Failure to properly manage these risks could adversely affect our business, financial condition, results of operations and cash flows.

If we are unable to protect our intellectual property rights and knowledge relating to our products, our business and prospects may be negatively impacted.

We believe that proprietary products and technology are important to our success. If we are unable to adequately protect our intellectual property and know-how, our business and prospects could be negatively impacted. Our efforts to protect our intellectual property through patents, trademarks, service marks, domain names, trade secrets, copyrights, confidentiality, non-

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compete and nondisclosure agreements and other measures may not be adequate to protect our proprietary rights. Patents issued to third parties, whether before or after the issue date of our patents, could render our intellectual property less valuable. Questions as to whether our competitors' products infringe our intellectual property rights or whether our products infringe our competitors' intellectual property rights may be disputed. In addition, intellectual property rights may be unavailable, limited or difficult to enforce in some jurisdictions, which could make it easier for competitors to capture market share in those jurisdictions.

Our competitors may capture market share from us by selling products that claim to mirror the capabilities of our products or technology. Without sufficient protection nationally and internationally for our intellectual property, our competitiveness worldwide could be impaired, which would negatively impact our growth and future revenue. As a result, we may be required to spend significant resources to monitor and police our intellectual property rights.

We have made and expect to continue to make acquisitions, which could involve certain risks and uncertainties.

We expect to continue to make acquisitions in the future. Acquisitions involve numerous inherent challenges, such as properly evaluating acquisition opportunities, properly evaluating risks and other diligence matters, ensuring adequate capital availability and balancing other resource constraints. There are risks and uncertainties related to acquisitions, including: difficulties integrating acquired technology, operations, personnel and financial and other systems; unrealized sales expectations from the acquired business; unrealized synergies and cost savings; unknown or underestimated liabilities; diversion of management attention from running our existing businesses and potential loss of key management employees of the acquired business. In addition, internal controls over financial reporting of acquired companies may not be up to required standards. Our integration activities may place substantial demands on our management, operational resources and financial and internal control systems. Customer dissatisfaction or performance problems with an acquired business, technology, service or product could also have a material adverse effect on our reputation and business.

Our business may be adversely affected by information technology disruptions.

Our business may be impacted by information technology disruptions, including information technology attacks. Cybersecurity attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data (our own or that of third parties). We believe that we have adopted appropriate measures to mitigate potential risks to our systems from information technology-related disruptions. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, misappropriation, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business could be materially adversely affected by numerous other risks, including rising healthcare costs, changes in environmental laws and other unforeseen business interruptions.

Our business may be negatively impacted by numerous other risks. For example, medical and healthcare costs may continue to increase. Initiatives to address these costs, such as consumer driven health plan packages, may not successfully reduce these expenses as needed. Failure to offer competitive employee benefits may result in our inability to recruit or maintain key employees. Other risks to our business include potential changes in environmental rules or regulations, which could negatively impact our manufacturing processes. Use of certain chemicals and other substances could become restricted or such changes may otherwise require us to incur additional costs which could reduce our profitability and impair our ability to offer competitively priced products. Additional risks to our business include global or local events which could significantly disrupt our operations. Terrorist attacks, natural disasters, political insurgencies, pandemics and electrical grid disruptions and outages are some of the unforeseen risks that could negatively affect our business, financial condition, results of operations and cash flows.

**Risks Related to Ownership of Our Common Stock**

The market price and trading volume of our common stock may be volatile.

A relatively small number of shares traded in any one day could have a significant effect on the market price of our common stock. The market price of our common stock could fluctuate significantly for many reasons, including in response to the risks described in this section and elsewhere in this report or for reasons unrelated to our operations, such as reports by

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industry analysts, investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability.

Because our quarterly revenues and operating results may vary significantly in future periods, our stock price may fluctuate.

Our revenue and operating results may vary significantly from quarter to quarter. A high proportion of our costs are fixed, due in part to significant selling and manufacturing costs. Small declines in revenues could disproportionately affect operating results in a quarter and the price of our common stock may fall. We may also incur charges to income to cover increases in the estimate of our subsidiaries' future asbestos liability. Other factors that could affect quarterly operating results include, but are not limited to:

- demand for our products;
- the timing and execution of customer contracts;
- the timing of sales of our products;
- increases in manufacturing costs due to equipment or labor issues;
- changes in foreign currency exchange rates;
- changes in applicable tax rates;
- an impairment in the value of our investment in GST;
- an impairment of goodwill at our Compressor Products International reporting unit or other business;
- 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;
- changes in our pricing policies or the pricing policies of our competitors;
- increased expenses, whether related to sales and marketing, raw materials or supplies, product development or administration;
- major changes in the level of economic activity in major regions of the world in which we do business;
- costs related to possible future acquisitions or divestitures of technologies or businesses;
- an increase in the number or magnitude of product liability or environmental claims;
- our ability to expand our operations and the amount and timing of expenditures related to expansion of our operations, particularly outside the U.S.; and
- economic assumptions and market factors used to determine post-retirement benefits and pension liabilities.

Various provisions and laws could delay or prevent a change of control.

The anti-takeover provisions of our articles of incorporation and bylaws and provisions of North Carolina law could delay or prevent a change of control or may impede the ability of the holders of our common stock to change our management. In particular, our articles of incorporation and bylaws, among other things:

- require a supermajority shareholder vote to approve any business combination transaction with an owner of 5% or more of our shares unless the transaction is recommended by disinterested directors;
- limit the right of shareholders to remove directors and fill vacancies;
- regulate how shareholders may present proposals or nominate directors for election at shareholders' meetings; and
- authorize our board of directors to issue preferred stock in one or more series, without shareholder approval.

Future sales of our common stock in the public market could lower the market price for our common stock and adversely impact the trading price of our convertible debentures.

In the future, we may sell additional shares of our common stock to raise capital. In addition, a reasonable number of shares of our common stock are reserved for issuance under our equity compensation plans, including shares to be issued upon the exercise of stock options, vesting of restricted stock or unit grants, and upon conversion of our convertible debentures. We

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cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sales of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the trading price of the debentures and the market price of our common stock.

**Risks Related to Our Capital Structure**

Our debt agreement and the indenture governing our senior notes impose limitations on our operations, which could impede our ability to respond to market conditions, address unanticipated capital investments and/or pursue business opportunities.

The agreement governing our senior secured revolving credit facility and the indenture governing the senior notes impose limitations on our operations, such as limitations on certain restricted payments, investments, incurrence or repayment of indebtedness, and maintenance of a consolidated net leverage ratio and an interest coverage financial ratio. In addition, the indenture governing our senior notes contains limitations on certain restricted payments, investments and incurrence or repayment of indebtedness. These limitations could impede our ability to respond to market conditions, address unanticipated capital investment needs and/or pursue business opportunities.

We may not have sufficient cash to fund a required repurchase the senior notes upon a change of control.

Upon a change of control, as defined under the indenture governing the senior notes and includes events that may be beyond our control, the holders of the senior notes have the right to require us to offer to purchase all of the senior notes then outstanding at a price equal to 101% of their principal amount plus accrued and unpaid interest. In order to obtain sufficient funds to pay the purchase price of the outstanding notes, we expect that we would have to refinance the senior notes. We cannot assure you that we would be able to refinance the senior notes on reasonable terms, if at all. Our failure to offer to purchase all outstanding notes or to purchase all validly tendered notes would be an event of default under the indenture governing the senior notes. Such an event of default may cause the acceleration of our other debt.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

We are headquartered in Charlotte, North Carolina and have 63 primary manufacturing facilities in 13 countries, including the U.S. The following table outlines the location, business segment and size of our largest facilities, along with whether we own or lease each facility:

Location	Segment	Owned/ Leased	Size (Square Feet)
U.S.			
Palmyra, New York*	Sealing Products	Owned	690,000
Berea, Kentucky	Sealing Products	Owned	240,000
Longview, Texas	Sealing Products	Owned	219,000
Rome, Georgia	Sealing Products	Leased	160,000
Chattanooga, Tennessee	Sealing Products	Owned	117,000
Thorofare, New Jersey	Engineered Products	Owned	120,000
Beloit, Wisconsin	Power Systems	Owned	433,000
Foreign			
Mexico City, Mexico*	Sealing Products	Owned	131,000
Neuss, Germany	Sealing Products	Leased	146,000
Saint Etienne, France	Sealing Products	Owned	108,000
Annecy, France	Engineered Products	Owned	196,000
Heilbronn, Germany	Engineered Products	Owned	127,000
Sucany, Slovakia	Engineered Products	Owned	109,000





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\* These facilities are owned by GST LLC or one of its subsidiaries, which were deconsolidated from our Consolidated Financial Statements on the Petition Date.

Our manufacturing capabilities are flexible and allow us to customize the manufacturing process to increase performance and value for our customers and meet particular specifications. We also maintain numerous sales offices and warehouse facilities in strategic locations in the U.S., Canada and other countries. We believe our facilities and equipment are generally in good condition and are well maintained and able to continue to operate at present levels.

ITEM 3. LEGAL PROCEEDINGS

Descriptions of environmental, asbestos and legal matters are included in Item 7 of this annual report under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contingencies” and in Note 19 to our Consolidated Financial Statements, which descriptions are incorporated by reference herein.

On June 5, 2010, GST LLC, Anchor and Garrison filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of North Carolina in Charlotte (the “Bankruptcy Court”) as a result of tens of thousands of pending and expected future asbestos personal injury claims. The status of these proceedings is set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contingencies – Subsidiary Bankruptcy – Update,” which is incorporated by reference. Other matters relevant to such proceedings are set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contingencies – Asbestos,” which is incorporated by reference herein. The Company is also subject to certain environmental and other legal matters which are included in Note 19 to the Consolidated Financial Statements in this report, which is incorporated herein by reference.

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

We were not subject to any penalties associated with any failure to disclose “reportable transactions” under Section 6707A of the Internal Revenue Code.

BorgWarner

A subsidiary of BorgWarner Inc. (“BorgWarner”) has asserted claims against GGB France E.U.R.L. (“GGB France”) with respect to certain bearings supplied by GGB France to BorgWarner and used by BorgWarner in manufacturing hydraulic control units included in motor vehicle automatic transmission units. BorgWarner and GGB France are participating in a technical review before a panel of experts to determine, among other things, whether there were any defects in the bearings and whether any defect caused the damages claimed by BorgWarner, which technical review is a required predicate to the commencement of a legal proceeding for damages. On October 14, 2014, BorgWarner filed a writ of claims with the Commercial Court of Brive-la-Gaillarde in France seeking monetary damages. On December 19, 2014, BorgWarner initiated “fast track” proceedings, which is a French legal process typically used for uncontested claims. On January 30, 2015, GGB France filed a writ of response challenging BorgWarner’s attempt to use the “fast track” process and, on February 4, 2015, GGB France filed a writ of response seeking to stay the proceedings on the merits pending the completion of the technical review. The timing of the decision with respect to GGB France’s writs of response is uncertain. There is no fixed deadline for the completion of the technical review and the presentation of the expert panel’s findings. We believe that GGB France has valid factual and legal defenses to these claims and we are vigorously defending these claims. At this point in the technical review process we are unable to estimate a reasonably possible range of loss related to these claims.

Trent Tube

During 2013, we accrued a liability of \$6.3 million related to environmental remediation costs associated with the pre-1983 site ownership and operation of the former Trent Tube facility in East Troy, Wisconsin. This amount is included in other income (expense) on the accompanying Consolidated Statements of Operations. The Trent Tube facility was operated by Crucible Materials Corporation from 1983 until its closure in 1998. Crucible Materials Corporation commenced environmental remediation activities at the site in 1999. In connection with the bankruptcy of

Crucible Materials Corporation, a trust was established to fund the remediation of the site. We have reviewed the trust's assets and valued them at \$750,000 for our internal purposes in 2013 when we accrued the \$6.3 million liability. During 2013, the Wisconsin Department of Natural Resources first notified us of potential liability for remediation of the site as a potentially responsible party under Wisconsin's "Spill Act" which provides that potentially responsible parties may be jointly and severally liable for site remediation. Based on our

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evaluation of the site, we believe our estimated costs to remediate the site will range between \$7 million and \$10 million, reduced by the value of the trust's remaining assets.

Lower Passaic River Study Area of the Diamond Alkali Superfund Site

Based on our prior ownership of Crucible Steel Corporation a/k/a Crucible, Inc. (“Crucible”), we may have contingent liability relating to the Lower Passaic River Study Area of the Diamond Alkali Superfund Site in New Jersey. Crucible operated a steel mill abutting the Passaic River in Harrison, New Jersey from the 1930s until 1974, which was one of many industrial operations on the river dating back to the 1800s. Certain contingent environmental liabilities related to this site were retained by Coltec when Coltec sold a majority interest in Crucible Materials Corporation (the successor of Crucible) in 1985. The United States Environmental Protection Agency (the “EPA”) has notified Coltec that it is a potentially responsible party (“PRP”) for Superfund response actions in the lower 17-mile stretch of the Passaic River known as the Lower Passaic River Study Area. Coltec and approximately 70 of the numerous other PRPs, known as the Cooperating Parties Group, are parties to a May 2007 Administrative Order on Consent with the EPA to perform a Remedial Investigation/Feasibility Study (“RI/FS”) of the contaminants in the Lower Passaic River Study Area. The RI/FS is ongoing and has not been completed. Separately, on April 11, 2014, the EPA released its Focused Feasibility Study (the “FFS”) with its proposed plan for remediating the lower eight miles of the Lower Passaic River Study Area. The FFS calls for bank-to-bank dredging and capping of the riverbed of that portion of the river and estimates a range of the present value of aggregate remediation costs of approximately \$953 million to approximately \$1.731 billion, although estimates of the costs and the timing of costs are inherently imprecise. The FFS is subject to a 90-day public comment period, which expired on August 28, 2014, and potential revision, including the adoption of a less extensive remedy, in light of comments that were received. No final allocations of responsibility have been made among the numerous PRPs that have received notices from the EPA, there are numerous identified PRPs that have not yet received PRP notices from the EPA, and there are likely many PRPs that have not yet been identified. During the fourth quarter of 2014, we accrued a liability of \$3.5 million related to environmental remediation costs associated with the Lower Passaic River Study Area, which is our estimate of the low end of a range of reasonably possible costs. Based on our evaluation of the site, we are unable to estimate the upper end of a range of reasonably possible costs. Our actual remediation costs could be significantly greater than the \$3.5 million we accrued.

Onondaga Lake Superfund Site

Based on our prior ownership of Crucible, we may have contingent liability relating to the Onondaga Lake Superfund Site (the “Onondaga Site”) located near Syracuse, New York. Crucible operated a steel mill facility adjacent to Onondaga Lake from 1911 to 1983. The New York State Department of Environmental Conservation (“NYSDEC”) has notified the Company and Coltec, 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. 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 the Company that it had claims against Coltec related to investigation and remediation at the Onondaga Site. In addition, the Company has 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 Coltec is considered to be a potentially responsible party for natural resource damages at the Onondaga Site. We have entered into tolling agreements with NYSDEC, the EPA and Honeywell. At this time, based on limited information we have with respect to estimated remediation costs and the respective allocation of responsibility for remediation among potentially responsible parties, we cannot estimate a reasonably possible range of loss associated with Crucible’s activities that may have affected the Onondaga Site.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable



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## EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning our executive officers is set forth below:

Name	Age	Position
Stephen E. Macadam	54	President, Chief Executive Officer and Director
Alexander W. Pease*	44	Senior Vice President and Chief Financial Officer
Kenneth D. Walker	45	Senior Vice President and Chief Operating Officer
Steven R. Bower	56	Vice President, Controller and Chief Accounting Officer
Todd L. Anderson	45	President, Stemco
David S. Burnett	48	Vice President, Treasury and Tax
J. Milton Childress II*	57	Vice President, Strategic Planning and Business Development
Jon A. Cox	48	Group President, Stemco and Chief Innovation Officer, EnPro
William A. Favenesi	51	President, CPI
David K. Fold	52	Director of Accounting and Financial Reporting and Principal Accounting Officer
Gilles Hudon	54	President, Technetics Group
Robert S. McLean	50	Vice President, General Counsel and Secretary
Marvin A. Riley	40	President, Fairbanks Morse Engine
Susan E. Sweeney	51	President, GGB
Eric A. Vaillancourt	51	President, Garlock

\*Mr. Pease has provided us with notice of his resignation as Senior Vice President and Chief Financial Officer effective on March 31, 2015. The Board of Directors has appointed Mr. Childress to serve as Senior Vice President and Chief Financial Officer effective upon the effective date of Mr. Pease's resignation of those positions.

Stephen E. Macadam has served as our Chief Executive Officer and President and as a director since April 2008. Prior to accepting these positions with EnPro, Mr. Macadam served as Chief Executive Officer of BlueLinx Holdings Inc. since October 2005. Before joining BlueLinx Holdings Inc., Mr. Macadam was the President and Chief Executive Officer of Consolidated Container Company LLC since August 2001. He served previously with Georgia-Pacific Corp. where he held the position of Executive Vice President, Pulp & Paperboard from July 2000 until August 2001, and the position of Senior Vice President, Containerboard & Packaging from March 1998 until July 2000. Mr. Macadam held positions of increasing responsibility with McKinsey and Company, Inc. from 1988 until 1998, culminating in the role of principal in charge of McKinsey's Charlotte, North Carolina operation. Mr. Macadam received a B.S. in mechanical engineering from the University of Kentucky, an M.S. in finance from Boston College and an M.B.A. from Harvard University, where he was a Baker Scholar.

Alexander W. Pease is currently Senior Vice President and Chief Financial Officer and has held these positions since May 2011. Mr. Pease joined EnPro in February 2011 and served as Senior Vice President until his appointment as Chief Financial Officer. In addition to his finance responsibilities, Mr. Pease also has responsibility for strategy, supply chain, and IT. Prior to agreeing to join the Company in February 2011, Mr. Pease was a principal with McKinsey and Company, Inc., where he was a leader in the Global Energy and Materials and Operations practices. Prior to joining McKinsey, Mr. Pease spent six years in the United States Navy as a SEAL Team leader with a wide range of international operating experience.

Kenneth D. Walker is currently Senior Vice President and Chief Operating Officer and has held this position since November 2014. Mr. Walker served as President, Compressor Products International division, from September 2013 to November 2014 with additional responsibility as President, Engineered Products Segment of EnPro, which included both GGB and Compressor Products International. Before that, Mr. Walker was President, GGB division, after having served as Corporate Vice President, Continuous Improvement for EnPro, 2009 to 2010, Vice President and General Manager of GGB Americas from 2006 through 2009, as Vice President and General Manager of

Plastomer Technologies from 2003 through 2006, and as Vice President, Sales and Marketing at Plastomer Technologies from 2001 to 2002. Prior to joining Plastomer Technologies, Mr. Walker worked in a variety of business development and general management roles at G5 Technologies and W. L. Gore & Associates.

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Todd L. Anderson is currently President, Stemco division, and has held this position since April 2014, after having previously served as Vice President, Garlock Pipeline Technologies division from August 2011 to April 2014. Mr. Anderson first joined the Stemco division in 1994 and became Stemco's Vice President, Engineering in 1999. He then served as Vice President, Operations from 2004 to 2008 before becoming Vice President and General Manager of Stemco Kaiser in February 2008 until his move to Garlock Pipeline Technologies in August 2011.

Steven R. Bower is currently Vice President, Controller and Chief Accounting Officer and has held this position since joining the Company in October 2014. Immediately prior to joining the Company, Mr. Bower was Corporate Controller of Polymer Group, Inc. (PGI) from July 2014 through October 2014. Prior to joining PGI, Mr. Bower was Vice President, Finance and Accounting and Corporate Secretary for HITCO Carbon Composites, Inc., (a subsidiary of SGL Group), from April 2003 to February 2014. Prior to HITCO, Mr. Bower served at SGL's global headquarters in Germany as Controller - Central Planning and Coordination, from July 2001 to April 2003; and prior to that; as Corporate Controller - North America from August 1996 to June 2001. Prior to his positions with SGL Group; Mr. Bower served Collins & Aikman Corporation and its predecessor companies from November 1989 through August 1996 in accounting, public reporting and investor relations roles. Prior to Collins & Aikman, Mr. Bower was with Price Waterhouse LLP from July 1983 through November 1989, where he departed as an Audit Manager. Mr. Bower is both a Certified Public Accountant and a Certified Management Accountant.

David S. Burnett is currently Vice President, Treasury and Tax, and Treasurer, and has held these positions since February 2012, after having previously served as Director, Tax from July 2010 to February 2012. Prior to joining EnPro, Mr. Burnett was a Director at PricewaterhouseCoopers LLP in Charlotte, North Carolina from November 2004 to July 2010, and from September 2001 to November 2004 in the Washington National Tax Services office in Washington, DC. Prior to PricewaterhouseCoopers LLP, he was a Senior Manager in Grant Thornton LLP's Office of Federal Tax Services in Washington, D.C. Mr. Burnett is both a Certified Public Accountant and a Certified Treasury Professional.

J. Milton Childress II is currently Vice President, Strategic Planning and Business Development and has held this position since February 2006, after having joined the EnPro corporate staff in December 2005. He was a co-founder of and served from October 2001 through December 2005 as Managing Director of Charlotte-based McGuireWoods Capital Group. Prior to that, Mr. Childress was Senior Vice President, Planning and Development of United Dominion Industries, Inc. from December 1999 until May 2001, having previously served as Vice President. Mr. Childress held a number of positions with Ernst & Young LLP's corporate finance consulting group prior to joining United Dominion in 1992.

Jon A. Cox is currently Group President, Stemco Group, and Chief Innovation and Information Officer for EnPro. He was appointed to this position in February 2014. Prior to this, Mr. Cox was Division President of the Stemco division from May 2007. Mr. Cox joined the Stemco division in 1995 as its Vice President of Engineering, was promoted to global Vice President of Engineering of the Garlock division in 1999 and promoted to serve as Vice President and General Manager of Garlock's Klosure business unit in 2004. Prior to joining Stemco, Mr. Cox's career began with Federal-Mogul Corporation where he spent 11 years in increasing roles of responsibility in the engineering group.

William A. Favnesi is currently President, CPI division, and has held this position since November, 2014. Mr. Favnesi served as Vice President of Global Commercial Development at CPI from October 2013 to November 2014 and served as Vice President at Technetics from August 2011 to October 2013. From May 2005 to August 2011, he held positions of increasing responsibility in sales and marketing for Garlock Helicoflex/Garlock HPS (now Technetics Group). Prior to joining EnPro, he served in various international sales management roles for The Lee Company and Advanced Products Company. Mr. Favnesi began his career as an officer in the U.S. Air Force where he flew EF-111A/F-111A aircraft.



David K. Fold is currently Principal Accounting Officer and Director of Accounting and Financial Reporting of EnPro and has held this position since July, 2014. Mr. Fold served as Director of Accounting and Financial Reporting from December, 2001 to July, 2014. Prior to joining EnPro, Mr. Fold held a number of positions in the accounting, tax and internal audit functions at United Dominion Industries, Inc. from 1992 to 2001. Prior to United Dominion Industries, Mr. Fold was an audit manager at KPMG LLP. Mr. Fold is a Certified Public Accountant.

Gilles Hudon is currently President, Technetics Group division, and has held this position since August 2011. In August 2013, Mr. Hudon accepted additional responsibility as Executive Vice President, EnPro Europe. Mr. Hudon previously served as Vice-President and General Manager of Garlock's High Performance Seals Group from August 2009 to 2011, as Vice-President and General Manager of Garlock Helicoflex from 2007 to 2009, and as Vice-President and General Manager of Garlock Canada from 2005 to 2007. Prior to joining EnPro, Mr. Hudon was President of Uniflex Technologies, a Canadian manufacturing company.

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Robert S. McLean is currently Vice President, General Counsel and Secretary of EnPro and has held this position since May 2012. Mr. McLean served as Vice President, Legal and Assistant Secretary from April 2010 to May 2012. Prior to joining EnPro, Mr. McLean was a partner at the Charlotte, North Carolina law firm of Robinson Bradshaw & Hinson P.A., which he joined in 1995, and where he chaired the firm's corporate practice group. Prior to joining Robinson Bradshaw & Hinson, Mr. McLean worked with the Atlanta office of the King & Spalding law firm and the Charlotte office of the Smith, Helms, Mullis & Moore law firm (now part of McGuireWoods, LLP), after which he was the Assistant General Counsel and Secretary of the former Carolina Freight Corporation (now part of Arkansas Best Corporation).

Marvin A. Riley is currently President, Fairbanks Morse Engine division, and has held this position since May 2012. Prior to that Mr. Riley served as Vice President, Manufacturing, of EnPro since December 2011. Mr. Riley served as Vice President Global Operations, GGB division, from November 2009 until November 2011 and as Vice President Operations Americas, GGB division, from July 2007 until November 2011. Prior to joining EnPro, he was an executive with General Motors Vehicle Manufacturing and held multiple positions of increasing responsibility from 1997 to 2007 within General Motors.

Susan E. Sweeney is currently President, GGB division, and has held this position since September 2013. In 2014, she was conferred an Ed.D degree in Organizational Leadership. Dr. Sweeney served as Vice President of Global Operations GGB from November 2011 to September 2013 and served as Director of Operations, North America GGB from April 2010 to November 2011 Prior to joining EnPro, she held positions of increasing responsibility with General Motors Corp. from 1985 to 2009.

Eric A. Vaillancourt is currently President, Garlock division, and has held this position since November 2014. Mr. Vaillancourt served as President, Garlock Sealing Products from June 2012 to November 2014 and as Vice President, Sales and Marketing of the Garlock division from 2009 to 2012. Prior to joining EnPro, Mr. Vaillancourt held positions of increasing responsibility with Bluelinx Corporation from 1988 to 2009, culminating in his position as Regional Vice President North-Sales and Distribution. Mr. Vaillancourt completed Harvard Management Program in 2014.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is publicly traded on the New York Stock Exchange ("NYSE") under the symbol "NPO." As of February 20, 2015, there were 3,737 holders of record of our common stock. The price range of our common stock from January 1, 2013 through December 31, 2014 is listed below by quarter:

	Low Sale Price	High Sale Price
Fiscal 2014:		
Fourth Quarter	\$57.15	\$67.78
Third Quarter	60.32	75.08
Second Quarter	66.59	75.78
First Quarter	56.30	80.00
Fiscal 2013:		
Fourth Quarter	\$53.39	\$61.24
Third Quarter	51.01	60.56
Second Quarter	44.76	51.74
First Quarter	41.03	51.37

We did not declare any cash dividends to our shareholders during 2013 or 2014. On January 13, 2015, our Board of Directors adopted a policy under which it intends to declare regular quarterly cash dividends on our common stock and declared a cash dividend of \$0.20 per share payable on March 16, 2015 to shareholders of record at the close of business on March 2, 2015. For a discussion of the restrictions on payment of dividends on our common stock, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Dividends."

The following table sets forth all purchases made by us or on our behalf 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 fourth quarter of 2014.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
October 1 – October 31, 2014	14	(1) \$72.95	(1) —	—
	25	(1) \$60.88	(1) —	—
November 1 – November 30, 2014	—	—	—	—
December 1 – December 31, 2014	646	(1) \$63.29	(1) —	—
Total	685	(1) \$63.40	(1) —	—

(1) A total of 685 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. Coltec, which is a wholly owned subsidiary of EnPro, furnished these shares in exchange for management and other services provided by EnPro. With respect to the 646 shares deemed

purchased in December, these shares were valued at a price of \$63.29 per share, the average of the high and low trading price of our common stock on December 31, 2014. With respect to the 14 shares and 25 shares deemed purchased in October in connection with the correction of an administrative error with respect to deferrals which should have occurred on June 30, 2014 and September 30, 2014, these shares were valued at a price of \$72.95 and \$60.88 per share, respectively, the average of the high and low trading price of our common stock on June 30, 2014 and September 30, 2014, respectively. The total average price paid per share reported in column (b) is the weighted average per share price. We do not consider the transfer of shares from Coltec in this context to be pursuant to a publicly announced plan or program.

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CUMULATIVE TOTAL RETURN PERFORMANCE GRAPH

Set forth below is a line graph showing the yearly change in the cumulative total shareholder return for our common stock as compared to similar returns for the Russell 2000® Stock Index and a group of our peers (the “Peer Group”) consisting of Actuant Corporation, Barnes Group, Inc., Clarcor, Inc., and Circor International, Inc.

Each of the returns is calculated assuming the investment of \$100 in each of the securities on December 31, 2009, and reinvestment of dividends into additional shares of the respective equity securities when paid. The graph plots the respective values beginning on December 31, 2009, and continuing through December 31, 2014. Past performance is not necessarily indicative of future performance.

ITEM 6. SELECTED FINANCIAL DATA

The following historical consolidated financial information as of and for each of the years ended December 31, 2014, 2013, 2012, 2011 and 2010 has been derived from, and should be read together with, our audited Consolidated Financial Statements and the related notes, for each of those years. The audited Consolidated Financial Statements and related notes as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012, are included elsewhere in this annual report. The information presented below with respect to the last three completed fiscal years should also be read together with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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	Year Ended December 31,				
	2014 (1)	2013 (1)	2012 (1)	2011 (2)	2010 (3)(4)
	(as adjusted, in millions, except per share data)				
Statement of Operations Data:					
Net sales	\$1,219.3	\$1,144.2	\$1,184.2	\$1,105.5	\$865.0
Income from continuing operations	\$22.0	\$27.4	\$41.0	\$44.2	\$61.3
Balance Sheet Data:					
Total assets	\$1,604.0	\$1,398.3	\$1,370.9	\$1,252.1	\$1,148.3
Long-term debt (including current portion)	\$321.1	\$165.1	\$185.3	\$150.2	\$135.8
Notes payable to GST	\$271.0	\$259.3	\$248.1	\$237.4	\$227.2
Per Common Share Data – Basic:					
Income from continuing operations	\$0.95	\$1.31	\$1.99	\$2.15	\$3.01
Per Common Share Data – Diluted:					
Income from continuing operations	\$0.85	\$1.17	\$1.90	\$2.06	\$2.96

(1) For a discussion of acquisitions and divestitures in the fiscal years ended December 31, 2014, 2013 and 2012, see Item 1. Business-Acquisitions and Dispositions.

In August 2011, we acquired certain assets and assumed certain liabilities of PI Bearing Technologies, a privately held manufacturer of bearing blocks and other bearing products used in fluid power applications, and a distributor of high performance plain bearing products used in industrial applications. The business is part of our Engineered Products segment. In July 2011, we acquired Tara Technologies, a privately-held company that offers highly engineered products and solutions to the semiconductor, aerospace, energy and medical markets. The business is part of our Sealing Products segment. In February 2011, we acquired the Mid Western group of companies, a privately-owned business primarily serving the oil and gas drilling, production and processing industries of western Canada. Mid Western services and rebuilds reciprocating compressors, designs and installs lubrication systems, and services and repairs a variety of other equipment used in the oil and gas industry. The business is part of our Engineered Products segment. In February 2011, we acquired the business of PSI, a privately-owned group of companies that manufacture products for the safe flow of fluids through pipeline transmission and distribution systems worldwide. The PSI business primarily serves the global oil and gas industry and water and wastewater infrastructure markets. The business's products include flange sealing and flange isolation products; pipeline casing spacers/isolators; casing end seals; the original Link-Seal® modular sealing system for sealing pipeline penetrations into walls, floors, ceilings and bulkheads; hole forming products; manhole infiltration sealing systems; and safety-related signage for pipelines. The business is part of our Sealing Products Segment. In January 2011, we acquired certain assets and assumed certain liabilities of Rome Tool & Die, Inc., a leading supplier of steel brake shoes to the North American heavy-duty truck market. The business is part of our Sealing Products segment. We paid for the acquisitions completed during 2011 with \$228.2 million in cash, which included \$99.2 million for the purchase of PSI. Additionally, there were approximately \$2.2 million of acquisition-related costs recorded during 2011.

(2) During the fourth quarter of 2009, the Company announced its plans to sell the Quincy Compressor business (“Quincy”) that had been reported within the Engineered Products segment and completed the sale in the first half of 2010. The purchase price for the assets and equity interests sold was \$189.1 million in cash. The purchaser also assumed certain liabilities of Quincy. The sale resulted in a gain of \$147.8 million (\$92.5 million, net of tax).

(3) On the Petition Date, GST LLC, Anchor and Garrison filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in Bankruptcy Court. The filings were the initial step in an asbestos claims resolution process, which is ongoing. The goal of the process is an efficient and permanent resolution of all current and future asbestos claims through court approval of a plan of reorganization, which is expected to establish a trust to which all asbestos claims will be channeled for resolution. The financial results of GST and subsidiaries have

been excluded from our consolidated results since the Petition Date. The investment in GST is presented using the cost method during the reorganization period and is subject to periodic reviews for impairment. The cost method requires us to present our ownership interests in the net assets of GST at the Petition Date as an investment and to not recognize any income or loss from GST and subsidiaries in our results of operations during the reorganization period. When GST emerges from the jurisdiction of the Bankruptcy Court, the subsequent accounting will be determined based upon the applicable circumstances and facts at such time, including the terms of any plan of reorganization. As a result of the deconsolidation of GST, we conducted an analysis to compare the fair market value of GST to its book value. Based on this analysis, we recognized a \$54.1 million non-cash pre-tax gain on the deconsolidation of GST in the second quarter of 2010. The fair value of GST, net of taxes on the gain on deconsolidation, was recorded at \$236.9 million.

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ITEM 7. 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 consolidated financial condition and operating results during the periods included in the accompanying audited Consolidated Financial Statements and the related notes. You should read the following discussion in conjunction with our audited Consolidated Financial Statements and the related notes, included elsewhere in this annual report.

Forward-Looking Statements

This report contains certain statements that are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995 (the "Act") and releases issued by the Securities and Exchange Commission (the "SEC"). The words "may," "hope," "will," "should," "could," "expect," "plan," "anticipate," "intend," "believe," "estimate," "potential," "continue," and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. We believe that it is important to communicate our future expectations to our shareholders, and we therefore make forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that we are not able to accurately predict or control, and our actual results may differ materially from the expectations we describe in our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We advise you to read further about certain of these and other risk factors set forth in Item 1A of this annual report, entitled "Risk Factors." We undertake no obligation to publicly update or revise any forward-looking statement, either as a result of new information, future events or otherwise. 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.

Overview and Outlook

Overview. We design, develop, manufacture, service and market proprietary engineered industrial products. We have 63 primary manufacturing facilities located in 13 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; 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; heavy-duty truck wheel-end component systems, including brake products, brake drums, suspension products and tire pressure management products; bellows and bellows assemblies; pedestals for semiconductor manufacturing; and PTFE products. 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. The United States government and the general markets for marine propulsion,



power generation, and pump and compressor applications use these products and services. 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 electric 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.

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The historical business operations of certain subsidiaries of our subsidiary, Coltec Industries Inc (“Coltec”), principally 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. Information about GST LLC’s asbestos litigation is contained in this Management’s Discussion and Analysis of Financial Condition and Results of Operations in the “Asbestos” subsection of the “Contingencies” section.

On June 5, 2010 (the “Petition Date”), GST LLC, Anchor and Garrison Litigation Management Group, Ltd. (“Garrison”) 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 in Charlotte (the “Bankruptcy Court”). GST LLC, Anchor and Garrison are sometimes referred to collectively as “GST” in this report. The filings were the initial step in a claims resolution process. GST LLC is one of the businesses in our broader Garlock group. GST LLC and its subsidiaries operate five significant manufacturing facilities, including operations in Palmyra, New York and Houston, Texas. The filings did not include EnPro Industries, Inc., or any other EnPro Industries, Inc. operating subsidiary.

GST LLC now operates in the ordinary course under court protection from asbestos claims. All pending litigation against GST is stayed during the process. We address our actions to permanently resolve GST LLC’s asbestos litigation in this Management’s Discussion and Analysis of Financial Condition and Results of Operations in the “Garlock Sealing Technologies LLC and Garrison Litigation Management Group, Ltd.” section.

The financial results of GST and subsidiaries are included in our consolidated results through June 4, 2010, the day prior to the Petition Date. However, U.S. generally accepted accounting principles require an entity that files for protection under the U.S. Bankruptcy Code, whether solvent or insolvent, whose financial statements were previously consolidated with those of its parent, as GST’s and its subsidiaries’ were with ours, generally must be prospectively deconsolidated from the parent and the investment accounted for using the cost method. At deconsolidation, our investment was recorded at its estimated fair value as of June 4, 2010, resulting in a gain for reporting purposes. The cost method requires us to present our ownership interests in the net assets of GST at the Petition Date as an investment and not recognize any income or loss from GST and subsidiaries in our results of operations during the reorganization period. Our investment of \$236.9 million as of December 31, 2014 and 2013, was subject to periodic reviews for impairment. When GST emerges from the jurisdiction of the Bankruptcy Court, the subsequent accounting will be determined based upon the applicable facts and circumstances at such time, including the terms of any plan of reorganization. See Note 18 to the Consolidated Financial Statements in this Form 10-K for condensed financial information of GST and subsidiaries.

In January 2015, we announced that GST and we had reached agreement with the Future Claimants' Representative that includes a revised plan of reorganization. The Future Claimants' Representative has agreed to support, recommend and vote in favor of the revised plan. On January 14, 2015, GST filed the revised plan of reorganization which provides for (a) the treatment of present and future asbestos claims against GST that have not been resolved by settlement or verdict prior to the Petition Date, and (b) administrative and litigation costs. The revised plan of reorganization provides for the establishment of two facilities – a settlement facility (which would receive \$220 million from GST and \$30 million from our consolidated subsidiary, Coltec Industries Inc (“Coltec”), upon consummation of the plan and additional contributions by GST aggregating \$77.5 million over the seven years following consummation of the plan) and a litigation fund (which would receive \$30 million from GST upon consummation of the plan) to fund the defense and payment of claims of claimants who elect to pursue litigation under the plan rather than accept the settlement option under the plan. Funds contained in the settlement facility and the litigation fund would provide the exclusive remedies for current and future GST asbestos claimants other than claimants whose claims had been resolved by settlement or verdict prior to the Petition Date and were not paid prior to the Petition Date. The plan provides that GST will pay in full claims that had been resolved by settlement or verdict prior to the Petition Date that were not paid prior to the Petition Date (with respect to claims resolved by verdict, such payment will be made only to the extent the verdict becomes final). The amount of such claims resolved by verdict is \$2.5 million. GST estimates the range of its aggregate liability for the unpaid settled asbestos claims to be from \$3.1 million to \$16.4 million, and the revised plan provides that if the actual amount is less than \$10.0 million GST will contribute the difference to the settlement facility. In addition, the revised plan provides that, during the 40-year period following confirmation of the

plan, GST would, if necessary, make supplementary annual contributions, subject to specified maximum annual amounts that decline over the period, to maintain a specified balance at specified dates of the litigation fund. The maximum aggregate amount of all such contingent supplementary contributions over that period is \$132 million. Under the plan, EnPro would guarantee GST's payment of the \$77.5 million of deferred contributions plus accrued interest to the settlement facility and, to the extent they are required, the supplementary contributions to the litigation fund.

The revised plan incorporates the Bankruptcy Court's determination in January 2014 that \$125 million is sufficient to satisfy GST's aggregate liability for present and future mesothelioma claims; however, it also provides additional funds to provide full payment for non-mesothelioma claims and to gain the support of the Future Claimants' Representative of the plan. Under the terms of the plan, we would retain 100% of the equity interests of GST LLC. The plan also provides for the

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extinguishment of all derivative claims against us based on GST asbestos products and operations. The revised plan has not yet been confirmed by the Bankruptcy Court (and other necessary approvals have not been obtained), and there is no certainty that the Bankruptcy Court will confirm the plan (or grant other necessary preliminary approvals) or that the conditions to effectiveness of the plan will be satisfied or waived.

As a result of Coltec's agreement to fund a contribution of \$30 million to the settlement facility pursuant to the revised plan of reorganization, we recorded a \$30 million accrual for this liability in our 2014 results.

During 2014, 2013, and 2012, we completed a number of acquisitions and a disposition of a business. Please refer to "Acquisitions and Dispositions" in Item 1 – Business for additional discussion regarding these transactions.

We completed our required annual impairment test of goodwill as of October 1, 2014. The estimated fair value of our Compressor Products International ("CPI") reporting unit, included in our Engineered Products segment, exceeded its book value by 10%, 24% and 10%, in 2014, 2013 and 2012, respectively. There is \$51.2 million of goodwill allocated to CPI. The fair value of the CPI reporting unit was calculated using both discounted cash flow and market valuation approaches. The key assumptions used for the discounted cash flow approach include business projections, growth rates, and a discount rate of 9.6%. The discount rate we use is based on our weighted average cost of capital. For the market approach, we chose a group of 14 companies we believe are representative of our diversified industrial peers. We used a 70% weighting for the discounted cash flow valuation approach and a 30% weighting for the market valuation approach, reflecting our belief that the discounted cash flow valuation approach provides a better indicator of value since it reflects the specific cash flows anticipated to be generated in the future by the business. For sensitivity purposes, a 100-basis-point increase in the discount rate would result in the valuation of this reporting unit exceeding its 2014 book value by 5%. Conversely, a 100-basis-point decrease in the discount rate would result in the valuation of this reporting unit exceeding its 2014 book value by 19%.

The future cash flows modeled for CPI are dependent on certain ongoing cost saving restructuring initiatives to remove some labor and facilities cost from our future cost structure and a customer-focused organizational realignment to identify price and volume opportunities. These initiatives were both launched in prior years and are being modified on an ongoing basis to address market circumstances, including recent declines in supplying customers in the oil and gas market. There is uncertainty associated with the savings opportunities to be realized by these restructuring initiatives, and therefore only a portion of these opportunities were forecasted in the future cash flow model utilized for goodwill impairment testing. Further deterioration affecting customers in the oil and gas markets may adversely affect future cash flows for CPI to an extent exceeding savings opportunities from our initiatives, and we will continue to monitor developments in this market and CPI's operating results in evaluating the goodwill associated with CPI.

We are dependent on the strength of our customers and their respective industries to achieve sales forecasted for 2015. Except for 2015, which is based on a detailed forecast, the remaining years in the cash flow model are based on the 2015 forecast, adjusted for assumed macro-economic forecasts for Industrial Production changes at each of our major geographic markets per the DuPont Economic outlook as of September 2014. Since our products serve a variety of industries, Industrial Production is a good indicator for demand changes for our products and services. The nominal growth rates for 2016 and beyond, are approximately 4%, 3%, and 9% for North America, Europe, and Asia, respectively.

Management believes that all assumptions used were reasonable based on historical operating results and expected future trends. However, if future operating results are unfavorable as compared with forecasts, the results of future goodwill impairment evaluations could be negatively affected.

We determined all other reporting units had fair values substantially in excess of carrying values and there were no subsequent indicators of impairment through December 31, 2014.

Outlook

OEM order activity remains firm in our semiconductor, aerospace and trucking markets, and we have a healthy first quarter backlog and order rate in the Power Systems segment. Our automotive and general industrial markets are also strong at this point in the year as consumers have benefited from lower gasoline prices and an improving U.S. economy. However, economic volatility outside of North America and slowing project and maintenance spending in

the oil and gas markets could result in lower demand levels in a few of our businesses. In addition, the weakening of the euro and other foreign currencies will likely have a negative translation effect on our sales and earnings for the year. Longer term, we expect continued benefits from our strategic growth initiatives including growth from recent and future strategic acquisitions.

Our effective tax rate is directly affected by the relative proportions of revenue and income before taxes in the jurisdictions in which we operate. Based on the expected mix of domestic and foreign earnings, we anticipate our effective tax

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rate to remain lower than the U.S. statutory rate primarily due to a significant portion of our earnings originating in lower rate foreign jurisdictions. We also benefit from certain tax incentives such as the U.S. deduction for domestic production activities, and credits for research and development. Based on the expected mix of domestic and foreign earnings in 2015, we anticipate our annual effective tax rate for 2015 will be between 30% and 34%. Discrete tax events may cause our effective rate to fluctuate on a quarterly basis. Certain events, including, for example, acquisitions and other business changes, which are difficult to predict, may also cause our effective tax rate to fluctuate. We are subject to changing tax laws, regulations, and interpretations in multiple jurisdictions. Corporate tax reform continues to be a priority in the U.S. and other jurisdictions. Changes to the tax system in the U.S. could have significant effects, positive and negative, on our effective tax rate, and on our deferred tax assets and liabilities.

We contributed \$48.5 million to our U.S. defined benefit pension plans in 2014. This shift in contribution strategy was based in part on an increase in the PBGC variable-rate premiums, which are assessed on underfunded balances. Prefunding the plans should also reduce future net periodic pension cost, as plan assets generate higher absolute returns. We do not expect to make any contributions in 2015, based on currently available data, which is subject to change, and consultation with our actuaries. Future contribution requirements, if any, depend on pension asset returns, pension valuation assumptions, plan design, and legislative actions.

We estimate annual pension expense for the full year of 2015 will be approximately \$5.0 million, which would be \$2.5 million more than in 2014. The expected increase in pension expense is primarily due to a lower discount rate used in the actuarial computations and updates to the actuarially determined mortality tables. The estimated 2015 pension expense is \$7.3 million below 2013 pension expense due to significant contributions made during 2013 and 2014, and the strong returns on pension assets. These estimates are based on current assumptions and pension expense may increase in subsequent years if discount rates decline or other changes in actuarial assumptions increase the projected benefit obligation.

In connection with our growth strategy, we will continue to evaluate acquisitions in 2015; however, the effect of such acquisitions cannot be predicted and therefore is not reflected in this outlook.

We address our outlook on our actions to permanently resolve GST LLC's asbestos litigation in the "Management's Discussion and Analysis of Financial Condition and Results of Operations – Garlock Sealing Technologies LLC and Garrison Litigation Management Group, Ltd." section.

Results of Operations

The following table does not include results for GST and its subsidiaries after the day preceding the Petition Date. See Note 18 to our Consolidated Financial Statements in this Form 10-K for condensed financial information for GST and subsidiaries.

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	Years Ended December 31,		
	2014	2013	2012
	(in millions)		
Sales			
Sealing Products	\$664.3	\$622.9	\$609.1
Engineered Products	357.6	356.4	363.0
Power Systems	200.1	167.6	214.6
	1,222.0	1,146.9	1,186.7
Intersegment sales	(2.7	) (2.7	) (2.5
Total sales	\$1,219.3	\$1,144.2	\$1,184.2
Segment Profit			
Sealing Products	\$85.6	\$97.1	\$88.8
Engineered Products	26.8	17.6	20.5
Power Systems	28.5	14.0	39.2
Total segment profit	140.9	128.7	148.5
Corporate expenses	(42.9	) (33.3	) (32.3
Asbestos settlement	(30.0	) —	—
Interest expense, net	(44.1	) (44.3	) (42.8
Other income (expense), net	8.7	(15.3	) (9.9
Income before income taxes	\$32.6	\$35.8	\$63.5

Segment profit is total segment revenue reduced by operating, 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, asbestos-related expenses, gains/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.

Other income (expense), net in the table above contains all items included in other (operating) expense and other income (expense), net on our Consolidated Statements of Operations for the years ending December 31, 2014, 2013, and 2012 with the exception of \$2.3 million, \$6.7 million and \$5.0 million, respectively, of restructuring costs. As noted previously, restructuring costs are considered to be a part of segment profit. Additionally, other income (expense), net in the table above for the years ending December 31, 2014, 2013, and 2012 also includes \$3.1 million, \$6.6 million, and \$7.2 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.

**2014 Compared to 2013**

Sales of \$1,219.3 million in 2014 increased 6.6% from \$1,144.2 million in 2013. The following table summarizes the impact of acquisitions, foreign currency, engine sales, and organic growth by segment:

Sales increase/(decrease)	Percent Change 2014 vs. 2013					
	Acquisitions	Foreign Currency	Engine Revenue	Organic	Total	
EnPro Industries, Inc.	0.4	% —	% 1.4	% 4.8	% 6.6	%
Sealing Products	0.7	% 0.2	% n/a	5.7	% 6.6	%
Engineered Products	—	% (0.2	)% n/a	0.5	% 0.3	%
Power Systems	—	% —	% 9.8	% 9.6	% 19.4	%

Following are key points regarding changes in sales for 2014 compared to 2013:

Increased organic sales in all segments

Increased engine sales in the Power Systems segment

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¶The acquisitions in 2014 included in the Sealing Products segment

Segment profit, management's primary measure of how our operations perform, increased 9.5% to \$140.9 million in 2014 from \$128.7 million in 2013. Favorable volume and selected price increases generated \$30.8 million. These favorable changes were partially offset by higher selling, general and administrative costs.

Corporate expenses for 2014 increased by \$9.6 million compared to 2013. The increase was primarily driven by an increase in employee medical costs (\$3.4 million), employee incentive compensation (\$3.0 million), information technology costs (\$2.1 million) and salaries/severance (\$1.5 million).

On January 14, 2015, GST filed a revised plan of reorganization that established a settlement facility which would receive \$220 million from GST and \$30 million from our consolidated subsidiary, Coltec, upon consummation of the plan and additional contributions from GST over the next seven years. As a result of Coltec's agreement to fund a contribution of \$30 million to the settlement facility pursuant to the revised plan of reorganization, we recorded a \$30 million charge to establish this liability in our 2014 results.

Net interest expense in 2014 was \$44.1 million compared to \$44.3 million in 2013. The overall decrease of \$0.2 million was due to a reduction in the aggregate principal of convertible debentures outstanding following the privately negotiated exchange transactions completed in March 2014 and June 2014 and tender offer completed in September 2014 (\$6.4 million) and lower interest due to lower borrowings against the senior secured revolving credit facility (\$0.6 million) partially offset by interest on our 5.875% senior notes (\$5.3 million) and increases in interest on the note payable to GST because of capitalized payment-in-kind interest (\$1.3 million).

Other income (expense), net in 2014 was \$8.7 million of income compared to \$15.3 million of expense in 2013. The change was due primarily to the gain on sale of our GRT business unit in 2014 (\$27.7 million), decreased legal and other fees as activity related to GST's asbestos claims resolution process slowed (\$3.1 million), and lower additions to environmental reserves (\$1.8 million), partially offset by losses on the convertible debenture exchange and tender offer transactions in 2014 (\$10.0 million).

Income tax expense in 2014 was \$10.6 million, resulting in an annual effective tax rate of 32.4%. This is compared to \$8.4 million of tax expense in 2013, which resulted in an annual effective tax rate of 23.4%. The effective tax rate in 2013 reflected a discrete benefit related to the January 2013 passage of the American Taxpayer Relief Act of 2012, which retroactively extended previously expired tax provisions. As a result, the entire 2012 benefit of these expired provisions was recorded in January 2013 (\$1.6 million). The effective tax rate in 2014 is lower than U.S. statutory rates primarily due to the earnings in lower rate foreign jurisdictions where a significant portion of our income is taxed. In addition, we historically have benefited from income tax incentives such as the U.S. deduction for domestic production activities (\$1.6 million) and various credits for research and development (\$1.3 million).

Net income was \$22.0 million, or \$0.85 per share, in 2014 compared to \$27.4 million, or \$1.17 per share, in 2013. Earnings per share are expressed on a diluted basis.

Following is a discussion of operating results for each segment during the year:

**Sealing Products.** Sales increased 6.6% to \$664.3 million in 2014 from \$622.9 million in 2013. Excluding the benefit of acquisitions (\$4.8 million) and favorable foreign exchange (\$1.2 million), sales were up 5.7% or \$35.4 million.

Higher demand in Stemco's North American heavy-duty truck market (\$27.2 million), Technetics Group's semiconductor (\$8.5 million) and aerospace (\$3.4 million) markets, and Garlock's China market (\$2.2 million) more than offset lower volumes at the remaining consolidated Garlock operations (\$8.8 million) due to lower demand in oil and gas markets.

Segment profit decreased 11.8% to \$85.6 million in 2014 from \$97.1 million in 2013. At consolidated Garlock, profits declined \$14.2 million due to lower oil and gas market volumes (\$6.2 million), increased manufacturing costs due to rework and wage increases (\$1.9 million), restructuring costs (\$1.4 million) and increases to bad debt and excess inventory reserves. At Technetics Group, profits were down \$2.1 million as higher volume (\$5.3 million) was more than offset by headcount increases (\$3.7 million) and the non-recurrence of R&D subsidies (\$2.4 million) and the release of an acquisition earn-out provision (\$2.0 million) in 2013. Stemco profits increased by \$4.7 million as higher volume-related income (\$12.2 million) was partially offset by increased manufacturing costs primarily due to investment in establishing its centralized distribution center (\$4.8 million) and higher administrative costs. Operating margins for the segment decreased to 12.9% in 2014 from 15.6% in 2013.

Engineered Products. Sales increased 0.3% to \$357.6 million in 2014 from \$356.4 million in 2013. Excluding foreign exchange effects, sales were up 0.5% or \$1.9 million. At GGB, sales were up \$6.1 million primarily due to volume increases in European industrial markets (\$2.4 million), global automobile markets (\$2.6 million), and European and Latin American

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renewable energy markets (\$1.6 million) in addition to selected price increases of \$2.0 million. Lower fluid power market volumes (\$3.0 million) partially offset these increases. At CPI, weakness in North American oil and gas markets (\$5.0 million) were only partially offset by price increases (\$1.7 million).

Segment profit increased 52% to \$26.8 million in 2014 from \$17.6 million in 2013. Excluding foreign exchange effects, profit was up 50% or \$8.8 million. At GGB, higher volumes (\$2.4 million), price increases (\$2.0 million) and lower procurement and production costs (\$3.2 million) were partially offset by higher headcount, software amortization and other administrative costs (\$3.6 million). At CPI, lower volumes (\$2.7 million) and higher administrative costs (\$1.1 million) were more than offset by price increases (\$1.7 million), lower manufacturing costs (\$2.8 million) and reduced restructuring costs (\$4.8 million). Operating margins for the segment increased to 7.5% in 2014 from 4.9% in 2013.

Power Systems. Sales increased 19.4% to \$200.1 million in 2014 from \$167.6 million in 2013 from increased engine sales (\$16.3 million) primarily due to the shipment of three engines in 2014 recognized under the completed contract method and higher parts and service revenue (\$16.2 million).

Segment profit increased 104% to \$28.5 million in 2014 from \$14.0 million in 2013. The increase in segment profit was primarily due to the shipment of three engines in 2014 recognized under the completed contract method, higher parts and service volumes (\$6.7 million), lower procurement and production costs (\$4.0 million), lower warranty expense (\$1.0 million), and an early retirement program expense in 2013 (\$2.0 million), partially offset by increased R&D spend (\$3.5 million) and increased information technology costs (\$1.5 million). Operating margins for the segment increased to 14.2% in 2014 from 8.4% in 2013.

**2013 Compared to 2012**

Sales of \$1,144.2 million in 2013 decreased 3.4% from \$1,184.2 million in 2012. The following table illustrates the effects of key factors resulting in the change in sales by segment:

Sales increase/(decrease)	Percent Change 2013 vs. 2012					
	Acquisitions	Foreign Currency	Engine Revenue	Other	Total	
EnPro Industries, Inc.	1.4	% 0.6	% (2.6	)% (2.8	)% (3.4	)%
Sealing Products	2.7	% 0.7	% n/a	(1.1	)% 2.3	%
Engineered Products	—	% 0.8	% n/a	(2.6	)% (1.8	)%
Power Systems	—	% —	% (14.5	)% (7.4	)% (21.9	)%

Following are key points regarding changes in sales for 2013 compared to 2012:

• The acquisition of Motorwheel in April 2012 and the acquisition of certain assets and assumption of certain liabilities of a small distributor of industrial seals in January 2013; both included in the Sealing Products segment.

• Favorable foreign currency exchange rate fluctuations in 2013 compared to 2012.

• Lower revenues in the Power Systems segment, which is discussed further in the discussion of segment results following.

Segment profit decreased 13% to \$128.7 million in 2013 from \$148.5 million in 2012. Earnings from acquisitions contributed \$2.7 million, favorable exchange fluctuations increased segment profit \$1.0 million, and selected price increases generated \$11.2 million. These favorable changes were more than offset by volume reductions of \$23.7 million and increased costs of \$11.0 million.

Corporate expenses for 2013 increased by \$1.0 million compared to 2012. The increase was primarily driven by an increase in workers' compensation costs (\$0.4 million), employee incentive compensation (\$0.7 million), salaries/severance (\$0.9 million), travel costs (\$0.5 million) and board of directors expenses (\$0.4 million), partially offset by lower employee medical costs (\$2.6 million).

Net interest expense in 2013 was \$44.3 million compared to \$42.8 million in 2012. The increase was due to an increase in the note payable to GST because of capitalized PIK interest partially offset by lower borrowings against the senior secured revolving credit facility.

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Other expense, net in 2013 was \$15.3 million compared to \$9.9 million in 2012. The increase was due to higher environmental reserves (\$5.1 million) and increased legal and intercompany management fees as activity in relation to GST's asbestos liability estimation trial increased (\$1.7 million), partially offset by lower health-care and other benefits expense relating to previously owned businesses (\$3.0 million).

Income tax expense in 2013 was \$8.4 million compared to \$22.5 million reported in 2012. The decrease in tax expense reflects a similar decrease in pre-tax income over both periods, as well as a larger proportion of our 2013 earnings in foreign jurisdictions that carry an effective tax rate significantly lower than the U.S. The overall effective tax rate in 2013 is 23.4%, substantially lower than the 35.3% reported in 2012. In the U.S., we historically have benefited from federal income tax incentives such as the deduction for domestic production activities and credits for research and development. However, as of December 31, 2012, certain tax incentives expired and were not renewed before the end of 2012. These include the research and experimentation credit, certain employment credits, and an exclusion for passive income earned by controlled foreign corporations. In January 2013, the United States Congress passed the American Taxpayer Relief Act (ATRA) of 2012 which retroactively extended these tax provisions. The effective tax rate for 2012 reflects the tax law that was in place as of December 31, 2012. Had the ATRA been enacted prior to January 1, 2013, our overall tax expense in 2012 would have been approximately \$20.9 million, resulting in an overall 2012 effective tax rate of 32.7%. This \$1.6 million difference was reflected in tax expense during the first quarter of 2013, lowering the 2013 annual effective tax rate by 4.4%.

Income from continuing operations was \$27.4 million, or \$1.17 per share, in 2013 compared to \$41.0 million, or \$1.90 per share, in 2012. Earnings per share are expressed on a diluted basis.

Following is a discussion of operating results for each segment during the year:

**Sealing Products.** Sales of \$622.9 million in 2013 were 2% higher than the \$609.1 million reported in 2012. Excluding the benefit from the acquisitions of Motorwheel (\$14.4 million) and a small product line (\$2.6 million) and favorable foreign exchange (\$3.8 million), sales were down 1% or \$7.0 million. Higher demand in the North American heavy-duty truck markets (\$8.6 million) and price increases across the segment (\$2.1 million) were more than offset by lower volumes at Technetics (\$11.2 million) and Garlock (\$7.0 million).

Segment profit increased to \$97.1 million in 2013 from \$88.8 million in 2012. Excluding the benefit from acquisitions (\$2.7 million) and foreign exchange (\$0.6 million), profit was up 6% or \$5.0 million due to selected price increases across the segment (\$1.5 million) and various factors at each division. At Garlock, lower volumes (\$3.4 million) were offset by improved product mix (\$3.1 million), cost savings due to restructuring activities in the prior year (\$0.6 million), and lower restructuring costs in 2013 (\$0.8 million). At Technetics, lower volumes due to weaker overall markets (\$7.8 million) were offset by lower manufacturing costs (\$4.7 million), R&D subsidies in France (\$2.9 million), and the release of an acquisition earnout provision (\$2.0 million). At Stemco, higher volumes (\$5.7 million) were offset by increased costs (\$5.4 million) due to the increased activity and opening of the centralized distribution center. Including the acquisition and foreign exchange effects, operating margins for the segment increased to 15.6% in 2013 from 14.6% in 2012.

**Engineered Products.** Sales of \$356.4 million in 2013 were 2% lower than the \$363.0 million reported in 2012. Excluding the favorable foreign exchange (\$2.9 million), sales were down 3% or \$9.5 million due to lower demand in the European automotive markets and in CPI's North American markets partially offset by price increases across the segment.

Segment profit in 2013 was \$17.6 million compared to \$20.5 million in 2012. Excluding the benefit from foreign exchange (\$0.4 million), profit was down 16% or \$3.3 million. Lower volumes at both GGB and CPI (\$9.7 million) and higher restructuring costs at CPI (\$1.8 million) more than offset price increases at both GGB and CPI (\$6.6 million), lower restructuring costs at GGB (\$1.2 million), and manufacturing increases at CPI (\$0.3 million).

Including foreign exchange effects, operating margins for the segment decreased to 4.9% in 2013 from 5.6% in 2012.

**Power Systems.** Sales decreased 22% to \$167.6 million in 2013 from \$214.6 million in 2012, due primarily to a decrease in engine revenue. Although ten engines were shipped in 2013 compared to fourteen in 2012, revenue for six of the engines shipped in 2012 was recognized under the completed contract method (\$28.1 million) versus zero in 2013. The remaining decrease in sales was driven by lower parts and service revenue due to the U.S. government sequestration and the timing of scheduled maintenance (\$19.8 million) and lower percentage-of-completion engine

revenue (\$7.0 million) partially offset by strong year-over-year sales of new environmental upgrade products (\$5.2 million) and price increases (\$2.5 million).

The segment reported a profit of \$14.0 million in 2013 compared to \$39.2 million in 2012. The year-over-year decline in segment profit was primarily due to volume decreases and a less attractive product mix as parts and service sales declined. Operating margins decreased to 8.4% in 2013 from 18.3% in 2012.

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## Restructuring and Other Costs

We incurred \$2.3 million, \$6.7 million and \$5.0 million of restructuring costs during the years ended December 31, 2014, 2013 and 2012, respectively.

During 2014, we conducted a number of restructuring activities throughout our operations, the most significant of which were at our Garlock and Technetics businesses. At Technetics we completed the consolidation of several of our North American manufacturing operations into other existing sites which had begun late in 2013. At Garlock we started the consolidation of a European manufacturing facility into another existing site and focused on the management and operational integration of our businesses worldwide. Workforce reductions announced as a result of our 2014 restructuring activities totaled 36 salaried administrative and hourly manufacturing positions, most of which had been terminated by December 31, 2014.

## Liquidity and Capital Resources

Cash requirements for, but not limited to, working capital, capital expenditures, acquisitions, pension contributions, 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 of these acquisition opportunities could exceed our cash balance at the time of closing. Should we need additional capital, we have other resources available, which are discussed in this section under the heading of “Capital Resources.” As of December 31, 2014, we held \$114.9 million of cash and cash equivalents in the United States and \$79.3 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. Other distributions may require us to incur U.S. or foreign taxes to repatriate these funds. However, as discussed in Note 4 to our Consolidated Financial Statements, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate cash to fund our U.S. operations.

## Cash Flows

Operating activities provided cash in the amount of \$32.2 million, \$69.9 million and \$118.2 million in 2014, 2013 and 2012, respectively. The decrease in operating cash flows in 2014 versus 2013 was primarily attributable to increased pension contributions (\$26.1 million) and higher income taxes paid (\$30.7 million) partially offset by increased segment earnings (\$12.2 million), lower interest payments (\$2.2 million), and lower working capital requirements (\$2.7 million). The decrease in operating cash flows in 2013 versus 2012 was primarily attributable to lower segment profit (\$19.8 million), increased pension contributions (\$11.3 million), and a significant increase in working capital needs in 2013 of \$11.3 million as compared to a \$1.1 million decrease in 2012.

We used \$74.7 million, net, \$41.5 million, net, and \$125.6 million, net, of cash in 2014, 2013 and 2012, respectively, for investing activities. In 2014, we used \$61.9 million, net of cash acquired, for acquisitions. Refer to “Acquisitions and Dispositions” in Part I, Item 1 – “Business” for additional discussion regarding these transactions. Additionally, we used \$52.3 million primarily to fund capital expenditures and enterprise resource and planning system implementations and received \$39.3 million of proceeds from the sale of GRT in 2014. In 2013, we spent \$39.9 million on capital expenditures and \$2.0 million on the acquisition of certain assets and assumption of certain liabilities of a small distributor of industrial seals. In 2012, we used \$85.3 million net of cash acquired to purchase Motorwheel. Refer to “Acquisitions and Dispositions” in Part I, Item 1 – “Business” for additional discussion regarding this transaction.

Financing activities provided \$177.0 million in cash in 2014, primarily from proceeds on newly issued senior notes of \$297.6 million, after giving effect to cash paid of \$105.6 million in a cash tender offer to purchase convertible debentures and payment of the balance outstanding under our senior secured revolving credit facility of \$7.6 million. Financing activities used \$19.5 million, net, in 2013 and included net payments on the senior secured revolving credit facility of \$27.7 million. Financing activities provided \$29.5 million, net, in 2012 and included net borrowings on the senior secured revolving credit facility of \$28.3 million, net.

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Capital Resources

Senior Secured Revolving Credit Facility. On August 28, 2014, we amended and restated the agreement governing our senior secured revolving credit facility (the “Credit Facility Amendment”). Prior to the Credit Facility Amendment, our senior secured revolving credit facility had a maximum availability of \$175 million, with actual borrowing availability under the credit facility determined by reference to a borrowing base of specified percentages of eligible accounts receivable, inventory, equipment and real property elected to be pledged, which was reduced by usage of the facility, including outstanding letters of credit and any reserves. Borrowings under that credit facility were available to our primary U.S. operating subsidiaries, other than GST LLC. The credit facility was scheduled to mature on July 17, 2015 unless, prior to that date, the convertible debentures were paid in full, refinanced on certain terms or defeased, in which case the facility would have matured on March 30, 2016.

The Credit Facility Amendment provides for a five-year, \$300 million senior secured revolving credit facility (the “Revolving Credit Facility”). Unlike our prior credit facility, borrowing availability under the Revolving Credit Facility established by the Credit Facility Amendment is not limited by reference to a borrowing base. At December 31, 2014, borrowings under the Revolving Credit Facility bear interest at an annual rate of LIBOR plus 1.75% or base rate plus 0.75%, although the interest rates under the Revolving Credit Facility are subject to incremental increases based on a consolidated total leverage ratio. In addition, a commitment fee accrues with respect to the unused amount of the Revolving Credit Facility at an annual rate of 0.20%, which rate is also subject to incremental increases based on a consolidated total leverage ratio.

EnPro and Coltec are the permitted borrowers under the Revolving Credit Facility. Each of our domestic, consolidated subsidiaries (other than GST and their respective subsidiaries, unless they elect to guarantee upon becoming consolidated subsidiaries in the future) are required to guarantee the obligations of the borrowers under the Revolving Credit Facility, and each of our existing domestic, consolidated subsidiaries (which does not include the domestic entities of GST) has entered into the Credit Facility Amendment to provide such a guarantee.

Borrowings under the Revolving Credit Facility are secured by a first priority pledge of the following assets (which in each case excludes those assets related to the entities that comprise GST unless otherwise elected upon those entities becoming consolidated subsidiaries in the future):

- 100% of the capital stock of each domestic, consolidated subsidiary of EnPro Industries, Inc.;
- 65% of the capital stock of any first tier foreign subsidiary of EnPro Industries, Inc. 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 EnPro Industries, Inc. and its domestic, consolidated subsidiaries.

The Credit Facility Amendment 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 exclude the intercompany notes payable to GST and to be net of up to \$100 million, for any measurement period ending prior to the first anniversary of the closing date of the Credit Facility Amendment, and thereafter, up to \$75 million, in each case of unrestricted cash of EnPro Industries, Inc. and its domestic, consolidated subsidiaries); and

- a minimum consolidated interest coverage ratio of at least 2.5 to 1.0.

The Credit Facility Amendment 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;
- make certain capital expenditures; and

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modify or terminate documents related to certain indebtedness

The Credit Facility Amendment contains events of default including, but not limited to, nonpayment of principal or interest, violation of covenants, breaches of representations and warranties, cross-default to other debt, bankruptcy and other insolvency events, material judgments, certain ERISA events, actual or asserted invalidity of loan documentation, certain changes of control of EnPro Industries, Inc., the invalidity of subordination provisions of subordinated indebtedness, the failure of the domestic entities of GST to become guarantors following their exit from bankruptcy and reconsolidation with EnPro Industries, Inc. for financial reporting purposes and, upon the same event, the failure to pledge the equity interests of GST (on the same basis on which the equity of other consolidated subsidiaries of EnPro Industries, Inc. is pledged) as collateral to secure obligations under the Credit Facility Amendment.

The borrowing availability at December 31, 2014, under Revolving Credit Facility was \$294.3 million, representing the full \$300 million amount of the Revolving Credit Facility less \$5.7 million reserved for outstanding letters of credit.

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

Upon events and under circumstances specified in the indenture governing the senior notes, holders may convert the convertible debentures into cash and shares of our common stock, at an initial conversion rate of 29.5972 shares of common stock per \$1,000 principal amount of the convertible debentures, which is equal to an initial conversion price of \$33.79 per share, subject to adjustment, before the close of business on October 15, 2015. As of January 1, 2015, 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 December 31, 2014. The convertible debentures will be convertible until March 31, 2015, and may be convertible thereafter if one or more of the conversion conditions is satisfied during future measurement periods. Upon a conversion, we will be required to make a cash payment of up to \$1,000 for each \$1,000 in principal amount of the convertible debentures being converted, with the remaining conversion value of the convertible debentures, if any, being paid in shares of our common stock. Since the convertible debentures are currently convertible, we classified the excess cash required to redeem the convertible debentures over their carrying value as temporary equity.

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.

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 income (expense), net in the accompanying Consolidated Statement of Operations for the year ended December 31, 2014. There was also a \$0.8 million additional tax benefit recorded directly to equity.

In June 2014, we entered into an additional privately negotiated transaction with certain holders of approximately \$41.6 million in aggregate principal amount of the convertible debentures to exchange them for an aggregate of approximately 1.3 million shares of EnPro's common stock, plus cash payments of accrued and unpaid interest and for fractional shares. We recognized a \$2.4 million pre-tax loss on the exchange (\$1.5 million net of tax) which is included in other income (expense), net in the accompanying Consolidated Statement of Operations for the year ended December 31, 2014. In addition, there was a \$0.6 million tax benefit recorded directly to equity.

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

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accompanying Consolidated Statement of Operations for the year ended December 31, 2014. In addition, there was a \$0.8 million tax benefit recorded directly to equity.

The March and June exchange transactions and the September purchase of convertible debentures in the tender offer reduced the aggregate principal amount of the convertible debentures outstanding to \$23.4 million. These 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.

**Senior Notes.** In September 2014, we completed an offering of \$300 million aggregate principal amount of our senior notes. The offer was made in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act.

A portion of the net proceeds of the offering of the senior notes was used to repay outstanding borrowings under the revolving credit facility, including borrowings made to fund the purchase of the convertible debentures in the tender offer described above.

The senior notes are unsecured, unsubordinated obligations of EnPro and mature on September 15, 2022. Interest on the senior notes accrues at a rate of 5.875% per annum and is payable semi-annually in cash in arrears on March 15 and September 15 of each year, commencing March 15, 2015. The 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.

The senior notes and the guarantees constitute senior obligations of EnPro and the guarantors and:

rank equally in right of payment with all of EnPro’s and the guarantors’ existing and future senior debt;

rank senior in right of payment to all of EnPro’s and the guarantors’ existing and future subordinated debt;

are structurally subordinated to all liabilities of EnPro’s existing and future subsidiaries that do not guarantee the senior notes; and

are effectively subordinated in right of payment to all of EnPro’s and the guarantors’ secured indebtedness (including the obligations under EnPro’s senior secured revolving credit facility) to the extent of the value of the assets securing such indebtedness.

On or after September 15, 2017, we may on any one or more occasions redeem all or a part of the senior notes at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and additional interest, if any, on the senior notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period commencing on September 15 of the years set forth below:

Period	Redemption Price
2017	104.4%
2018	102.9%
2019	101.5%
2020 and thereafter	100.0%

In addition, we may redeem up to 35% of the aggregate principal amount of the senior notes before September 15, 2017 with the net cash proceeds from certain equity offerings at a redemption price of 105.875% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the redemption date. We may also redeem some or all of the senior notes before September 15, 2017 at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a “make whole” premium.

Each holder of the senior notes may require us to repurchase some or all of the senior notes for cash upon the occurrence of a defined “change of control” event, at a price equal to 101% of the principal amount of the senior notes being repurchased, plus accrued and unpaid interest. 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, among other things, limit our ability and the ability of our Restricted Subsidiaries (as defined in the indenture) to:

incur additional debt;

pay dividends, redeem stock or make other distributions;

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enter into certain types of transactions with affiliates;

incur liens on assets;

make certain restricted payments and investments;

engage in certain asset sales, including sale and leaseback transactions; and

merge, consolidate, transfer or dispose of substantially all assets.

The indenture governing the senior notes also provides for certain events of default (subject, in certain cases, to receipt of notice of default and/or customary grace or cure periods), including, but not limited to:

the failure by EnPro to pay interest, including additional interest, when due;

the failure by EnPro to pay principal when due;

the failure by EnPro to comply with any of its obligations, covenants or agreements in the Indenture;

the failure by EnPro or any Significant Subsidiary (as defined in the indenture) to pay certain indebtedness or final judgments;

certain specified events of bankruptcy, insolvency or reorganization of EnPro or any Significant Subsidiary; and any of GST and their respective subsidiaries fails to execute and deliver a supplemental indenture pursuant to which it guarantees payment of the senior notes within a specified period after it guarantees or becomes a borrower under EnPro's senior secured revolving credit facility or guarantees any other Capital Markets Indebtedness of EnPro or any of the guarantors.

In connection with the issuance of the senior notes, we entered into a registration rights agreement (the "Registration Rights Agreement") in which we agreed to:

file a registration statement with respect to a registered exchange offer to exchange the senior notes for new registered notes, with terms substantially identical in all material respects with the senior notes;

use commercially reasonable efforts to cause such registration statement to be declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended;

use commercially reasonable efforts to, on or before the 300th day after September 16, 2014, have consummated such exchange offer; and

use all commercially reasonable efforts to file and have declared effective a shelf registration statement for the resale of senior notes, and keep such registration statement effective for a period of two years, if we cannot effect such an exchange offer within the time periods listed above and in certain other circumstances.

If we have not completed the exchange offer on or before the 300th day after September 16, 2014, the exchange offer registration statement ceases to be effective during the period required under the Registration Rights Agreement or, if applicable, a shelf registration statement covering resales of the senior notes has not been filed or declared effective within 300 days after September 16, 2014 or such shelf registration statement ceases to be effective at any time during the two-year period the shelf registration period is required to be kept effective (subject to certain exceptions), each of which is referred to as a "registration default," then additional interest will accrue on the principal amount of the senior notes at a rate of 0.25% per annum for the first 90-day period immediately following the occurrence of such registration default and by an additional 0.25% per annum with respect to each subsequent 90-day period, up to a maximum additional rate of 1.00% per annum thereafter, until the registration default has been cured.

**Related Party Notes.** Effective as of January 1, 2010, Coltec entered into a \$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 ("Stemco") entered into a \$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. 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 a cap of 1% of the principal balance of each of the Notes Payable to GST in any calendar month and 4.5% of the principal balance of each of the Notes Payable to GST in any year. The interest due under the Notes Payable to GST may be satisfied

through offsets of amounts due under intercompany services agreements pursuant to which the Company provides certain corporate services, makes available access to group insurance coverage to GST, makes advances to third party providers related to payroll and certain benefit plans sponsored by GST, and permits employees of GST to participate in certain of the Company's benefit plans. In 2014, 2013, and 2012, PIK

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interest of \$11.7 million, \$11.2 million, and \$10.7 million, respectively, was added to the principal balance of the Notes Payable to GST, resulting in a total balance of \$271.0 million at December 31, 2014.

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 the Company's senior secured revolving credit facility.

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

The historical business operations of GST LLC and Anchor resulted in a substantial volume of asbestos litigation in which plaintiffs alleged personal injury or death as a result of exposure to asbestos fibers. Those subsidiaries manufactured and/or sold industrial sealing products, predominately gaskets and packing, containing encapsulated asbestos fibers. Anchor is an inactive and insolvent indirect subsidiary of Coltec. The Company's subsidiaries' exposure to asbestos litigation and their relationships with insurance carriers have been managed through another Coltec subsidiary, Garrison.

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

Prior to its deconsolidation effective on the Petition Date, GST LLC and its subsidiaries operated as part of the Garlock group of companies within EnPro's Sealing Products segment. GST LLC designs, manufactures and sells sealing products, including metallic, non-metallic and composite material gaskets, rotary seals, compression packing, resilient metal seals, elastomeric seals, hydraulic components, and expansion joints. GST LLC and its subsidiaries operate five primary manufacturing facilities, including GST LLC's operations in Palmyra, New York and Houston, Texas.

Garrison's principal business historically has been to manage the defense of all asbestos-related litigation affecting the Company's subsidiaries, principally GST LLC and Anchor, arising from their sale or use of products or materials containing asbestos, and to manage, bill and collect available insurance proceeds. When it commenced business in 1996, Garrison acquired certain assets of GST LLC and assumed certain liabilities stemming from asbestos-related claims against GST LLC. Garrison is not itself a defendant in asbestos-related litigation and has no direct liability for asbestos-related claims. Rather, it has assumed GST LLC's liability for such claims and agreed to indemnify GST LLC from liability with respect to such claims. Anchor was a distributor of products containing asbestos and was acquired by GST LLC in 1987. Anchor has been inactive and insolvent since 1993.

The financial results of GST and subsidiaries have been excluded from our consolidated results since the Petition Date. The investment in GST is presented using the cost method during the reorganization period and is subject to periodic reviews for impairment. The cost method requires us to present our ownership interests in the net assets of GST at the Petition Date as an investment and to not recognize any income or loss from GST and subsidiaries in our results of operations during the reorganization period. When GST emerges from the jurisdiction of the Bankruptcy Court, the subsequent accounting will be determined based upon the applicable circumstances and facts at such time, including the terms of any plan of reorganization. See Note 18 to our Consolidated Financial Statements for condensed financial information for GST and subsidiaries.

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 accounting guidance. This method generally allocates current and deferred 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. At December 31, 2014, this amount was \$73.0 million. This receivable is expected to be collected at a future date.

We have assessed GST LLC's and Garrison's liquidity position as a result of the bankruptcy filing and believe they can continue to fund their operating activities, and those of their subsidiaries, and meet their capital requirements for the

foreseeable future. However, the ability of GST LLC and Garrison to continue as going concerns is dependent upon their ability to resolve their ultimate asbestos liability in the bankruptcy from their net assets, future cash flows, and available insurance proceeds, whether through the confirmation of a plan of reorganization or otherwise. As a result of the bankruptcy filing and related events, there can be no assurance the carrying values of the assets, including the carrying value of the business and the tax receivable, will be realized or that liabilities will be liquidated or settled for the amounts recorded. In addition, a plan of reorganization, or rejection thereof, could change the amounts reported in the GST LLC and Garrison financial statements and cause a material change in the carrying amount of our investment. For additional information about GST's bankruptcy



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proceeding, see Note 18 to our Consolidated Financial Statements and the sections entitled “Contingencies – Subsidiary Bankruptcy,” and “-Asbestos” in this Management’s Discussion and Analysis of Financial Condition and Results of Operation.

### Dividends

On January 13, 2015, our Board of Directors adopted a policy under which it intends to declare regular quarterly cash dividends on EnPro’s common stock, with the determination of whether to declare a dividend and the amount being considered each quarter, after taking into account our cash flow, earnings, cash position, financial position and other relevant matters. The Board declared a dividend of \$0.20 per share payable on March 16, 2015 to shareholders of record at the close of business on March 2, 2015. Each of the agreement governing the Revolving Credit Facility and the indenture governing the senior notes includes covenants restricting the payment of dividends, but includes a basket permitting the payment of cash dividends of up to \$30.0 million per year. Other baskets may be available under that the agreement governing the Revolving Credit Facility and the indenture governing the senior notes to permit the payment of dividends in excess of \$30.0 million per year. The indenture that governs the convertible debentures does not restrict us from paying dividends.

### Critical Accounting Policies and Estimates

The preparation of our Consolidated Financial Statements, in accordance with accounting principles generally accepted in the United States, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures pertaining to contingent assets and liabilities. Note 1, “Overview, Basis of Presentation, Significant Accounting Policies and Recently Accounting Guidance,” to the Consolidated Financial Statements describes the significant accounting policies used to prepare the Consolidated Financial Statements. On an ongoing basis we evaluate our estimates, including, but not limited to, those related to bad debts, inventories, intangible assets, income taxes, warranty obligations, restructuring, pensions and other postretirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from our estimates.

We believe the following accounting policies and estimates are the most critical. Some of them involve significant judgments and uncertainties and could potentially result in materially different results under different assumptions and conditions.

#### Revenue Recognition

For the Sealing Products and Engineered Products segments, revenue is recognized at the time title and risk of product ownership is transferred or when services are rendered, and shipping costs billed to customers are recognized as revenue and expensed in cost of goods sold since they are fixed and determinable and collection is reasonably assured. We generally use the percentage-of-completion (“POC”) accounting method to account for our long-term contracts associated with the design, development, manufacture, or modification of complex engines under fixed price or cost plus contracts. During the third quarter of 2011, the Power Systems segment began using POC for prospective engine contracts. 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. Additionally, engines that were in production at June 30, 2011 will continue to use the completed-contract method.

Under POC, revenue is recognized based on the extent of progress towards completion of the long-term contract. We generally use the cost-to-cost measure for our long-term contracts unless we believe another method more clearly measures progress towards completion of the contract. Under the cost-to-cost measure, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the contract. Contract costs include labor, material and subcontracting costs, as well as an allocation of indirect costs. Revenues, including estimated fees or profits, are recorded as costs are incurred.

Due to the nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complex and subject to many variables. Management must make assumptions and estimates

regarding labor productivity, the complexity of the work to be performed, the availability of materials, the length of time to complete the contract (to estimate increases in wages and prices for materials and related support cost allocations), performance by our subcontractors and overhead cost rates, among other variables. Based on our analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recorded as necessary in the period they become known. These adjustments may result in an increase or a decrease in operating income. Changes in estimates of net sales, cost of sales, and the related impact to operating income are recognized quarterly on a cumulative catch-up basis, which recognizes in the current

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period the cumulative effect of the changes on current and prior periods based on a contract's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our contracts. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

### Pensions and Postretirement Benefits

We and certain of our subsidiaries sponsor domestic and foreign defined benefit pension and other postretirement plans. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets, rate of increase in employee compensation levels and assumed health care cost trend rates. Assumptions are determined based on data available to us and appropriate market indicators, and are evaluated each year as of the plans' measurement date. A change in any of these assumptions could have a material effect on net periodic pension and postretirement benefit costs reported in the Consolidated Statements of Operations, as well as amounts recognized in the Consolidated Balance Sheets. See Note 14 to the Consolidated Financial Statements for a discussion of pension and postretirement benefits.

### Income Taxes

We use the asset and liability method of accounting for income taxes. Temporary differences arising between the tax basis of an asset or liability and its carrying amount on the Consolidated Balance Sheet are used to calculate future income tax assets or liabilities. This method also requires the recognition of deferred tax benefits, such as net operating loss carryforwards. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the taxable income (losses) in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A tax benefit from an uncertain tax position is recognized only if we believe it is more likely than not that the position will be sustained on its technical merits. If the recognition threshold for the tax position is met, only the portion of the tax benefit that we believe is greater than 50 percent likely to be realized is recorded. See Note 4 to the Consolidated Financial Statements for a discussion of income taxes.

### Goodwill and Other Intangible Assets

We do not amortize goodwill, but instead it is subject to annual impairment testing. The goodwill asset impairment test involves comparing the fair value of a reporting unit to its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, a second step of comparing the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill is required to measure the potential goodwill impairment loss.

To estimate the fair value of our reporting units, we use both discounted cash flow and market valuation approaches. The discounted cash flow approach uses cash flow projections to calculate the fair value of each reporting unit while the market approach relies on market multiples of similar companies. There are inherent assumptions and estimates used in developing future cash flows which require management to apply judgment to the analysis of intangible asset impairment, including projecting revenues, interest rates, our weighted average cost of capital, royalty rates and tax rates. For the market approach, we chose a group of 14 companies we believe are representative of our diversified industrial peers. We used a 70% weighting for the discounted cash flow valuation approach and a 30% weighting for the market valuation approach, reflecting our belief that the discounted cash flow valuation approach provides a better indicator of value since it reflects the specific cash flows anticipated to be generated in the future by the business. Many of the factors used in assessing fair value are outside the control of management, and it is reasonably likely that assumptions and estimates will change in future periods. These changes could result in future impairments. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview and Outlook" as well as Notes 1 and 9 to the Consolidated Financial Statements.

### Investment in GST

Our investment in GST is subject to periodic reviews for impairment. To estimate the fair value, we consider many factors and use both discounted cash flow and market valuation approaches. In the discounted cash flow approach, we use cash flow projections to calculate the fair value of GST. The key assumptions used for the discounted cash flow approach include expected cash flows based on internal business plans, historical and projected growth rates, discount rates, estimated asbestos claim values and insurance collection projections. The asbestos claims value will be

determined in the claims resolution process, either through negotiations with claimant representatives or, absent a negotiated resolution, by the Bankruptcy Court after contested proceedings. Our estimates are based upon assumptions we believe to be reasonable, but which by their nature are uncertain and unpredictable. For the market approach, we use recent acquisition multiples for businesses of similar size to

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GST. We use a 70% weighting for the discounted cash flow valuation approach and a 30% weighting for the market valuation approach, reflecting our belief that the discounted cash flow valuation approach provides the best indication of value since it reflects the specific cash flows anticipated to be generated in the future by GST.

Contingencies

General

A detailed description of certain environmental, asbestos and other legal matters relating to certain of our subsidiaries is included in this section. In addition to the matters noted herein, we are from time to time subject to, and are presently involved in, other litigation and legal proceedings arising in the ordinary course of business. We believe the outcome of such other litigation and legal proceedings will not have a material adverse effect on our financial condition, results of operations and cash flows. Expense 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 is involved with various remediation activities at 15 sites where the future cost per site for us or our subsidiary is expected to exceed \$100 thousand. Investigations have been completed for 11 sites and are in progress at the other four sites. The majority of these sites relate to remediation projects at former operating facilities that were sold or closed and primarily deal with soil and groundwater contamination.

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

Based on our prior ownership of Crucible Steel Corporation a/k/a Crucible, Inc. ("Crucible"), we may have additional contingent liabilities in one or more significant environmental matters. One such matter, which is included in the 15 sites referred to above, is the Lower Passaic River Study Area of the Diamond Alkali Superfund Site in New Jersey. Crucible operated a steel mill abutting the Passaic River in Harrison, New Jersey from the 1930s until 1974, which was one of many industrial operations on the river dating back to the 1800s. Certain contingent environmental liabilities related to this site were retained by Coltec when Coltec sold a majority interest in Crucible Materials Corporation (the successor of Crucible) in 1985. The United States Environmental Protection Agency (the "EPA") has notified Coltec that it is a potentially responsible party ("PRP") for Superfund response actions in the lower 17-mile stretch of the Passaic River known as the Lower Passaic River Study Area. Coltec and approximately 70 of the numerous other PRPs, known as the Cooperating Parties Group, are parties to a May 2007 Administrative Order on Consent with the EPA to perform a Remedial Investigation/Feasibility Study ("RI/FS") of the contaminants in the Lower Passaic River Study Area. The RI/FS is ongoing and has not been completed. Separately, on April 11, 2014, the EPA released its Focused Feasibility Study (the "FFS") with its proposed plan for remediating the lower eight miles of the Lower Passaic River Study Area. The FFS calls for bank-to-bank dredging and capping of the riverbed of that portion of the river and estimates a range of the present value of aggregate remediation costs of approximately \$953

million to approximately \$1.731 billion, although estimates of the costs and the timing of costs are inherently imprecise. The FFS is subject to a 90-day public comment period, which expired on August 28, 2014, and potential revision, including the adoption of a less extensive remedy, in light of comments that were received. No final allocations of responsibility have been made among the numerous PRPs that have received notices from the EPA, there are numerous identified PRPs that have not yet received PRP notices from the EPA, and there are likely many PRPs that have not yet been identified. During the fourth quarter of 2014, we accrued a liability of \$3.5 million related to environmental remediation costs associated with the Lower Passaic River Study Area, which is our estimate of the low end of a range of reasonably possible costs. Based on our evaluation of the site, we are

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unable to estimate the upper end of a range of reasonably possible costs. Our actual remediation costs could be significantly greater than the \$3.5 million we accrued.

Another such matter involves the Onondaga Lake Superfund Site (the “Onondaga Site”) located near Syracuse, New York. Crucible operated a steel mill facility adjacent to Onondaga Lake from 1911 to 1983. The New York State Department of Environmental Conservation (“NYSDEC”) has notified the Company and Coltec, 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. 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 the Company that it had claims against Coltec related to investigation and remediation at the Onondaga Site. In addition, the Company has 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 Coltec is considered to be a potentially responsible party for natural resource damages at the Onondaga Site. We have entered into tolling agreements with NYSDEC, the EPA and Honeywell. At this time, based on limited information we have with respect to estimated remediation costs and the respective allocation of responsibility for remediation among potentially responsible parties, we cannot estimate a reasonably possible range of loss associated with Crucible’s activities that may have affected the Onondaga Site.

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, 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.

As of December 31, 2014 and 2013, we had accrued liabilities of \$17.3 million and \$15.1 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 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 15 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 19 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 Operation.

**Colt Firearms and Central Moloney**

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

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

Crucible, which was engaged primarily in the manufacture and distribution of high technology specialty metal products, was a wholly owned subsidiary of Coltec until 1983 when its assets and liabilities were distributed to a new Coltec subsidiary, Crucible Materials Corporation. Coltec sold a majority of the outstanding shares of Crucible Materials Corporation in 1985 and divested its remaining minority interest in 2004. Crucible Materials Corporation filed for Chapter 11 bankruptcy protection in May 2009 and is no longer conducting operations.

In conjunction with the closure of a Crucible plant in the early 1980s, Coltec was required to fund a trust for retiree medical benefits for certain employees at the plant. This trust (the “Benefits Trust”) pays for these retiree medical benefits on an ongoing basis. Coltec has no ownership interest in the Benefits Trust, and thus the assets and liabilities

of this trust are not included in our Consolidated Balance Sheets. Under the terms of the Benefits Trust agreement, the trustees retained an actuary to assess the adequacy of the assets in the Benefits Trust in 1995 and 2005. A third and final actuarial report will be required in 2015. The actuarial reports in 1995 and 2005 determined that the Benefits Trust has sufficient assets to fund the payment of future benefits.



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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 19 to the Consolidated Financial Statements for information about certain liabilities relating to Coltec's ownership of Crucible.

### BorgWarner

A subsidiary of BorgWarner Inc. ("BorgWarner") has asserted claims against GGB France E.U.R.L. ("GGB France") with respect to certain bearings supplied by GGB France to BorgWarner and used by BorgWarner in manufacturing hydraulic control units included in motor vehicle automatic transmission units. BorgWarner and GGB France are participating in a technical review before a panel of experts to determine, among other things, whether there were any defects in the bearings and whether any defect caused the damages claimed by BorgWarner, which technical review is a required predicate to the commencement of a legal proceeding for damages. On October 14, 2014, BorgWarner filed a writ of claims with the Commercial Court of Brive-la-Gaillarde in France seeking monetary damages. On December 19, 2014, BorgWarner initiated "fast track" proceedings, which is a French legal process typically used for uncontested claims. On January 30, 2015, GGB France filed a writ of response challenging BorgWarner's attempt to use the "fast track" process and, on February 4, 2015, GGB France filed a writ of response seeking to stay the proceedings on the merits pending the completion of the technical review. The timing of the decision with respect to GGB France's writs of response is uncertain. There is no fixed deadline for the completion of the technical review and the presentation of the expert panel's findings. We believe that GGB France has valid factual and legal defenses to these claims and we are vigorously defending these claims. At this point in the technical review process we are unable to estimate a reasonably possible range of loss related to these claims.

### Subsidiary Bankruptcy

Three of our subsidiaries filed voluntary Chapter 11 bankruptcy petitions on the Petition Date as a result of tens of thousands of pending and estimated future asbestos personal injury claims. The filings were the initial step in a claims resolution process, which is ongoing. The goal of the process is an efficient and permanent resolution of all pending and future asbestos claims through court approval of a plan of reorganization that will establish a facility to which all asbestos claims will be channeled for resolution and payment.

In November 2011, GST filed a proposed plan of reorganization with the Bankruptcy Court. GST's initial proposed plan called for a trust to be formed, to which GST and affiliates would contribute \$200 million and which would be the exclusive remedy for future asbestos personal injury claimants – those whose claims arise after confirmation of the plan. The initial proposed plan provided that each present personal injury claim (any pending claim or one that arises between the Petition Date and plan confirmation) would be assumed by reorganized GST and resolved either by settlement pursuant to a matrix contained in the proposed plan or as otherwise agreed, or by payment in full of any judgment entered after trial in federal court. The initial proposed plan was revised and replaced by GST's first amended proposed plan of reorganization filed in May 2014, which has since been revised and replaced by GST's second amended proposed plan filed on January 14, 2015.

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

On January 10, 2014, Bankruptcy Judge George Hodges announced his estimation decision in a 65-page order. Citing with approval the methodology put forth by GST at trial, the judge determined that \$125 million is the amount sufficient to satisfy GST's liability for present and future mesothelioma claims. Judge Hodges adopted GST's "legal liability" approach to estimation, focused on the merits of claims, and rejected asbestos claimant representatives' approach, which focused solely on GST's historical settlement history. The judge's liability determination is for

mesothelioma claims only. The court has not yet determined amounts for GST's liability for other asbestos claims and for administrative costs that would be required to review and process claims and payments, which will add to the amount.

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

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

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

In June 2014, the official committee representing current asbestos claimants filed a motion with the Bankruptcy Court asking the court to re-open the estimation process for further discovery and alleging that GST misled the court in various respects during the estimation trial. On December 4, 2014, the Bankruptcy Court denied the Committee's motion to re-open.

In May 2014, GST filed an amended proposed plan of reorganization and a proposed disclosure statement. The plan provided \$275 million in total funding for (a) present and future asbestos claims against GST that have not been resolved by settlement or verdict prior to the Petition Date, and (b) administrative and litigation costs. The \$275 million was to be funded by GST (\$245 million) and the Company's subsidiary, Coltec Industries Inc (\$30 million), through two facilities – a settlement facility and a litigation facility. Funds contained in the settlement facility and the litigation facility would provide the exclusive remedies for current and future GST asbestos claimants, other than claimants whose claims had been resolved by settlement or verdict prior to the Petition Date and were not paid prior to the Petition Date. The plan provided that GST would pay in full claims that had been resolved by settlement or verdict prior to the Petition Date and that were not paid prior to the Petition Date (with respect to claims resolved by verdict, such payments will be made only to the extent the verdict becomes final).

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

On January 14, 2015, we announced that GST and we had reached agreement with the Future Claimants' Representative that includes a second amended plan of reorganization. This revised plan was filed with the Bankruptcy Court on January 14, 2015 and supersedes the prior plans filed by GST. If approved by the Bankruptcy Court and implemented, the revised plan will provide certainty and finality to the expenditures necessary to resolve all current and future asbestos claims against GST and against its Garrison and Anchor Packing subsidiaries. The Future Claimants' Representative has agreed to support, recommend and vote in favor of the revised plan, which provides payments to all claimants who have a compensable disease and had meaningful contact with GST asbestos containing products.

The revised plan provides for the establishment of two facilities – a settlement facility (which would receive \$220 million from GST and \$30 million from Coltec upon consummation of the plan and additional contributions from GST aggregating \$77.5 million over the seven years following consummation of the plan) and a litigation fund (which would receive \$30 million from GST upon consummation of the plan) to fund the defense and payment of claims of claimants who elect to pursue litigation under the plan rather than accept the settlement option under the plan. Funds contained in the settlement facility and the litigation fund would provide the exclusive remedies for current and future GST asbestos claimants other than claimants whose claims had been resolved by settlement or verdict prior to the Petition Date and were not paid prior to the Petition Date. The plan provides that GST will pay in full claims that had been resolved by settlement or verdict prior to the Petition Date that were not paid prior to the Petition Date (with respect to claims resolved by verdict, such payment will be made only to the extent the verdict becomes final). The revised plan provides that if the actual amount of claims that had been resolved by settlement or verdict prior to the

Petition Date that were not paid prior to the Petition Date is less than \$10.0 million, GST will contribute the difference to the settlement facility. In addition, the revised plan provides that, during the 40-year period following confirmation of the plan, GST would, if necessary, make supplementary annual contributions, subject to specified maximum annual amounts that decline over the period, to maintain a specified balance at specified dates of the litigation fund. The maximum aggregate amount of all such contingent supplementary contributions over that period is \$132 million. GST, and we believe that initial contributions to the litigation fund may likely be sufficient to permit the balance of that facility to exceed the specified thresholds over the 40-year period and, accordingly, that the low end of a range of reasonably possible loss associated with these contingent supplementary contributions is \$0. Under the plan, EnPro would guarantee GST's payment of

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the \$77.5 million of deferred contributions plus accrued interest to the settlement facility and, to the extent they are required, the supplementary contributions to the litigation fund. Additional details of the revised plan are described below in “-Contingencies - Asbestos -GST’s Second Amended Proposed Plan of Reorganization.”

The revised plan incorporates the Bankruptcy Court’s determination in January 2014 that \$125 million is sufficient to satisfy GST’s aggregate liability for present and future mesothelioma claims; however, it also provides additional funds to provide full payment for non-mesothelioma claims and to gain the support of the Future Claimants’

Representative of the plan. Under the terms of the plan, we would retain 100% of the equity interests of GST LLC.

The plan also provides for the extinguishment of all derivative claims against us based on GST asbestos products and operations.

We anticipate that payments under the plan to the settlement facility and litigation fund by GST, which will be paid primarily from GST cash balances and remaining insurance, and the payment to the settlement facility by Coltec will be deductible against U.S. taxes. We plan to seek an IRS determination to that effect.

We expect continued opposition from the committee rept face="Arial" size="1">

Wasion Group Holdings

391,000 \$404,583

Williams Controls <sup>a</sup>

37,499 296,242

**Woodward Governor**

231,600 5,968,332

44,346,211

Metal Fabrication and Distribution - 3.5%

Central Steel & Wire

6,062 4,243,400

Commercial Metals

36,600 572,790

CompX International Cl. A

185,300 1,402,721

Fushi Copperweld <sup>a</sup>

12,645 127,967

Kennametal

100,000 2,592,000

NN <sup>a</sup>

197,100 780,516

Nucor Corporation

54,100 2,523,765

RBC Bearings <sup>a,c</sup>

92,000 2,238,360

**Reliance Steel & Aluminum**

168,920 7,300,722

Schnitzer Steel Industries Cl. A

100,000 4,770,000

Sims Metal Management ADR

174,375 3,400,313

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29,952,554

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Miscellaneous Manufacturing - 3.0%

Barnes Group

20,000 338,000

Brady Corporation Cl. A

124,600 3,739,246

China Automation Group

330,500 270,654

Matthews International Cl. A

37,000 1,310,910

Mettler-Toledo International <sup>a</sup>

33,500 3,517,165

PMFG <sup>a</sup>

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344,900 5,590,829

Rational

10,700 1,812,578

Raven Industries

96,200 3,056,274

Semperit AG Holding

60,000 2,313,983

Synalloy Corporation

198,800 1,739,500

Teleflex

5,000 269,450

Valmont Industries

25,000 1,961,250

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25,919,839

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Paper and Packaging - 0.7%

Greif Cl. A

65,700 3,546,486

Mayr-Melnhof Karton

22,000 2,263,225

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5,809,711

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Pumps, Valves and Bearings - 1.5%

Gardner Denver

82,500 3,510,375

Graco

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151,376 4,324,812

IDEX Corporation

67,400 2,099,510

Pfeiffer Vacuum Technology

30,000 2,514,884

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12,449,581

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Specialty Chemicals and Materials - 1.0%

Albemarle Corporation

5,000 181,850

Chemspec International ADR <sup>a,c</sup>

35,000 231,000

China Sky Chemical Fibre <sup>a</sup>

255,000 34,022

China XD Plastics <sup>a,c</sup>

10,000 80,100

Hawkins

186,178 4,064,266

Kingboard Chemical Holdings

41,900 166,162

OM Group <sup>a</sup>

70,000 2,197,300

Victrex

100,000 1,293,601

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8,248,301

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Textiles - 0.1%



Pacific Textile Holdings

520,000 346,888

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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## Royce Value Trust

### Schedule of Investments

	SHARES	VALUE
<b>Industrial Products (continued)</b>		
Textiles (continued)		
Unifi <sup>a</sup>	121,000	\$ 469,480
		816,368
Other Industrial Products - 0.2%		
China Fire & Security Group <sup>a,c</sup>	6,300	85,239
Harbin Electric <sup>a,c</sup>	10,200	209,508
Vacon	41,500	1,587,549
		1,882,296
<b>Total</b> (Cost \$119,404,477)		190,015,096
<b>Industrial Services 16.5%</b>		
Advertising and Publishing - 0.4%		
Lamar Advertising Cl. A <sup>a</sup>	51,000	1,585,590
SinoMedia Holding	1,417,500	434,609
ValueClick <sup>a</sup>	145,000	1,467,400
		3,487,599
<b>Commercial Services - 8.5%</b>		
Anhanguera Educacional Participacoes <sup>a</sup>	120,000	1,705,260
Animal Health International <sup>a</sup>	17,000	40,800
Brink's Company (The)	65,600	1,596,704
ChinaCast Education <sup>a,c</sup>	13,000	98,280
Cintas Corporation	69,000	1,797,450
Convergys Corporation <sup>a</sup>	121,000	1,300,750
Copart <sup>a</sup>	131,100	4,802,193
Corinthian Colleges <sup>a</sup>	237,900	3,275,883
CRA International <sup>a</sup>	47,087	1,254,868
Diamond Management & Technology Consultants	80,400	592,548
Epure International	50,000	25,845
Forrester Research <sup>a</sup>	40,300	1,045,785
Gartner <sup>a</sup>	213,000	3,842,520
Global Sources <sup>a,c</sup>	12,536	78,350
Hackett Group <sup>a</sup>	655,000	1,820,900
Hewitt Associates Cl. A <sup>a</sup>	126,720	5,355,187
ITT Educational Services <sup>a</sup>	17,000	1,631,320
Landauer	75,500	4,635,700
Manpower	65,600	3,580,448
ManTech International Cl. A <sup>a</sup>	35,400	1,709,112
<b>MAXIMUS</b>	124,900	6,245,000
Michael Page International	310,000	1,879,568
Monster Worldwide <sup>a</sup>	47,800	831,720

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MPS Group <sup>a</sup>	423,500	5,818,890
<b>Ritchie Bros. Auctioneers</b>	337,700	7,574,611
Robert Half International	80,000	2,138,400
<b>Sotheby's</b>	334,400	7,517,312
Spherion Corporation <sup>a</sup>	62,800	352,936
		<hr/>
		72,548,340
		<hr/>

Engineering and Construction -  
1.2%

Desarrolladora Homex ADR <sup>a,c</sup>	14,100	474,042
Integrated Electrical Services <sup>a</sup>	355,400	2,079,090
Jacobs Engineering Group <sup>a</sup>	6,400	240,704
KBR	180,000	3,420,000
NVR <sup>a</sup>	5,000	3,553,550
		<hr/>
		9,767,386
		<hr/>

	SHARES	VALUE
<b>Industrial Services (continued)</b>		
<b>Food, Tobacco and Agriculture -</b>		
<b>0.9%</b>		
Agria Corporation ADR <sup>a,c</sup>	25,000	\$ 78,250
Alico	27,000	768,420
American Italian Pasta Cl. A <sup>a,c</sup>	31,500	1,095,885
Chaoda Modern Agriculture	308,872	328,544
China Green (Holdings)	782,000	740,201
Genting Plantations	50,000	90,835
Hanfeng Evergreen <sup>a</sup>	32,700	231,059
Intrepid Potash <sup>a,c</sup>	69,927	2,039,771
MGP Ingredients <sup>a,c</sup>	127,400	974,610
Origin Agritech <sup>a,c</sup>	97,500	1,147,575
Zhongpin <sup>a</sup>	12,000	187,320
		<hr/>
		7,682,470
		<hr/>
<b>Industrial Distribution - 0.8%</b>		
Lawson Products	161,431	2,849,257
MSC Industrial Direct Cl. A	83,900	3,943,300
		<hr/>
		6,792,557
		<hr/>
<b>Transportation and Logistics -</b>		
<b>4.7%</b>		
Alexander & Baldwin	60,000	2,053,800
C. H. Robinson Worldwide	60,000	3,523,800
<b>Forward Air</b>	269,750	6,757,237
Frozen Food Express Industries	286,635	945,895
Hub Group Cl. A <sup>a</sup>	174,400	4,679,152
Kirby Corporation <sup>a</sup>	85,500	2,977,965
Landstar System	145,400	5,637,158
<b>Patriot Transportation Holding <sup>a</sup></b>	70,986	6,705,338
Tidewater	36,000	1,726,200
Universal Truckload Services	129,576	2,345,326
UTI Worldwide	175,000	2,506,000
		<hr/>
		39,857,871
		<hr/>
<b>Total (Cost \$100,567,008)</b>		140,136,223

<b>Natural Resources 10.5%</b>		
<b>Energy Services - 5.8%</b>		
Cal Dive International <sup>a</sup>	50,000	378,000
CARBO Ceramics	83,700	5,705,829
Core Laboratories	10,000	1,181,200
Ensign Energy Services	225,100	3,228,474
Exterran Holdings <sup>a,c</sup>	103,600	2,222,220
Helmerich & Payne	53,700	2,141,556
ION Geophysical <sup>a</sup>	361,500	2,140,080
Jutal Offshore Oil Services <sup>a</sup>	120,000	17,497
Lufkin Industries	31,000	2,269,200
Major Drilling Group International	158,200	4,351,880
<b>Oil States International <sup>a</sup></b>	191,000	7,504,390
Pason Systems	169,800	1,891,447
RPC	25,000	260,000
<b>SEACOR Holdings <sup>a</sup></b>	101,300	7,724,125
ShawCor Cl. A	76,000	2,132,811
TETRA Technologies <sup>a,c</sup>	68,000	753,440
Trican Well Service	99,900	1,343,017
Unit Corporation <sup>a</sup>	46,000	1,955,000
Willbros Group <sup>a</sup>	103,800	1,751,106
		48,951,272

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE  
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December 31, 2009

	SHARES	VALUE
<b>Natural Resources (continued)</b>		
Oil and Gas - 0.8%		
Bill Barrett <sup>a</sup>	50,000	\$ 1,555,500
Cimarex Energy	95,490	5,058,105
		<hr/>
		6,613,605
		<hr/>
Precious Metals and Mining - 2.4%		
Aquarius Platinum <sup>a</sup>	250,000	1,610,300
Cliffs Natural Resources	23,500	1,083,115
Etruscan Resources <sup>a</sup>	745,900	306,676
Gammon Gold <sup>a</sup>	198,300	2,183,283
Hecla Mining <sup>a,c</sup>	528,600	3,266,748
Hochschild Mining	300,000	1,634,172
IAMGOLD Corporation	135,620	2,121,097
Kimber Resources <sup>a,c</sup>	560,000	722,400
New Gold <sup>a,c</sup>	510,000	1,856,400
Northam Platinum	350,000	2,262,379
Northgate Minerals <sup>a</sup>	140,000	431,200
NovaGold Resources <sup>a,c</sup>	70,000	429,100
Pan American Silver <sup>a</sup>	41,000	976,210
Royal Gold	34,400	1,620,240
Zhaojin Mining Industry	15,000	29,586
		<hr/>
		20,532,906
		<hr/>
Real Estate - 1.3%		
Avatar Holdings <sup>a,c</sup>	50,000	850,500
Consolidated-Tomoka Land	13,564	473,926
PICO Holdings <sup>a</sup>	106,100	3,472,653
St. Joe Company (The) <sup>a,c</sup>	43,000	1,242,270
Tejon Ranch <sup>a,c</sup>	163,102	4,765,840
		<hr/>
		10,805,189
		<hr/>
Other Natural Resources - 0.2%		
China Forestry Holdings <sup>a</sup>	5,946,000	1,679,488
Hidili Industry International Development <sup>a</sup>	175,000	217,739
		<hr/>

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1,897,227

**Total** (Cost \$60,420,261)

88,800,199

**Technology 19.2%**

**Aerospace and Defense - 1.6%**

AerCap Holdings <sup>a,c</sup>	45,000	407,700
Ducommun	117,200	2,192,812
FLIR Systems <sup>a</sup>	75,000	2,454,000
<b>HEICO Corporation</b>	107,700	4,774,341
<b>HEICO Corporation Cl. A</b>	63,100	2,269,076
Hexcel Corporation <sup>a</sup>	47,500	616,550
Moog Cl. A <sup>a</sup>	25,000	730,750

13,445,229

**Components and Systems - 5.0%**

AAC Acoustic Technologies Holdings	110,700	182,948
Analogic Corporation	40,135	1,545,599
Belden	57,800	1,266,976
Benchmark Electronics <sup>a</sup>	165,200	3,123,932
Checkpoint Systems <sup>a</sup>	56,060	854,915
China Digital TV Holding Company ADR	20,000	121,800
China Security & Surveillance Technology <sup>a,c</sup>	6,000	45,840

**SHARES VALUE**

**Technology (continued)**

**Components and Systems (continued)**

Diebold	151,600	\$ 4,313,020
Dionex Corporation <sup>a</sup>	52,900	3,907,723
Electronics for Imaging <sup>a,c</sup>	8,517	110,806
Energy Conversion Devices <sup>a,c</sup>	84,500	893,165
Intermec <sup>a</sup>	23,000	295,780
Newport Corporation <sup>a</sup>	483,500	4,443,365
Perceptron <sup>a</sup>	357,700	1,148,217
<b>Plexus Corporation <sup>a</sup></b>	215,700	6,147,450
Richardson Electronics	520,712	3,056,579
Technitrol	261,200	1,144,056
Teradata Corporation <sup>a</sup>	97,000	3,048,710
Vaisala Cl. A	108,500	3,902,380
VTech Holdings	66,050	631,427
Western Digital <sup>a</sup>	4,500	198,675
Zebra Technologies Cl. A <sup>a</sup>	76,525	2,170,249

42,553,612

**Distribution - 1.0%**

Agilysys	165,125	1,502,637
Anixter International <sup>a</sup>	61,795	2,910,545
Avnet <sup>a</sup>	8,000	241,280
China 3C Group <sup>a</sup>	6,600	3,300
Tech Data <sup>a</sup>	86,500	4,036,090

		8,693,852
<hr/>		
<b>Internet Software and Services -</b>		
<b>0.2%</b>		
NetEase.com ADR <sup>a,c</sup>	3,500	131,635
Perficient <sup>a</sup>	10,000	84,300
RealNetworks <sup>a</sup>	245,400	910,434
		<hr/>
		1,126,369
<hr/>		
<b>IT Services - 2.3%</b>		
AsialInfo Holdings <sup>a,c</sup>	9,900	301,653
Black Box	42,300	1,198,782
<b>Sapient Corporation</b> <sup>a,c</sup>	756,602	6,257,099
SRA International Cl. A <sup>a</sup>	248,800	4,752,080
Syntel	122,379	4,654,073
Total System Services	106,000	1,830,620
Yucheng Technologies <sup>a</sup>	20,840	177,765
		<hr/>
		19,172,072
<hr/>		
<b>Semiconductors and Equipment -</b>		
<b>3.3%</b>		
ASM Pacific Technology	18,000	169,189
BE Semiconductor Industries <sup>a,c</sup>	58,000	214,600
Brooks Automation <sup>a</sup>	5,152	44,204
Cognex Corporation	236,200	4,185,464
<b>Coherent</b> <sup>a,c</sup>	215,500	6,406,815
Diodes <sup>a</sup>	252,450	5,162,603
EVS Broadcast Equipment	12,000	764,878
Exar Corporation <sup>a</sup>	157,576	1,120,365
Himax Technologies ADR	80,500	222,985
Image Sensing Systems <sup>a</sup>	8,310	96,396
International Rectifier <sup>a</sup>	120,000	2,654,400
Intevac <sup>a</sup>	57,450	658,952
Power Integrations	49,000	1,781,640
TTM Technologies <sup>a</sup>	221,400	2,552,742
Vimicro International ADR <sup>a</sup>	270,000	1,314,900

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

2009 Annual Report to Stockholders |

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## Royce Value Trust

December 31, 2009

## Schedule of Investments

	SHARES	VALUE
<b>Technology (continued)</b>		
Semiconductors and Equipment (continued)		
Virage Logic <sup>a</sup>	158,100	\$ 869,550
		28,219,683
<b>Software - 3.9%</b>		
ACI Worldwide <sup>a</sup>	201,150	3,449,723
Activision Blizzard <sup>a</sup>	21,000	233,310
Advent Software <sup>a,c</sup>	130,300	5,307,119
ANSYS <sup>a</sup>	100,000	4,346,000
Aspen Technology <sup>a</sup>	42,100	412,580
ATA ADR <sup>a,c</sup>	47,100	207,240
Aveva Group	85,000	1,381,541
Avid Technology <sup>a</sup>	186,000	2,373,360
Blackbaud	36,890	871,711
Epicor Software <sup>a</sup>	79,900	608,838
Fair Isaac	54,500	1,161,395
JDA Software Group <sup>a</sup>	99,900	2,544,453
Majesco Entertainment <sup>a,c</sup>	36,255	41,693
National Instruments	167,900	4,944,655
Net 1 UEPS Technologies <sup>a,c</sup>	50,000	971,000
Novell <sup>a</sup>	50,000	207,500
Parametric Technology <sup>a,c</sup>	59,300	968,962
PLATO Learning <sup>a</sup>	149,642	652,439
Rosetta Stone <sup>a,c</sup>	2,000	35,900
Sybase <sup>a</sup>	57,600	2,499,840
THQ <sup>a</sup>	20,000	100,800
		33,320,059
<b>Telecommunications - 1.9%</b>		
Adaptec <sup>a</sup>	1,568,800	5,255,480
ADTRAN	65,000	1,465,750
Citic 1616 Holdings	6,216,500	2,097,165
Comtech Telecommunications <sup>a</sup>	73,500	2,576,175
Globecom Systems <sup>a</sup>	233,700	1,827,534
LiveWire Mobile <sup>a,c</sup>	38,000	89,300
Sonus Networks <sup>a,c</sup>	554,000	1,168,940
Sycamore Networks	22,100	462,111
Tandberg	30,000	854,605
Zhone Technologies <sup>a,c</sup>	1,120,000	458,752
		16,255,812
<b>Total</b> (Cost \$150,756,881)		162,786,688

Miscellaneous <sup>e</sup> 4.9%

SHARES VALUE



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<b>Total</b> (Cost \$36,654,318)		\$ 41,713,439
<hr/>		
<b>TOTAL COMMON STOCKS</b> (Cost \$826,766,306)		996,407,315
<hr/>		
<b>PREFERRED STOCK 0.2%</b> Seneca Foods Conv. <sup>a,b</sup> (Cost \$1,279,250)	85,000	1,826,055
<hr/>		
<b>REPURCHASE AGREEMENT 8.2%</b> State Street Bank & Trust Company, 0.005% dated 12/31/09, due 1/4/10, maturity value \$70,008,039 (collateralized by obligations of various U.S. Government Agencies, 4.25%-7.125% due 6/15/10-8/15/10, valued at \$71,760,372) (Cost \$70,008,000)		70,008,000
<hr/>		
<b>COLLATERAL RECEIVED FOR SECURITIES LOANED 3.7%</b> Money Market Funds Federated Government Obligations Fund (7 day yield-0.0582%) (Cost \$31,105,857)		31,105,857
<hr/>		
<b>TOTAL INVESTMENTS 129.4%</b> (Cost \$929,159,413)		1,099,347,227
<b>LIABILITIES LESS CASH AND OTHER ASSETS (3.5)%</b>		(29,570,479)
<b>PREFERRED STOCK (25.9)%</b>		(220,000,000)
<hr/>		
<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS 100.0%</b>		<b>\$ 849,776,748</b>
<hr/>		

New additions in 2009.

<sup>a</sup> Non-income producing.

<sup>b</sup> Securities for which market quotations are not readily available represent 0.2% of net assets. These securities have been valued at their fair value under procedures established by the Fund's Board of Directors.

<sup>c</sup> All or a portion of these securities were on loan at December 31, 2009. Total market value of loaned securities at December 31, 2009 was \$30,123,697.

<sup>d</sup>

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At December 31, 2009, the Fund owned 5% or more of the Company's outstanding voting securities thereby making the Company an Affiliated Company as that term is defined in the Investment Company Act of 1940. See notes to financial statements.

<sup>e</sup> Includes securities first acquired in 2009 and less than 1% of net assets applicable to Common Stockholders.

**Bold indicates the Fund's 20 largest equity holdings in terms of December 31, 2009 market value.**

**TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$926,083,767. At December 31, 2009, net unrealized appreciation for all securities was \$173,263,460, consisting of aggregate gross unrealized appreciation of \$293,893,010 and aggregate gross unrealized depreciation of \$120,629,550. The primary difference between book and tax basis cost is the timing of the recognition of partnership income and losses on securities sold.

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## Royce Value Trust

December 31, 2009

## Statement of Assets and Liabilities

**ASSETS:**

Investments at value (including collateral on loaned securities)*	
Non-Affiliated Companies (cost \$853,413,097)	\$ 1,027,255,979
Affiliated Companies (cost \$5,738,316)	2,083,248

Total investments at value	1,029,339,227
Repurchase agreements (at cost and value)	70,008,000
Cash and foreign currency	66,516
Receivable for investments sold	1,088,683
Receivable for dividends and interest	1,003,734
Prepaid expenses and other assets	239,282

Total Assets	1,101,745,442
--------------	---------------

**LIABILITIES:**

Payable for collateral on loaned securities	31,105,857
Payable for investments purchased	333,631
Preferred dividends accrued but not yet declared	288,448
Accrued expenses	240,758

Total Liabilities	31,968,694
-------------------	------------

**PREFERRED STOCK:**

5.90% Cumulative Preferred Stock - \$0.001 par value, \$25 liquidation value per share; 8,800,000 shares outstanding	220,000,000
--	-------------

Total Preferred Stock	220,000,000
-----------------------	-------------

<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>	<b>\$ 849,776,748</b>
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**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

Common Stock paid-in capital - \$0.001 par value per share; 66,023,310 shares outstanding (150,000,000 shares authorized)	\$ 783,354,589
Undistributed net investment income (loss)	2,135,911
Accumulated net realized gain (loss) on investments and foreign currency	(105,611,604)
Net unrealized appreciation (depreciation) on investments and foreign currency	170,186,301
Preferred dividends accrued but not yet declared	(288,449)

Net Assets applicable to Common Stockholders (net asset value per share - \$12.87)	\$ 849,776,748
--	----------------

*Investments at identified cost (including \$31,105,857 of collateral on loaned securities)	\$ 859,151,413
Market value of loaned securities	30,123,697

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

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## Royce Value Trust

Year Ended December 31, 2009

**Statement of Operations****INVESTMENT INCOME:**

Income:

Dividends\*

Non-Affiliated Companies \$ 11,685,155

Affiliated Companies 145,452

Interest 83,779

Securities lending 306,349

Total income	12,220,735
--------------	------------

Expenses:

Investment advisory fees

Stockholder reports 414,110

Custody and transfer agent fees 208,085

Administrative and office facilities 132,707

Directors fees 99,153

Professional fees 80,762

Other expenses 146,225

Total expenses	1,081,042
----------------	-----------

Net investment income (loss)	11,139,693
------------------------------	------------

**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:**

Net realized gain (loss):

Investments in Non-Affiliated Companies (78,760,748)

Investments in Affiliated Companies (2,488,607)

Foreign currency transactions 31,207

Net change in unrealized appreciation (depreciation):

Investments and foreign currency translations 340,202,736

Other assets and liabilities denominated in foreign currency 2,071

Net realized and unrealized gain (loss) on investments and foreign currency	258,986,659
---	-------------

<b>NET INCREASE (DECREASE) IN NET ASSETS FROM INVESTMENT OPERATIONS</b>	270,126,352
---	-------------

<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>	(12,980,000)
--	--------------

<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>	\$257,146,352
---	---------------

\* Net of foreign withholding tax of \$340,052.

## Royce Value Trust

### Statement of Changes in Net Assets

	Year ended 12/31/09	Year ended 12/31/08
<b>INVESTMENT OPERATIONS:</b>		
Net investment income (loss)	\$ 11,139,693	\$ 8,857,568
Net realized gain (loss) on investments and foreign currency	(81,218,148)	41,802,074
Net change in unrealized appreciation (depreciation) on investments and foreign currency	340,204,807	(567,740,312)
Net increase (decrease) in net assets from investment operations	270,126,352	(517,080,670)
<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>		
Net investment income	(11,909,351)	(621,668)
Net realized gain on investments and foreign currency		(12,358,332)
Return of capital	(1,070,649)	
Total distributions to Preferred Stockholders	(12,980,000)	(12,980,000)
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>		
	257,146,352	(530,060,670)
<b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>		
Net investment income		(3,638,680)
Net realized gain on investments and foreign currency		(72,334,389)
Return of capital	(20,600,435)	(29,418,267)
Total distributions to Common Stockholders	(20,600,435)	(105,391,336)
<b>CAPITAL STOCK TRANSACTIONS:</b>		
Reinvestment of distributions to Common Stockholders	9,996,769	54,016,743
Total capital stock transactions	9,996,769	54,016,743
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>		
	246,542,686	(581,435,263)
<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>		
Beginning of year	603,234,062	1,184,669,325
End of year (including undistributed net investment income (loss) of \$2,135,911 at 12/31/09 and \$3,331,228 at 12/31/08)	\$ 849,776,748	\$ 603,234,062

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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## Royce Value Trust

### Financial Highlights

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

	Years ended December 31,			
	2009	2008	2007	2006
<b>NET ASSET VALUE, BEGINNING OF PERIOD</b>	\$ 9.37	\$ 19.74	\$ 20.62	\$ 18.87
<b>INVESTMENT OPERATIONS:</b>				
Net investment income (loss)	0.17	0.14	0.09	0.13
Net realized and unrealized gain (loss) on investments and foreign currency	3.87	(8.50)	1.13	3.63
Total investment operations	4.04	(8.36)	1.22	3.76
<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>				
Net investment income	(0.18)	(0.01)	(0.01)	(0.02)
Net realized gain on investments and foreign currency		(0.20)	(0.21)	(0.21)
Return of capital	(0.02)			
Total distributions to Preferred Stockholders	(0.20)	(0.21)	(0.22)	(0.23)
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>	3.84	(8.57)	1.00	3.53
<b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>				
Net investment income		(0.06)	(0.09)	(0.14)
Net realized gain on investments and foreign currency		(1.18)	(1.76)	(1.64)
Return of capital	(0.32)	(0.48)		
Total distributions to Common Stockholders	(0.32)	(1.72)	(1.85)	(1.78)
<b>CAPITAL STOCK TRANSACTIONS:</b>				
Effect of reinvestment of distributions by Common Stockholders	(0.02)	(0.08)	(0.03)	(0.00)
Total capital stock transactions	(0.02)	(0.08)	(0.03)	(0.00)
<b>NET ASSET VALUE, END OF PERIOD</b>	\$ 12.87	\$ 9.37	\$ 19.74	\$ 20.62
<b>MARKET VALUE, END OF PERIOD</b>	\$ 10.79	\$ 8.39	\$ 18.58	\$ 22.21
<b>TOTAL RETURN (a):</b>				
Market Value	35.39%	(48.27)%	(8.21)%	20.96%
Net Asset Value	44.59%	(45.62)%	5.04%	19.50%
<b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>				

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Total expenses (b,c)	0.16%	1.39%	1.38%	1.29%
Management fee expense (d)	0.00%	1.27%	1.29%	1.20%
Other operating expenses	0.16%	0.12%	0.09%	0.09%
Net investment income (loss)	1.66%	0.94%	0.43%	0.62%

**SUPPLEMENTAL DATA:**

Net Assets Applicable to Common Stockholders, End of Period (in thousands)	\$ 849,777	\$ 603,234	\$ 1,184,669	\$ 1,180,428
Liquidation Value of Preferred Stock, End of Period (in thousands)	\$ 220,000	\$ 220,000	\$ 220,000	\$ 220,000
Portfolio Turnover Rate	31%	25%	26%	21%

**PREFERRED STOCK:**

Total shares outstanding	8,800,000	8,800,000	8,800,000	8,800,000
Asset coverage per share	\$ 121.57	\$ 93.55	\$ 159.62	\$ 159.14
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average month-end market value per share	\$ 23.18	\$ 22.51	\$ 23.68	\$ 23.95

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions are assumed for the purposes of this calculation to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 0.12%, 1.13%, 1.17%, 1.08% and 1.22% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees and after earnings credits would have been 0.16%, 1.39%, 1.38%, 1.29% and 1.49% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.
- (d) The management fee is calculated based on average net assets over a rolling 60-month basis, while the above ratios of management fee expenses are based on the average net assets applicable to Common Stockholders over a 12-month basis.

## Royce Value Trust

### Notes to Financial Statements

#### Summary of Significant Accounting Policies:

Royce Value Trust, Inc. (the Fund), was incorporated under the laws of the State of Maryland on July 1, 1986 as a diversified closed-end investment company. The Fund commenced operations on November 26, 1986.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the evaluation of subsequent events through February 23, 2010, the issuance date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Under the Fund's organizational documents, the officers and directors are indemnified against certain liabilities that may arise out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

#### Valuation of Investments:

Securities are valued as of the close of trading on the New York Stock Exchange (NYSE) (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange, and securities traded on Nasdaq's Electronic Bulletin Board, are valued at their last reported sales price or Nasdaq official closing price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their highest bid price, except in the case of some bonds and other fixed income securities which may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services. The Fund values its non-U.S. dollar denominated securities in U.S. dollars daily at the prevailing foreign currency exchange rates as quoted by a major bank. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. In addition, if, between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and may make the closing price unreliable, the Fund may fair value the security. The Fund uses an independent pricing service to provide fair value estimates for relevant non-U.S. equity securities on days when the U.S. market volatility exceeds a certain threshold. This pricing service uses proprietary correlations it has developed between the movement of prices of non-U.S. equity securities and indices of U.S.-traded securities, futures contracts and other indications to estimate the fair value of relevant non-U.S. securities. When fair value pricing is employed, the prices of securities used by the Fund may differ from quoted or published prices for the same security. Investments in money market funds are valued at net asset value per share.

Various inputs are used in determining the value of the Fund's investments, as noted above. These inputs are summarized in the three broad levels below:

- Level 1 quoted prices in active markets for identical securities
- Level 2 other significant observable inputs (including quoted prices for similar securities, foreign securities that may be fair valued and repurchase agreements)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the Fund's investments as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Common stocks	\$823,769,244	\$172,422,529	\$ 215,542	\$996,407,315
Preferred stocks			1,826,055	1,826,055
Cash equivalents	31,105,857	70,008,000		101,113,857

Level 3

Reconciliation:



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	<b>Balance as of</b>		<b>Transfers</b>		<b>Realized and</b>	<b>Balance as of</b>
	<b>12/31/08</b>	<b>Purchases</b>	<b>In</b>	<b>Sales</b>	<b>Unrealized Gain (Loss)<sup>(1)</sup></b>	<b>12/31/09</b>
Common stocks	\$ 39,967	\$ 2,098	\$ 494,351	\$88,292	\$ (232,582)	\$ 215,542
Preferred stocks	1,599,615				226,440	1,826,055

<sup>(1)</sup> The net change in unrealized appreciation (depreciation) is included in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized. Net realized gain (loss) from investments and foreign currency transactions is included in the accompanying Statement of Operations.

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## Royce Value Trust

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### Notes to Financial Statements (continued)

#### Repurchase Agreements:

The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of the counter-party, including possible delays or restrictions upon the ability of the Fund to dispose of its underlying securities.

#### Foreign Currency:

Net realized foreign exchange gains or losses arise from sales and maturities of short-term securities, sales of foreign currencies, expiration of currency forward contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities, including investments in securities at the end of the reporting period, as a result of changes in foreign currency exchange rates.

#### Securities Lending:

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral for the Fund on all securities loaned is accepted in cash and cash equivalents and invested temporarily by the custodian. The collateral maintained is at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. The Fund retains the risk of any loss on the securities on loan as well as incurring the potential loss on investments purchased with cash collateral received for securities lending.

#### Taxes:

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Tax Information".

#### Distributions:

Effective May 18, 2009, the Fund pays any dividends and capital gain distributions annually in December on the Fund's Common Stock. Prior to that date, the Fund paid quarterly distributions on the Fund's Common Stock at the annual rate of 9% of the rolling average of the prior four calendar quarter-end NAVs of the Fund's Common Stock, with the fourth quarter distribution being the greater of 2.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are accrued daily and paid quarterly and distributions to Common Stockholders are recorded on ex-dividend date. Distributable capital gains and/or net investment income are first allocated to Preferred Stockholder distributions, with any excess allocable to Common Stockholders. If capital gains and/or net investment income are allocated to both Preferred and Common Stockholders, the tax character of such allocations is proportional. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

#### Investment Transactions and Related Investment Income:

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on an accrual basis. Premium and discounts on debt securities are amortized using the effective yield-to-maturity method. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax purposes.

#### Expenses:

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated equitably. Certain personnel, occupancy costs and other administrative expenses related to The Royce Funds are allocated by Royce & Associates, LLC ( Royce ) under an administration agreement and are included in administrative and office facilities and legal expenses. The Fund has adopted a deferred fee agreement that allows the Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

**Compensating Balance Credits:**

The Fund has an arrangement with its custodian bank, whereby a portion of the custodian's fee is paid indirectly by credits earned on the Fund's cash on deposit with the bank. This deposit arrangement is an alternative to purchasing overnight investments. Conversely, the Fund pays interest to the custodian on any cash overdrafts, to the extent they are not offset by credits earned on positive cash balances.

## Royce Value Trust

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### Notes to Financial Statements (continued)

#### Capital Stock:

The Fund issued 1,646,914 and 4,367,983 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009, 8,800,000 shares of 5.90% Cumulative Preferred Stock were outstanding. The Fund, at its option, may redeem the Cumulative Preferred Stock, in whole or in part, at the redemption price. The Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements in accordance with accounting for redeemable equity instruments, that requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer.

The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share, plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Cumulative Preferred Stock.

#### Investment Advisory Agreement:

As compensation for its services under the Investment Advisory Agreement, Royce receives a fee comprised of a Basic Fee ( Basic Fee ) and an adjustment to the Basic Fee based on the investment performance of the Fund in relation to the investment record of the S&P SmallCap 600 Index ( S&P 600 ).

The Basic Fee is a monthly fee equal to 1/12 of 1% (1% on an annualized basis) of the average of the Fund's month-end net assets applicable to Common Stockholders, plus the liquidation value of Preferred Stock, for the rolling 60-month period ending with such month (the performance period). The Basic Fee for each month is increased or decreased at the rate of 1/12 of .05% for each percentage point that the investment performance of the Fund exceeds, or is exceeded by, the percentage change in the investment record of the S&P 600 for the performance period by more than two percentage points. The performance period for each such month is a rolling 60-month period ending with such month. The maximum increase or decrease in the Basic Fee for any month may not exceed 1/12 of .5%. Accordingly, for each month, the maximum monthly fee rate as adjusted for performance is 1/12 of 1.5% and is payable if the investment performance of the Fund exceeds the percentage change in the investment record of the S&P 600 by 12 or more percentage points for the performance period, and the minimum monthly fee rate as adjusted for performance is 1/12 of .5% and is payable if the percentage change in the investment record of the S&P 600 exceeds the investment performance of the Fund by 12 or more percentage points for the performance period.

Notwithstanding the foregoing, Royce is not entitled to receive any fee for any month when the investment performance of the Fund for the rolling 36-month period ending with such month is negative. In the event that the Fund's investment performance for such a performance period is less than zero, Royce will not be required to refund to the Fund any fee earned in respect of any prior performance period.

Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the applicable Preferred Stock's dividend rate.

For each of the twelve rolling 36-month periods ended December 31, 2009, the Fund had negative investment performance and, accordingly, paid no advisory fee.

#### Purchases and Sales of Investment Securities:

For the year ended December 31, 2009, the cost of purchases and proceeds from sales of investment securities, other than short-term securities and collateral received for securities loaned, amounted to \$248,581,541 and \$291,550,287, respectively.

#### Distributions to Stockholders:

The tax character of distributions paid to common stockholders during 2009 and 2008 was as follows:

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Distributions paid from:	<u>2009</u>	<u>2008</u>
Ordinary income		\$ 4,477,547
Long-term capital gain		71,495,522
Return of capital	\$ 20,600,435	29,418,267
	<hr/>	<hr/>
	\$ 20,600,435	\$ 105,391,336

The tax character of distributions paid to preferred stockholders during 2009 and 2008 was as follows:

Distributions paid from:	<u>2009</u>	<u>2008</u>
Ordinary income	\$ 11,909,351	\$ 764,989
Long-term capital gain		12,215,011
Return of capital	1,070,649	
	<hr/>	<hr/>
	\$ 12,980,000	\$ 12,980,000

## Royce Value Trust

### Notes to Financial Statements (continued)

#### Distributions to Stockholders (continued):

As of December 31, 2009, the tax basis components of distributable earnings included in stockholders' equity were as follows:

Capital loss carryforward to 12/31/17	\$ (101,981,568)
Unrealized appreciation (depreciation)	173,261,948
Post October loss*	(4,569,772)
Accrued preferred distributions	(288,449)
	\$ 66,422,159

\*Under the current tax law, capital losses, foreign currency losses and losses realized on Passive Foreign Investment Companies after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. As of December 31, 2009, the Fund had \$4,569,772 of post October losses.

The difference between book and tax basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral on wash sales, partnership investments and the unrealized gains on Passive Foreign Investment Companies.

For financial reporting purposes, capital accounts and distributions to stockholders are adjusted to reflect the tax character of permanent book/tax differences. These differences are primarily due to differing treatments of income and gains on various investment securities and foreign currency transactions held by the Fund, timing differences and different characterization of distributions made by the Fund. For the year ended December 31, 2009, the Fund recorded the following permanent reclassifications. Results of operations and net assets were not affected by these reclassifications.

<u>Undistributed Net Investment Income</u>	<u>Accumulated Net Realized Gain (Loss)</u>	<u>Paid-in Capital</u>
\$(425,659)	\$(189,017)	\$614,676

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (2006-2009) and has concluded that as of December 31, 2009, no provision for income tax is required in the Fund's financial statements.

#### Transactions in Affiliated Companies:

An Affiliated Company as defined in the Investment Company Act of 1940, is a company in which a fund owns 5% or more of the company's outstanding voting securities at any time during the period. The Fund effected the following transactions in shares of such companies for the year ended December 31, 2009:

Affiliated Company	Shares 12/31/08	Market Value 12/31/08	Cost of Purchases	Cost of Sales	Realized Gain (Loss)	Dividend Income	Shares 12/31/09	Market Value 12/31/09
Delta Apparel*	605,560	\$ 2,210,294		\$ 4,297,286	\$(2,488,607)			
Timberland Bancorp	469,200	3,495,540				\$ 145,452	469,200	\$ 2,083,248
		\$ 5,705,834			\$(2,488,607)	\$ 145,452		\$ 2,083,248

\*Not an Affiliated Company at December 31, 2009.



## Royce Value Trust

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### Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Royce Value Trust, Inc.  
New York, New York

We have audited the accompanying statement of assets and liabilities of Royce Value Trust, Inc., ( Fund ) including the schedule of investments, as of December 31, 2009, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2009, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Royce Value Trust, Inc. at December 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER, & BAKER LLP

Philadelphia, Pennsylvania  
February 23, 2010



## Royce Micro-Cap Trust

### Schedule of Investments

	SHARES	VALUE
<b>COMMON STOCKS 110.3%</b>		
<b>Consumer Products 8.0%</b>		
Apparel, Shoes and Accessories - 1.8%		
K-Swiss Cl. A <sup>a</sup>	47,400	\$ 471,156
Movado Group	168,840	1,641,125
Steven Madden <sup>a</sup>	10,300	424,772
True Religion Apparel <sup>a,b</sup>	25,500	471,495
Weyco Group	48,000	1,134,720
Yamato International	40,000	141,289
		4,284,557
Consumer Electronics - 0.7%		
DTS <sup>a</sup>	50,000	1,710,500
		1,710,500
Food/Beverage/Tobacco - 2.2%		
Asian Citrus Holdings	1,060,000	857,813
Cal-Maine Foods	22,500	766,800
Heckmann Corporation <sup>a,b</sup>	200,000	998,000
HQ Sustainable Maritime Industries <sup>a</sup>	72,800	512,512
Seneca Foods Cl. A <sup>a,b</sup>	51,400	1,226,918
Seneca Foods Cl. B <sup>a</sup>	42,500	1,027,225
		5,389,268
Health, Beauty and Nutrition - 0.5%		
NutriSystem	37,700	1,175,109
		1,175,109
Home Furnishing and Appliances - 2.8%		
American Woodmark	72,000	1,416,960
Ethan Allen Interiors	66,600	893,772
Flexsteel Industries	172,500	1,764,675
Koss Corporation <sup>c</sup>	73,400	36,700
Lumber Liquidators <sup>a,b</sup>	29,900	801,320
Natuzzi ADR <sup>a</sup>	409,800	1,323,654
Universal Electronics <sup>a</sup>	31,000	719,820
		6,956,901
		6,956,901
<b>Total (Cost \$14,783,625)</b>		19,516,335
<b>Consumer Services 3.5%</b>		
Online Commerce - 0.3%		
Alloy <sup>a</sup>	36,002	280,096

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CryptoLogic	88,300	323,178
1-800-FLOWERS.COM Cl. A <sup>a</sup>	34,540	91,531
		694,805
<b>Restaurants and Lodgings - 0.0%</b>		
Benihana Cl. A <sup>a</sup>	16,300	61,777
<b>Retail Stores - 3.2%</b>		
<b>America's Car-Mart</b>	92,800	2,443,424
Charming Shoppes <sup>a,b</sup>	266,200	1,722,314
China Nepstar Chain Drugstore		
ADR	24,300	177,147
dELiA*s <sup>a</sup>	75,000	140,250
DSW Cl. A <sup>a,b</sup>	10,500	271,740
Le Chateau Cl. A	27,900	364,139
Stein Mart <sup>a</sup>	178,900	1,907,074
West Marine <sup>a</sup>	86,000	693,160
		7,719,248
<b>Total</b> (Cost \$6,157,176)		8,475,830

	SHARES	VALUE
<b>Diversified Investment Companies 0.9%</b>		
<b>Closed-End Funds - 0.9%</b>		
Central Fund of Canada Cl. A	131,700	\$ 1,814,826
Urbana Corporation <sup>a</sup>	237,600	343,047
		2,157,873
<b>Total</b> (Cost \$847,767)		2,157,873
<b>Financial Intermediaries 9.3%</b>		
<b>Banking - 3.8%</b>		
Alliance Bancorp, Inc. of Pennsylvania	50,420	423,528
B of I Holding <sup>a,b</sup>	100,000	1,000,000
BCB Holdings <sup>a</sup>	806,207	1,256,610
Cass Information Systems	15,000	456,000
Centrue Financial	66,600	177,822
CFS Bancorp	75,000	242,250
Chemung Financial	40,000	818,000
Commercial National Financial	20,000	346,600
Fauquier Bankshares	135,800	1,683,920
Financial Institutions	36,000	424,080
First Bancorp	40,200	619,884
HopFed Bancorp	61,000	579,500
LCNB Corporation	30,000	315,000
Wilber Corporation (The)	126,850	913,320
		9,256,514
<b>Insurance - 0.9%</b>		
Greenlight Capital Re Cl. A <sup>a</sup>	13,500	318,195
Hilltop Holdings <sup>a</sup>	121,400	1,413,096
Independence Holding	95,800	555,640
		2,286,931

<b>Real Estate Investment Trusts - 0.6%</b>		
Colony Financial	49,717	1,012,735
Vestin Realty Mortgage II <sup>a</sup>	214,230	467,022
		<u>1,479,757</u>
<b>Securities Brokers - 3.5%</b>		
<b>Cowen Group Cl. A</b> <sup>a</sup>	340,534	2,015,961
Diamond Hill Investment Group	24,479	1,572,286
<b>FBR Capital Markets</b> <sup>a</sup>	326,600	2,018,388
International Assets Holding Corporation <sup>a</sup>	17,310	251,688
Sanders Morris Harris Group	199,000	1,094,500
Thomas Weisel Partners Group <sup>a</sup>	376,200	1,422,036
		<u>8,374,859</u>
<b>Securities Exchanges - 0.5%</b>		
Bolsa Mexicana de Valores <sup>a</sup>	948,500	1,113,664
		<u>22,511,725</u>
<b>Total</b> (Cost \$27,714,174)		
		<u>22,511,725</u>
<b>Financial Services 9.2%</b>		
<b>Diversified Financial Services - 1.1%</b>		
Encore Capital Group <sup>a</sup>	32,000	556,800
<b>World Acceptance</b> <sup>a,b</sup>	61,351	2,198,206
		<u>2,755,006</u>
<b>Information and Processing - 0.3%</b>		
Value Line	32,487	815,749
		<u>367,930</u>
<b>Insurance Brokers - 0.2%</b>		
Western Financial Group	148,000	367,930

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

December 31, 2009

	SHARES	VALUE
<b>Financial Services (continued)</b>		
<i>Investment Management - 4.6%</i>		
BKF Capital Group <sup>a</sup>	130,200	\$ 121,086
Dundee Corporation Cl. A <sup>a</sup>	140,200	1,626,071
Endeavour Financial <sup>b</sup>	393,200	665,453
<b>Epoch Holding Corporation</b>	196,500	2,053,425
Evercore Partners Cl. A	13,200	401,280
JZ Capital Partners	245,666	957,878
MVC Capital	136,200	1,607,160
Queen City Investments	948	957,480
Sceptre Investment Counsel	78,000	417,651
U.S. Global Investors Cl. A	91,500	1,126,365
VZ Holding	15,000	1,141,616
		11,075,465
<i>Special Purpose Acquisition Corporation - 0.5%</i>		
Shellproof <sup>a</sup>	29,192	16,503
Westway Group	220,000	1,122,000
		1,138,503
<i>Specialty Finance - 0.2%</i>		
NGP Capital Resources	68,080	553,490
<i>Other Financial Services - 2.3%</i>		
<b>Kennedy-Wilson Holdings <sup>a</sup></b>	631,766	5,654,306
<b>Total</b> (Cost \$20,367,893)		22,360,449
<b>Health 9.7%</b>		
<i>Commercial Services - 0.4%</i>		
PAREXEL International <sup>a</sup>	40,000	564,000
PDI <sup>a,b</sup>	104,800	505,136
		1,069,136
<i>Drugs and Biotech - 1.2%</i>		
Adolor Corporation <sup>a,b</sup>	460,500	672,330
Hi-Tech Pharmacal <sup>a,b</sup>	17,700	496,485
Simcere Pharmaceutical Group		
ADR <sup>a,b</sup>	25,700	237,468
Sinovac Biotech <sup>a,b</sup>	23,900	151,287
Strategic Diagnostics <sup>a</sup>	150,000	207,000
Theragenics Corporation <sup>a,b</sup>	306,900	411,246
ViroPharma <sup>a</sup>	77,000	646,030
		2,821,846

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Health Services - 2.5%

Advisory Board (The) <sup>a,b</sup>	51,700	1,585,122
Air Methods <sup>a,b</sup>	8,007	269,195
Computer Programs and Systems	3,800	174,990
eResearch Technology <sup>a</sup>	127,000	763,270
Gentiva Health Services <sup>a</sup>	23,000	621,230
HMS Holdings <sup>a,b</sup>	11,900	579,411
On Assignment <sup>a</sup>	41,100	293,865
PharMerica Corporation <sup>a</sup>	40,000	635,200
Psychemedics Corporation	37,500	275,625
Res-Care <sup>a</sup>	59,220	663,264
U.S. Physical Therapy <sup>a</sup>	10,000	169,300

6,030,472

Medical Products and Devices - 5.6%

Allied Healthcare Products <sup>a</sup>	226,798	1,215,637
Atrion Corporation	5,500	856,460
CAS Medical Systems <sup>a,b</sup>	62,600	128,956

Health (continued)

Medical Products and Devices (continued)

	SHARES	VALUE
Cynosure Cl. A <sup>a,b</sup>	18,500	\$ 212,565
<b>Exactech</b> <sup>a,b</sup>	121,000	2,094,510
Kensey Nash <sup>a</sup>	20,000	510,000
Medical Action Industries <sup>a</sup>	125,250	2,011,515
MEDTOX Scientific <sup>a</sup>	20,000	155,000
Mesa Laboratories	45,619	1,202,061
NMT Medical <sup>a</sup>	228,500	564,395
Somanetics Corporation <sup>a,b</sup>	75,247	1,320,585
Syneron Medical <sup>a,b</sup>	69,200	723,140
Utah Medical Products	42,300	1,240,236
Young Innovations	61,450	1,522,731

13,757,791

Total (Cost \$19,413,170)

23,679,245

Industrial Products 21.4%

Automotive - 1.0%

Norstar Founders Group <sup>a,c</sup>	771,500	36,319
SORL Auto Parts <sup>a,b</sup>	87,677	747,885
US Auto Parts Network <sup>a,b</sup>	280,900	1,460,680
Wonder Auto Technology <sup>a</sup>	14,500	170,520

2,415,404

Building Systems and Components

- 2.2%

AAON	73,000	1,422,770
Apogee Enterprises	57,900	810,600
Drew Industries <sup>a,b</sup>	90,000	1,858,500
LSI Industries	79,812	628,919
NCI Building Systems <sup>a</sup>	42,000	76,020
Preformed Line Products	16,000	700,800

		5,497,609
<b>Construction Materials - 1.9%</b>		
Ash Grove Cement	8,000	1,168,000
Monarch Cement	52,303	1,595,241
Trex Company <sup>a</sup>	90,000	1,764,000
		4,527,241
<b>Industrial Components - 1.6%</b>		
<b>Deswell Industries</b>	574,371	2,320,459
Graham Corporation	34,500	714,150
Powell Industries <sup>a</sup>	26,800	845,004
		3,879,613
<b>Machinery - 5.9%</b>		
Burnham Holdings Cl. A	95,000	888,250
Columbus McKinnon <sup>a</sup>	10,100	137,966
Eastern Company (The)	39,750	533,843
FreightCar America	41,000	813,030
Hardinge	260,000	1,430,000
<b>Hollsys Automation Technologies <sup>a,b</sup></b>		
	168,492	2,023,589
Hurco Companies <sup>a</sup>	56,666	838,657
Jinpan International	17,312	825,263
K-Tron International <sup>a</sup>	8,426	916,243
Rofin-Sinar Technologies <sup>a</sup>	37,000	873,570
Sun Hydraulics	65,425	1,717,406
<b>Tennant Company</b>	92,300	2,417,337

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

2009 Annual Report to Stockholders |

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## Royce Micro-Cap Trust

### Schedule of Investments

	SHARES	VALUE
<b>Industrial Products (continued)</b>		
Machinery (continued)		
Williams Controls <sup>a</sup>	125,000	\$ 987,500
		14,402,654
<b>Metal Fabrication and Distribution - 2.8%</b>		
Central Steel & Wire	1,088	761,600
CompX International Cl. A	107,500	813,775
Encore Wire	15,000	316,050
Foster (L.B.) Company Cl. A <sup>a</sup>	11,100	330,891
Friedman Industries	2,025	11,806
Fushi Copperweld <sup>a</sup>	36,583	370,220
Horsehead Holding Corporation <sup>a</sup>	13,800	175,950
Ladish Company <sup>a</sup>	45,000	678,600
NN <sup>a</sup>	114,300	452,628
Olympic Steel	22,000	716,760
<b>RTI International Metals <sup>a</sup></b>	<b>84,900</b>	<b>2,136,933</b>
		6,765,213
<b>Miscellaneous Manufacturing - 2.9%</b>		
AZZ <sup>a</sup>	2,000	65,400
Griffon Corporation <sup>a</sup>	89,500	1,093,690
<b>PMFG <sup>a</sup></b>	<b>143,800</b>	<b>2,330,998</b>
Quixote Corporation <sup>a,b</sup>	183,400	1,168,258
Raven Industries	58,400	1,855,368
Synalloy Corporation	58,200	509,250
		7,022,964
<b>Pumps, Valves and Bearings - 0.1%</b>		
CIRCOR International	14,000	352,520
<b>Specialty Chemicals and Materials - 2.3%</b>		
Aceto Corporation	72,219	371,928
Balchem Corporation	42,250	1,415,797
Hawkins	69,866	1,525,175
Park Electrochemical	15,400	425,656
Rogers Corporation <sup>a,b</sup>	58,400	1,770,104
		5,508,660
<b>Textiles - 0.6%</b>		
Interface Cl. A	27,000	224,370
J.G. Boswell Company	2,490	1,344,600
		1,568,970

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Other Industrial Products - 0.1%

Research Frontiers <u>a,b</u>	50,000	189,500
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<b>Total</b> (Cost \$35,893,193)		52,130,348
----------------------------------	--	------------

**Industrial Services 13.7%**

Commercial Services - 5.4%

Acacia Research-Acacia Technologies <u>a,b</u>	68,290	622,122
ATC Technology <u>a</u>	25,200	601,020
CBIZ <u>a</u>	47,000	361,900
Diamond Management & Technology Consultants	138,100	1,017,797
Exponent <u>a</u>	58,400	1,625,856
Forrester Research <u>a</u>	54,900	1,424,655
Global Sources <u>a</u>	33,330	208,313
Heidrick & Struggles International	10,000	312,400
Heritage-Crystal Clean <u>a</u>	118,283	1,237,240
Kforce <u>a</u>	60,000	750,000

	<b>SHARES</b>	<b>VALUE</b>
--	---------------	--------------

**Industrial Services (continued)**

Commercial Services (continued)

Rentrak Corporation <u>a,b</u>	58,300	\$ 1,030,161
Spectrum Group International <u>a,b</u>	6,925	13,019
<b>Spherion Corporation <u>a</u></b>	436,600	2,453,692
Team <u>a</u>	83,000	1,561,230
		<u>13,219,405</u>

Engineering and Construction - 1.7%

Cavco Industries <u>a</u>	12,491	448,677
Insituform Technologies Cl. A <u>a</u>	34,300	779,296
Integrated Electrical Services <u>a</u>	132,000	772,200
Layne Christensen <u>a</u>	8,200	235,422
MYR Group <u>a,b</u>	28,500	515,280
Skyline Corporation	62,100	1,142,640
Sterling Construction <u>a</u>	11,700	224,406
		<u>4,117,921</u>

Food, Tobacco and Agriculture - 1.4%

Farmer Bros.	47,400	935,676
Hanfeng Evergreen <u>a</u>	51,100	361,074
Origin Agritech <u>a,b</u>	161,888	1,905,421
Zhongpin <u>a</u>	12,300	192,003
		<u>3,394,174</u>

Industrial Distribution - 1.0%

Houston Wire & Cable	67,375	801,762
Lawson Products	70,269	1,240,248
Toshin Group	18,600	322,893
		<u>2,364,903</u>

Printing - 0.7%

Bowne & Co.	68,989	460,847
Courier Corporation	30,450	433,912



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CSS Industries	18,043	350,756
Multi-Color Corporation	28,264	345,103
		<hr/>
		1,590,618
		<hr/>
<b>Transportation and Logistics - 3.5%</b>		
Dynamex <sup>a,b</sup>	86,000	1,556,600
Forward Air	50,700	1,270,035
Frozen Food Express Industries	157,000	518,100
Marten Transport <sup>a</sup>	8,550	153,473
Pacer International <sup>a</sup>	35,000	110,600
Patriot Transportation Holding <sup>a,b</sup>	19,000	1,794,740
Transat A.T. Cl. B <sup>a</sup>	31,800	641,564
<b>Universal Truckload Services</b>	134,200	2,429,020
		<hr/>
		8,474,132
		<hr/>
<b>Other Industrial Services - 0.0%</b>		
American Ecology	6,000	102,240
		<hr/>
<b>Total (Cost \$27,609,802)</b>		<b>33,263,393</b>
		<hr/>
<b>Natural Resources 11.3%</b>		
<b>Energy Services - 4.6%</b>		
CE Franklin <sup>a</sup>	81,350	552,366
Dawson Geophysical <sup>a,b</sup>	53,213	1,229,752
Dril-Quip <sup>a</sup>	22,500	1,270,800
Gulf Island Fabrication	29,116	612,309
ION Geophysical <sup>a</sup>	50,000	296,000
Lufkin Industries	1,000	73,200

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

December 31, 2009

	SHARES	VALUE
<b>Natural Resources (continued)</b>		
<b>Energy Services (continued)</b>		
North American Energy Partners <sup>a,b</sup> <u>  </u>	50,000	\$ 363,000
OYO Geospace <sup>a,b</sup> <u>  </u>	7,130	305,806
Pason Systems <u>  </u>	139,200	1,550,586
Pioneer Drilling <sup>a</sup> <u>  </u>	57,500	454,250
T-3 Energy Services <sup>a,b</sup> <u>  </u>	39,150	998,325
Tesco Corporation <sup>a</sup> <u>  </u>	50,000	645,500
<b>Willbros Group <sup>a</sup> <u>  </u></b>	<b>159,200</b>	<b>2,685,704</b>
World Energy Solutions <sup>a</sup> <u>  </u>	72,920	210,010
		11,247,608
<b>Oil and Gas - 0.3%</b>		
Approach Resources <sup>a</sup> <u>  </u>	12,000	92,640
GeoMet <sup>a,b</sup> <u>  </u>	75,000	109,500
GeoResources <sup>a,b</sup> <u>  </u>	30,000	409,800
		611,940
<b>Precious Metals and Mining - 3.6%</b>		
Alamos Gold <sup>a</sup> <u>  </u>	47,100	565,641
Allied Nevada Gold <sup>a</sup> <u>  </u>	123,700	1,865,396
Aurizon Mines <sup>a</sup> <u>  </u>	197,000	886,500
Brush Engineered Materials <sup>a,b</sup> <u>  </u>	27,000	500,580
Chesapeake Gold <sup>a</sup> <u>  </u>	20,000	158,340
Exeter Resource <sup>a,b</sup> <u>  </u>	170,000	1,207,000
Gammon Gold <sup>a</sup> <u>  </u>	83,836	923,035
Midway Gold <sup>a</sup> <u>  </u>	345,000	267,199
Minefinders Corporation <sup>a</sup> <u>  </u>	36,000	370,800
New Gold <sup>a</sup> <u>  </u>	141,200	513,968
Northgate Minerals <sup>a</sup> <u>  </u>	270,000	831,600
Seabridge Gold <sup>a</sup> <u>  </u>	16,700	405,309
Victoria Gold <sup>a</sup> <u>  </u>	200,000	130,038
Vista Gold <sup>a</sup> <u>  </u>	50,000	122,500
		8,747,906
<b>Real Estate - 2.8%</b>		
Avatar Holdings <sup>a</sup> <u>  </u>	50,104	852,269
Consolidated-Tomoka Land <u>  </u>	29,100	1,016,754
PICO Holdings <sup>a</sup> <u>  </u>	45,700	1,495,761
Pope Resources L.P. <u>  </u>	57,205	1,407,243
Tejon Ranch <sup>a</sup> <u>  </u>	65,100	1,902,222
ZipRealty <sup>a</sup> <u>  </u>	25,000	94,000
		6,768,249
<b>Total (Cost \$19,726,498)</b>		<b>27,375,703</b>

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**Technology 18.4%**

**Aerospace and Defense - 2.4%**

Applied Signal Technology	18,500	356,865
Ducommun	72,100	1,348,991
HEICO Corporation	33,600	1,489,488
Innovative Solutions and Support <sup>a</sup>	100,000	459,000
Integral Systems <sup>a</sup>	161,782	1,401,032
SIFCO Industries	45,800	654,482
		<hr/>
		5,709,858
		<hr/>

**Components and Systems - 3.5%**

Frequency Electronics <sup>a,b</sup>	275,000	1,413,500
Methode Electronics	206,400	1,791,552
Newport Corporation <sup>a</sup>	55,900	513,721

**Technology (continued)**

**Components and Systems (continued)**

OPTEX Company	14,200	\$ 128,347
Richardson Electronics	250,900	1,472,783
Rimage Corporation <sup>a</sup>	79,200	1,373,328
Silicon Graphics International <sup>a,b</sup>	90,000	630,900
Technitrol	150,000	657,000
TransAct Technologies <sup>a</sup>	78,600	545,484
		<hr/>
		8,526,615
		<hr/>

**Distribution - 0.4%**

Agilysys	90,000	819,000
ScanSource <sup>a</sup>	7,600	202,920
		<hr/>
		1,021,920
		<hr/>

**Internet Software and Services - 1.1%**

ActivIdentity Corporation <sup>a,b</sup>	160,000	376,000
iPass	210,000	218,400
Marchex Cl. B	95,000	482,600
Support.com <sup>a</sup>	380,000	1,003,200
WebMediaBrands <sup>a</sup>	525,000	472,500
		<hr/>
		2,552,700
		<hr/>

**IT Services - 4.5%**

AsiaInfo Holdings <sup>a,b</sup>	3,500	106,645
<b>Computer Task Group <sup>a</sup></b>	256,100	2,051,361
<b>iGATE Corporation</b>	258,400	2,584,000
<b>Sapient Corporation <sup>a</sup></b>	500,000	4,135,000
Syntel	43,300	1,646,699
Yucheng Technologies <sup>a</sup>	55,060	469,662
		<hr/>
		10,993,367
		<hr/>

**Semiconductors and Equipment - 2.6%**

Advanced Energy Industries <sup>a</sup>	7,600	114,608
ATMI <sup>a,b</sup>	6,400	119,168
Coherent <sup>a</sup>	34,000	1,010,820
Exar Corporation <sup>a</sup>	121,208	861,789
Ikanos Communications <sup>a</sup>	75,000	140,250
Micrel	80,000	656,000

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Microtune <sup>a</sup>	362,000	818,120
PLX Technology <sup>a</sup>	80,000	258,400
TTM Technologies <sup>a</sup>	114,400	1,319,032
Virage Logic <sup>a,b</sup>	200,000	1,100,000
		<hr/>
		6,398,187
		<hr/>
<b>Software - 3.0%</b>		
ACI Worldwide <sup>a</sup>	69,600	1,193,640
Actuate Corporation <sup>a</sup>	35,000	149,800
American Software Cl.A	63,700	382,200
Bottomline Technologies <sup>a</sup>	15,800	277,606
Double-Take Software <sup>a,b</sup>	22,400	223,776
Fundtech <sup>a</sup>	51,000	625,770
Geeknet <sup>a,b</sup>	795,000	946,050
<b>Pegasystems</b>	84,000	2,856,000
PLATO Learning <sup>a</sup>	140,000	610,400
		<hr/>
		7,265,242
		<hr/>
<b>Telecommunications - 0.9%</b>		
Anaren <sup>a</sup>	8,000	120,400
Atlantic Tele-Network	14,700	808,647
Cogo Group <sup>a,b</sup>	30,600	225,522

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

2009 Annual Report to Stockholders |

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## Royce Micro-Cap Trust

December 31, 2009

## Schedule of Investments

	SHARES	VALUE		VALUE
<b>Technology (continued)</b>				
<b>Telecommunications (continued)</b>				
Diguang International Development <sup>a</sup>	230,000	\$ 59,800		
Globecomm Systems <sup>a</sup>	22,730	177,749		
PC-Tel <sup>a</sup>	44,100	261,072		
Zhone Technologies <sup>a</sup>	1,331,600	545,423		
				2,198,613
<b>Total</b> (Cost \$30,128,023)				44,666,502
<b>Miscellaneous <sup>d</sup> 4.9%</b>				
<b>Total</b> (Cost \$8,737,928)				11,988,553
<b>TOTAL COMMON STOCKS</b>				
(Cost \$211,379,249)				268,125,956
<b>PREFERRED STOCK 0.4%</b>				
<b>Seneca Foods Conv. <sup>a</sup></b>				
(Cost \$578,719)	45,409	998,998		998,998
<b>REPURCHASE AGREEMENT 14.0%</b>				
State Street Bank & Trust Company, 0.005% dated 12/31/09, due 1/4/10, maturity value \$34,077,019 (collateralized by obligations of various U.S. Government Agencies, 7.00% due 3/15/10, valued at \$34,931,250) (Cost \$34,077,000)				34,077,000
				34,077,000
			<b>COLLATERAL RECEIVED FOR SECURITIES LOANED 4.2%</b>	
			Money Market Funds	
			Federated Government Obligations Fund (7 day yield-0.0582%) (Cost \$10,155,020)	\$ 10,155,020
			<b>TOTAL INVESTMENTS 128.9%</b>	
			(Cost \$256,189,988)	313,356,974
			<b>LIABILITIES LESS CASH AND OTHER ASSETS (4.2%)</b>	(10,200,854)
			<b>PREFERRED STOCK (24.7%)</b>	(60,000,000)

**NET ASSETS APPLICABLE TO  
COMMON  
STOCKHOLDERS 100.0%**

**\$ 243,156,120**

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New additions in 2009.

<sup>a</sup> Non-income producing.

<sup>b</sup> All or a portion of these securities were on loan at December 31, 2009. Total market value of loaned securities at December 31, 2009 was \$10,460,997.

<sup>c</sup> Securities for which market quotations are not readily available represent 0.0% of net assets. These securities have been valued at their fair value under procedures established by the Fund's Board of Directors.

<sup>d</sup> Includes securities first acquired in 2009 and less than 1% of net assets applicable to Common Stockholders.

**Bold indicates the Fund's 20 largest equity holdings in terms of December 31, 2009 market value.**

**TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$258,789,950. At December 31, 2009, net unrealized appreciation for all securities was \$54,567,024, consisting of aggregate gross unrealized appreciation of \$84,696,749 and aggregate gross unrealized depreciation of \$30,129,725. The primary difference between book and tax basis cost is the timing of the recognition of losses on securities sold.

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## Royce Micro-Cap Trust

December 31, 2009

**Statement of Assets and Liabilities****ASSETS:**

Total investments at value (including collateral on loaned securities)*	\$ 279,279,974
Repurchase agreements (at cost and value)	34,077,000
Cash and foreign currency	12,813
Receivable for investments sold	216,158
Receivable for dividends and interest	305,515
Prepaid expenses and other assets	16,139
<b>Total Assets</b>	<b>313,907,599</b>

**LIABILITIES:**

Payable for collateral on loaned securities	10,155,020
Payable for investments purchased	164,714
Payable for investment advisory fee	246,743
Preferred dividends accrued but not yet declared	80,000
Accrued expenses	105,002
<b>Total Liabilities</b>	<b>10,751,479</b>

**PREFERRED STOCK:**

6.00% Cumulative Preferred Stock - \$0.001 par value, \$25 liquidation value per share; 2,400,000 shares outstanding	60,000,000
<b>Total Preferred Stock</b>	<b>60,000,000</b>

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** **\$ 243,156,120**

**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

Common Stock paid-in capital - \$0.001 par value per share; 27,333,915 shares outstanding (150,000,000 shares authorized)	\$ 225,210,492
Undistributed net investment income (loss)	(2,035,268)
Accumulated net realized gain (loss) on investments and foreign currency	(37,100,606)
Net unrealized appreciation (depreciation) on investments and foreign currency	57,161,502
Preferred dividends accrued but not yet declared	(80,000)
<b>Net Assets applicable to Common Stockholders (net asset value per share - \$8.90)</b>	<b>\$ 243,156,120</b>

*Investments at identified cost (including \$10,155,020 of collateral on loaned securities)	\$ 222,112,988
Market value of loaned securities	10,460,997

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

2009 Annual Report to  
Stockholders | 41

## Royce Micro-Cap Trust

Year Ended December 31, 2009

**Statement of Operations****INVESTMENT INCOME:**

Income:

Dividends\*

Non-Affiliated Companies

Affiliated Companies

Interest

Securities lending

Total income

Expenses:

Investment advisory fees

Stockholder reports

Custody and transfer agent fees

Professional fees

Directors fees

Administrative and office facilities

Other expenses

Total expenses

Fees waived by investment adviser

Net expenses

Net investment income (loss)

**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:**

Net realized gain (loss):

Investments in Non-Affiliated Companies

Investments in Affiliated Companies

Foreign currency transactions

Net change in unrealized appreciation (depreciation):

Investments and foreign currency translations

Other assets and liabilities denominated in foreign currency

Net realized and unrealized gain (loss) on investments and foreign currency

**NET INCREASE (DECREASE) IN NET ASSETS FROM INVESTMENT OPERATIONS****DISTRIBUTIONS TO PREFERRED STOCKHOLDERS****NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS**

\* Net of foreign withholding tax of \$33,276.



## Royce Micro-Cap Trust

### Statement of Changes in Net Assets

	Year ended 12/31/09	Year ended 12/31/08
<b>INVESTMENT OPERATIONS:</b>		
Net investment income (loss)	\$ 37,740	\$ 408,780
Net realized gain (loss) on investments and foreign currency	(8,011,984)	(6,824,087)
Net change in unrealized appreciation (depreciation) on investments and foreign currency	87,498,482	(138,088,528)
Net increase (decrease) in net assets from investment operations	79,524,238	(144,503,835)
<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>		
Net investment income	(1,009,948)	(362,850)
Net realized gain on investments and foreign currency		(3,237,150)
Return of capital	(2,590,052)	
Total distributions to Preferred Stockholders	(3,600,000)	(3,600,000)
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>	<b>75,924,238</b>	<b>(148,103,835)</b>
<b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>		
Net investment income		(2,356,920)
Net realized gain on investments and foreign currency		(20,757,478)
Return of capital	(5,846,946)	(6,834,718)
Total distributions to Common Stockholders	(5,846,946)	(29,949,116)
<b>CAPITAL STOCK TRANSACTIONS:</b>		
Reinvestment of distributions to Common Stockholders	3,224,397	16,431,866
Total capital stock transactions	3,224,397	16,431,866
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>	<b>73,301,689</b>	<b>(161,621,085)</b>
<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>		
Beginning of year	169,854,431	331,475,516
End of year (including undistributed net investment income (loss) of \$(2,035,268) at 12/31/09 and \$(1,117,851) at 12/31/08)	\$ 243,156,120	\$ 169,854,431

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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## Royce Micro-Cap Trust

### Financial Highlights

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

	Years ended December 31,				
	2009	2008	2007	2006	2005
<b>NET ASSET VALUE, BEGINNING OF PERIOD</b>	\$ 6.39	\$ 13.48	\$ 14.77	\$ 13.43	\$ 14.34
<b>INVESTMENT OPERATIONS:</b>					
Net investment income (loss)	0.00	0.02	(0.00)	0.01	(0.03)
Net realized and unrealized gain (loss) on investments and foreign currency	2.88	(5.70)	0.24	3.04	1.14
Total investment operations	2.88	(5.68)	0.24	3.05	1.11
<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>					
Net investment income	(0.04)	(0.01)	(0.01)	(0.02)	
Net realized gain on investments and foreign currency		(0.13)	(0.14)	(0.14)	(0.17)
Return of capital	(0.09)				
Total distributions to Preferred Stockholders	(0.13)	(0.14)	(0.15)	(0.16)	(0.17)
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>					
	2.75	(5.82)	0.09	2.89	0.94
<b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>					
Net investment income		(0.09)	(0.08)	(0.20)	
Net realized gain on investments and foreign currency		(0.83)	(1.27)	(1.35)	(1.85)
Return of capital	(0.22)	(0.27)			

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Total distributions to Common Stockholders	(0.22)	(1.19)	(1.35)	(1.55)	(1.85)
<b>CAPITAL STOCK TRANSACTIONS:</b>					
Effect of reinvestment of distributions by Common Stockholders	(0.02)	(0.08)	(0.03)	(0.00)	0.00
Total capital stock transactions	(0.02)	(0.08)	(0.03)	(0.00)	0.00
<b>NET ASSET VALUE, END OF PERIOD</b>					
	\$ 8.90	\$ 6.39	\$ 13.48	\$ 14.77	\$ 13.43
<b>MARKET VALUE, END OF PERIOD</b>					
	\$ 7.37	\$ 5.62	\$ 11.94	\$ 16.57	\$ 14.56
<b>TOTAL RETURN (a):</b>					
Market Value	37.91%	(45.84)%	(20.54)%	26.72%	8.90%
Net Asset Value	46.47%	(45.45)%	0.64%	22.46%	6.75%
<b>RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>					
Total expenses (b,c)	1.59%	1.55%	1.56%	1.64%	1.63%
Management fee expense (d)	1.38%	1.39%	1.44%	1.49%	1.43%
Other operating expenses	0.21%	0.16%	0.12%	0.15%	0.20%
Net investment income (loss)	0.02%	0.15%	(0.07)%	0.05%	(0.27)%
<b>SUPPLEMENTAL DATA:</b>					
Net Assets Applicable to Common Stockholders, End of Period (in thousands)	\$243,156	\$169,854	\$331,476	\$343,682	\$293,719
Liquidation Value of Preferred Stock, End of Period (in thousands)	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Portfolio Turnover Rate	30%	42%	41%	34%	46%
<b>PREFERRED STOCK:</b>					
Total shares outstanding	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000
Asset coverage per share	\$ 126.32	\$ 95.77	\$ 163.11	\$ 168.20	\$ 147.38
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average month-end market value per share	\$ 23.47	\$ 23.08	\$ 24.06	\$ 24.15	\$ 24.97

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions are assumed for the purposes of this calculation to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.21%, 1.26%, 1.33%, 1.38% and 1.35% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment advisor would have been 1.74% and 1.58% for the years December 31, 2009 and 2008, respectively; before waiver of fees and after earnings credits would have been 1.74%, 1.58%, 1.56%, 1.64% and 1.63% for the

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years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

- (d) The management fee is calculated based on average net assets over a rolling 36-month basis, while the above ratios of management fee expenses are based on the average net assets applicable to Common Stockholders over a 12-month basis.

## Royce Micro-Cap Trust

### Notes to Financial Statements

#### Summary of Significant Accounting Policies:

Royce Micro-Cap Trust, Inc. (the Fund), was incorporated under the laws of the State of Maryland on September 9, 1993 as a diversified closed-end investment company. The Fund commenced operations on December 14, 1993.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the evaluation of subsequent events through February 23, 2010, the issuance date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Under the Fund's organizational documents, the officers and directors are indemnified against certain liabilities that may arise out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

#### Valuation of Investments:

Securities are valued as of the close of trading on the New York Stock Exchange (NYSE) (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange, and securities traded on Nasdaq's Electronic Bulletin Board, are valued at their last reported sales price or Nasdaq official closing price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their highest bid price, except in the case of some bonds and other fixed income securities which may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services. The Fund values its non-U.S. dollar denominated securities in U.S. dollars daily at the prevailing foreign currency exchange rates as quoted by a major bank. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. In addition, if, between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and may make the closing price unreliable, the Fund may fair value the security. The Fund uses an independent pricing service to provide fair value estimates for relevant non-U.S. equity securities on days when the U.S. market volatility exceeds a certain threshold. This pricing service uses proprietary correlations it has developed between the movement of prices of non-U.S. equity securities and indices of U.S.-traded securities, futures contracts and other indications to estimate the fair value of relevant non-U.S. securities. When fair value pricing is employed, the prices of securities used by the Fund may differ from quoted or published prices for the same security. Investments in money market funds are valued at net asset value per share.

Various inputs are used in determining the value of the Fund's investments, as noted above. These inputs are summarized in the three broad levels below:

- Level 1 quoted prices in active markets for identical securities
- Level 2 other significant observable inputs (including quoted prices for similar securities, foreign securities that may be fair valued and repurchase agreements)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the Fund's investments as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Common stocks	\$242,236,811	\$25,816,126	\$73,019	\$268,125,956
Preferred stocks		998,998		998,998
Cash equivalents	10,155,020	34,077,000		44,232,020

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Level 3  
Reconciliation:

	Balance as of 12/31/08	Purchases	Transfers In	Sales	Realized and Unrealized Gain (Loss) <sup>(1)</sup>	Balance as of 12/31/09
Common stocks		\$514,743	\$74,554	\$3	\$(516,275)	\$73,019

<sup>(1)</sup> The net change in unrealized appreciation (depreciation) is included in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized. Net realized gain (loss) from investments and foreign currency transactions is included in the accompanying Statement of Operations.

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## Royce Micro-Cap Trust

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### Notes to Financial Statements (continued)

#### Repurchase Agreements:

The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of the counter-party, including possible delays or restrictions upon the ability of the Fund to dispose of its underlying securities.

#### Foreign Currency:

Net realized foreign exchange gains or losses arise from sales and maturities of short-term securities, sales of foreign currencies, expiration of currency forward contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities, including investments in securities at the end of the reporting period, as a result of changes in foreign currency exchange rates.

#### Securities Lending:

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral for the Fund on all securities loaned is accepted in cash and cash equivalents and invested temporarily by the custodian. The collateral maintained is at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. The Fund retains the risk of any loss on the securities on loan as well as incurring the potential loss on investments purchased with cash collateral received for securities lending.

#### Taxes:

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its fiscal year. The Schedule of Investments includes information regarding income taxes under the caption "Tax Information".

#### Distributions:

Effective May 18, 2009, the Fund pays any dividends and capital gain distributions annually in December on the Fund's Common Stock. Prior to that date, the Fund paid quarterly distributions on the Fund's Common Stock at the annual rate of 9% of the rolling average of the prior four calendar quarter-end NAVs of the Fund's Common Stock, with the fourth quarter distribution being the greater of 2.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are accrued daily and paid quarterly and distributions to Common Stockholders are recorded on ex-dividend date. Distributable capital gains and/or net investment income are first allocated to Preferred Stockholder distributions, with any excess allocable to Common Stockholders. If capital gains and/or net investment income are allocated to both Preferred and Common Stockholders, the tax character of such allocations is proportional. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

#### Investment Transactions and Related Investment Income:

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on an accrual basis.

Premium and discounts on debt securities are amortized using the effective yield-to-maturity method. Realized gains and losses from investment transactions are determined on the basis of identified cost for book and tax purposes.

**Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated equitably. Certain personnel, occupancy costs and other administrative expenses related to The Royce Funds are allocated by Royce & Associates, LLC ( Royce ) under an administration agreement and are included in administrative and office facilities and legal expenses. The Fund has adopted a deferred fee agreement that allows the Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

**Compensating Balance Credits:**

The Fund has an arrangement with its custodian bank, whereby a portion of the custodian's fee is paid indirectly by credits earned on the Fund's cash on deposit with the bank. This deposit arrangement is an alternative to purchasing overnight investments. Conversely, the Fund pays interest to the custodian on any cash overdrafts, to the extent they are not offset by credits earned on positive cash balances.



## Royce Micro-Cap Trust

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### Notes to Financial Statements (continued)

#### Capital Stock:

The Fund issued 756,901 and 1,985,915 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009, 2,400,000 shares of 6.00% Cumulative Preferred Stock were outstanding. The Fund, at its option, may redeem the Cumulative Preferred Stock, in whole or in part, at the redemption price. The Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements in accordance with accounting for redeemable equity instruments, that requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer.

The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share, plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Cumulative Preferred Stock.

#### Investment Advisory Agreement:

As compensation for its services under the Investment Advisory Agreement, Royce receives a fee comprised of a Basic Fee ( Basic Fee ) and an adjustment to the Basic Fee based on the investment performance of the Fund in relation to the investment record of the Russell 2000.

The Basic Fee is a monthly fee equal to 1/12 of 1% (1% on an annualized basis) of the average of the Fund's month-end net assets applicable to Common Stockholders, plus the liquidation value of Preferred Stock, for the rolling 36-month period ending with such month (the performance period). The Basic Fee for each month is increased or decreased at the rate of 1/12 of .05% for each percentage point that the investment performance of the Fund exceeds, or is exceeded by, the percentage change in the investment record of the Russell 2000 for the performance period by more than two percentage points. The performance period for each such month is a rolling 36-month period ending with such month. The maximum increase or decrease in the Basic Fee for any month may not exceed 1/12 of .5%. Accordingly, for each month, the maximum monthly fee rate as adjusted for performance is 1/12 of 1.5% and is payable if the investment performance of the Fund exceeds the percentage change in the investment record of the Russell 2000 by 12 or more percentage points for the performance period, and the minimum monthly fee rate as adjusted for performance is 1/12 of .5% and is payable if the percentage change in the investment record of the Russell 2000 exceeds the investment performance of the Fund by 12 or more percentage points for the performance period.

Royce has voluntarily committed to waive the portion of its investment advisory fee attributable to an issue of the Fund's Preferred Stock for any month in which the Fund's average annual NAV total return since issuance of the Preferred Stock fails to exceed the applicable Preferred Stock's dividend rate.

For twelve rolling 36-month periods in 2009, the Fund's investment performance ranged from 1% to 9% below the investment performance of the Russell 2000. Accordingly, the net investment advisory fee consisted of a Basic Fee of \$3,490,680 and a net downward adjustment of \$523,360 for the performance of the Fund relative to that of the Russell 2000. Additionally, Royce voluntarily waived a portion of its advisory fee (\$289,167) attributable to issues of the Fund's Preferred Stock for those months in which the Fund's average annual NAV total return failed to exceed the applicable Preferred Stock's dividend rate. For the year ended December 31, 2009, the Fund accrued and paid Royce advisory fees totaling \$2,678,153.

#### Purchases and Sales of Investment Securities:

For the year ended December 31, 2009, the cost of purchases and proceeds from sales of investment securities, other than short-term securities and collateral received for securities loaned, amounted to \$64,109,740 and \$80,640,194, respectively.

#### Distributions to Stockholders:

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The tax character of distributions paid to common stockholders during 2009 and 2008 was as follows:

Distributions paid from:	<u>2009</u>	<u>2008</u>
Ordinary income		\$ 2,356,920
Long-term capital gain		20,757,478
Return of capital	\$5,846,946	6,834,718
	<u>\$5,846,946</u>	<u>\$29,949,116</u>

The tax character of distributions paid to preferred stockholders during 2009 and 2008 was as follows:

Distributions paid from:	<u>2009</u>	<u>2008</u>
Ordinary income	\$1,009,948	\$ 362,850
Long-term capital gain		3,237,150
Return of capital	2,590,052	
	<u>\$3,600,000</u>	<u>\$3,600,000</u>

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## Royce Micro-Cap Trust

### Notes to Financial Statements (continued)

#### Distributions to Stockholders (continued):

As of December 31, 2009, tax basis components of distributable earnings included in stockholders' equity were as follows:

Capital loss carryforward to 12/31/17	\$(35,338,083)
Unrealized appreciation (depreciation)	54,561,540
Post October loss*	(1,197,829)
Accrued preferred distributions	(80,000)
	\$17,945,628

\*Under the current tax law, capital losses, foreign currency losses and losses realized on Passive Foreign Investment Companies after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. As of December 31, 2009, the Fund had \$1,197,829 of post October losses.

The difference between book and tax basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral on wash sales, partnership investments and the unrealized gains on Passive Foreign Investment Companies.

For financial reporting purposes, capital accounts and distributions to stockholders are adjusted to reflect the tax character of permanent book/tax differences. These differences are primarily due to differing treatments of income and gains on various investment securities and foreign currency transactions held by the Fund, timing differences and different characterization of distributions made by the Fund. For the year ended December 31, 2009, the Fund recorded the following permanent reclassifications. Results of operations and net assets were not affected by these reclassifications.

Undistributed Net Investment Income	Accumulated Net Realized Gain (Loss)	Paid-in Capital
\$54,791	\$(127,750)	\$72,959

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (2006-2009) and has concluded that as of December 31, 2009, no provision for income tax is required in the Fund's financial statements.

#### Transactions in Affiliated Companies:

An Affiliated Company as defined in the Investment Company Act of 1940, is a company in which a fund owns 5% or more of the company's outstanding voting securities at any time during the period. The Fund effected the following transactions in shares of such companies for the year ended December 31, 2009:

Affiliated Company	Shares	Market Value	Cost of Purchases	Cost of Sales	Realized Gain (Loss)	Dividend Income	Shares	Market Value
	12/31/08	12/31/08					12/31/09	12/31/09
Deswell Industries*	824,371	\$ 1,096,413		\$710,000	\$(352,375)	\$82,888		
		\$ 1,096,413			\$(352,375)	\$82,888		

\*Not an Affiliated Company at December 31, 2009.



## Royce Micro-Cap Trust

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### Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of  
Royce Micro-Cap Trust, Inc.  
New York, New York**

We have audited the accompanying statement of assets and liabilities of Royce Micro-Cap Trust, Inc., ( Fund ) including the schedule of investments, as of December 31, 2009, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2009, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Royce Micro-Cap Trust, Inc. at December 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER, & BAKER LLP

Philadelphia, Pennsylvania  
February 23, 2010

## Royce Focus Trust

### Schedule of Investments

	SHARES	VALUE
<b>COMMON STOCKS</b> 99.1%		
<b>Consumer Products</b> 9.0%		
Apparel, Shoes and Accessories - 2.6%		
Coach	50,000	\$ 1,826,500
Timberland Company (The) Cl. A <sup>a</sup>	100,000	1,793,000
		3,619,500
Food/Beverage/Tobacco - 3.6%		
<b>Cal-Maine Foods</b>	80,000	2,726,400
Industrias Bachoco ADR	105,000	2,410,800
		5,137,200
Health, Beauty and Nutrition - 1.1%		
Nu Skin Enterprises Cl. A	60,000	1,612,200
		1,612,200
Sports and Recreation - 1.7%		
Thor Industries	75,000	2,355,000
		2,355,000
<b>Total</b> (Cost \$11,679,432)		12,723,900
<b>Consumer Services</b> 3.6%		
Retail Stores - 3.6%		
<b>Buckle (The)</b> <sup>b</sup>	120,000	3,513,600
Men's Wearhouse (The)	75,000	1,579,500
		5,093,100
<b>Total</b> (Cost \$4,700,535)		5,093,100
<b>Diversified Investment Companies</b> 2.1%		
Exchange Traded Funds - 2.1%		
<b>UltraShort 20+ Year Treasury ProShares</b> <sup>a,b</sup>	60,000	3,000,000
		3,000,000
<b>Total</b> (Cost \$2,655,949)		3,000,000
<b>Financial Intermediaries</b> 3.0%		
Securities Brokers - 2.2%		
<b>Knight Capital Group Cl. A</b> <sup>a</sup>	200,000	3,080,000
		3,080,000
Other Financial Intermediaries - 0.8%		
KKR Financial Holdings	200,000	1,160,000
		1,160,000
<b>Total</b> (Cost \$5,272,236)		4,240,000

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**Financial Services 9.6%**

Investment Management - 6.7%

Endeavour Financial <sup>b</sup>	600,000	1,015,442
Franklin Resources	25,000	2,633,750
Partners Group Holding	15,000	1,889,238
Sprott	500,000	2,151,360
U.S. Global Investors Cl. A	147,849	1,820,021

9,509,811

Other Financial Services - 2.9%

<b>Kennedy-Wilson Holdings <sup>a</sup></b>	450,770	4,034,391
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**Total** (Cost \$14,575,238)

13,544,202

**Health 1.6%**

Drugs and Biotech - 1.6%

Endo Pharmaceuticals Holdings <sup>a</sup>	80,000	1,640,800
Lexicon Pharmaceuticals <sup>a</sup>	350,000	595,000

**Total** (Cost \$2,467,903)

2,235,800

**SHARES VALUE**

**Industrial Products 24.4%**

Building Systems and Components - 2.7%

Simpson Manufacturing	80,000	\$ 2,151,200
WaterFurnace Renewable Energy	70,000	1,737,534
		3,888,734

Industrial Components - 2.2%

<b>GrafTech International <sup>a</sup></b>	200,000	3,110,000
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Machinery - 2.8%

Lincoln Electric Holdings	50,000	2,673,000
Woodward Governor	50,000	1,288,500
		3,961,500

Metal Fabrication and Distribution - 9.8%

Kennametal	75,000	1,944,000
<b>Nucor Corporation</b>	80,000	3,732,000
<b>Reliance Steel &amp; Aluminum</b>	90,000	3,889,800
Schnitzer Steel Industries Cl. A	50,000	2,385,000
Sims Metal Management ADR	100,000	1,950,000
		13,900,800

Miscellaneous Manufacturing - 1.2%

Rational	10,000	1,693,999
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Pumps, Valves and Bearings - 2.7%

Gardner Denver	50,000	2,127,500
Pfeiffer Vacuum Technology	20,000	1,676,589

		3,804,089
<hr/>		
Specialty Chemicals and Materials - 3.0%		
<b>Mosaic Company (The)</b>	70,000	4,181,100
<hr/>		
<b>Total</b> (Cost \$22,160,941)		34,540,222
<hr/>		
<b>Industrial Services 7.8%</b>		
Commercial Services - 1.2%		
Korn/Ferry International <sup>a</sup>	100,000	1,650,000
<hr/>		
Engineering and Construction - 1.3%		
Jacobs Engineering Group <sup>a</sup>	50,000	1,880,500
<hr/>		
Food, Tobacco and Agriculture - 3.4%		
Intrepid Potash <sup>a,b</sup>	50,000	1,458,500
<b>Sanderson Farms</b>	80,000	3,372,800
<hr/>		
		4,831,300
<hr/>		
Transportation and Logistics - 1.9%		
<b>Patriot Transportation Holding <sup>a</sup></b>	28,762	2,716,859
<hr/>		
<b>Total</b> (Cost \$10,217,598)		11,078,659
<hr/>		
<b>Natural Resources 30.3%</b>		
Energy Services - 12.0%		
Ensign Energy Services	150,000	2,151,360
<b>Major Drilling Group International</b>	120,000	3,301,047
Pason Systems	180,000	2,005,068
Tesco Corporation <sup>a</sup>	210,000	2,711,100
<b>Trican Well Service</b>	220,000	2,957,594
<b>Unit Corporation <sup>a</sup></b>	90,300	3,837,750
<hr/>		
		16,963,919
<hr/>		
Oil and Gas - 1.4%		
Exxon Mobil	30,000	2,045,700
<hr/>		
Precious Metals and Mining - 15.0%		
Alamos Gold <sup>a</sup>	150,000	1,801,405

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**



December 31, 2009

	SHARES	VALUE
<b>Natural Resources (continued)</b>		
Precious Metals and Mining (continued)		
<b>Allied Nevada Gold</b> <sup>a</sup>	200,000	\$ 3,016,000
Fresnillo	120,000	1,512,784
<b>Gammon Gold</b> <sup>a</sup>	250,500	2,758,005
<b>Ivanhoe Mines</b> <sup>a</sup>	250,000	3,652,500
Pan American Silver <sup>a</sup>	80,000	1,904,800
<b>Seabridge Gold</b> <sup>a</sup>	120,000	2,912,400
<b>Silver Standard Resources</b> <sup>a</sup>	165,000	3,608,550
		21,166,444
Real Estate - 0.7%		
PICO Holdings <sup>a</sup>	30,000	981,900
Other Natural Resources - 1.2%		
Magma Energy <sup>a</sup>	1,000,000	1,730,650
<b>Total</b> (Cost \$30,991,121)		42,888,613
Technology 7.0%		
Aerospace and Defense - 1.0%		
Ceradyne <sup>a</sup>	70,000	1,344,700
Semiconductors and Equipment - 2.2%		
MKS Instruments <sup>a</sup>	120,000	2,089,200
Sigma Designs <sup>a</sup>	100,325	1,073,478
		3,162,678
Software - 2.2%		
<b>Microsoft Corporation</b>	100,000	3,049,000
Telecommunications - 1.6%		
ADTRAN	100,000	2,255,000
<b>Total</b> (Cost \$9,257,056)		9,811,378
Miscellaneous <sup>c</sup> 0.7%		
<b>Total</b> (Cost \$858,383)		1,015,442
<b>TOTAL COMMON STOCKS</b> (Cost \$114,836,392)		140,171,316

VALUE

**REPURCHASE AGREEMENT 18.6%**  
State Street Bank & Trust Company,  
0.005% dated 12/31/09, due 1/4/10,

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maturity value \$26,383,015 (collateralized by obligations of various U.S. Government Agencies, due 2/1/10, valued at \$27,045,000) (Cost \$26,383,000)	\$ 26,383,000
<b>COLLATERAL RECEIVED FOR SECURITIES</b>	
<b>LOANED 3.7%</b>	
Money Market Funds Federated Government Obligations Fund (7 day yield-0.0582%) (Cost \$5,226,474)	5,226,474
<b>TOTAL INVESTMENTS 121.4%</b>	
(Cost \$146,445,866)	171,780,790
<b>LIABILITIES LESS CASH AND OTHER ASSETS (3.7%)</b>	
	(5,283,762)
<b>PREFERRED STOCK (17.7%)</b>	
	(25,000,000)
<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS 100.0%</b>	
	<b>\$ 141,497,028</b>

New additions in 2009.

<sup>a</sup> Non-income producing.

<sup>b</sup> All or a portion of these securities were on loan at December 31, 2009. Total market value of loaned securities at December 31, 2009 was \$5,179,883.

<sup>c</sup> Includes securities first acquired in 2009 and less than 1% of net assets applicable to Common Stockholders.

**Bold indicates the Fund's 20 largest equity holdings in terms of December 31, 2009 market value.**

**TAX INFORMATION:** The cost of total investments for Federal income tax purposes was \$146,762,036. At December 31, 2009 net unrealized appreciation for all securities was \$25,018,754, consisting of aggregate gross unrealized appreciation of \$33,878,472 and aggregate gross unrealized depreciation of \$8,859,718. The primary difference between book and tax basis cost is the timing of the recognition of losses on securities sold.

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

2009 Annual Report to Stockholders |

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## Royce Focus Trust

December 31, 2009

**Statement of Assets and Liabilities****ASSETS:**

Total investments at value (including collateral on loaned securities)*	\$ 145,397,790
Repurchase agreements (at cost and value)	26,383,000
Receivable for investments sold	4,850,000
Receivable for dividends and interest	177,642
Prepaid expenses and other assets	13,596

<b>Total Assets</b>	<b>176,822,028</b>
---------------------	--------------------

**LIABILITIES:**

Payable for collateral on loaned securities	5,226,474
Payable for investments purchased	3,716
Payable for investment advisory fee	139,197
Payable to custodian for overdrawn balance	4,849,263
Preferred dividends accrued but not yet declared	33,328
Accrued expenses	73,022

<b>Total Liabilities</b>	<b>10,325,000</b>
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**PREFERRED STOCK:**

6.00% Cumulative Preferred Stock - \$0.001 par value, \$25 liquidation value per share; 1,000,000 shares outstanding	25,000,000
--	------------

<b>Total Preferred Stock</b>	<b>25,000,000</b>
------------------------------	-------------------

<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>	<b>\$ 141,497,028</b>
---	-----------------------

**ANALYSIS OF NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

Common Stock paid-in capital - \$0.001 par value per share; 19,759,064 shares outstanding (150,000,000 shares authorized)	\$ 129,051,197
Undistributed net investment income (loss)	(1,133,274)
Accumulated net realized gain (loss) on investments and foreign currency	(11,722,986)
Net unrealized appreciation (depreciation) on investments and foreign currency	25,335,424
Preferred dividends accrued but not yet declared	(33,333)

<b>Net Assets applicable to Common Stockholders (net asset value per share - \$7.16)</b>	<b>\$ 141,497,028</b>
--	-----------------------

*Investments at identified cost (including \$5,226,474 of collateral on loaned securities)	\$ 120,062,866
Market value of loaned securities	5,179,883

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

## Royce Focus Trust

Year Ended December 31, 2009

## Statement of Operations

**INVESTMENT INCOME:**

## Income:

Dividends*	\$ 2,103,060
Interest	17,929
Securities lending	13,575

<b>Total income</b>	<b>2,134,564</b>
---------------------	------------------

## Expenses:

Investment advisory fees	1,365,329
Stockholder reports	76,957
Custody and transfer agent fees	55,122
Professional fees	39,983
Directors fees	27,934
Administrative and office facilities	19,960
Other expenses	67,307

<b>Total expenses</b>	<b>1,652,592</b>
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Fees waived by investment adviser	(65,753)
-----------------------------------	----------

<b>Net expenses</b>	<b>1,586,839</b>
---------------------	------------------

<b>Net investment income (loss)</b>	<b>547,725</b>
-------------------------------------	----------------

**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:**

## Net realized gain (loss):

Investments	(10,515,789)
Foreign currency transactions	14,513

## Net change in unrealized appreciation (depreciation):

Investments and foreign currency translations	60,999,884
Other assets and liabilities denominated in foreign currency	2,311

<b>Net realized and unrealized gain (loss) on investments and foreign currency</b>	<b>50,500,919</b>
--	-------------------

<b>NET INCREASE (DECREASE) IN NET ASSETS FROM INVESTMENT OPERATIONS</b>	<b>51,048,644</b>
---	-------------------

<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS</b>	<b>(1,500,000)</b>
--	--------------------

<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>	<b>\$ 49,548,644</b>
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\* Net of foreign withholding tax of \$60,320.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

2009 Annual Report to Stockholders |

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## Royce Focus Trust

### Statement of Changes in Net Assets

	Year ended 12/31/09	Year ended 12/31/08
<b>INVESTMENT OPERATIONS:</b>		
Net investment income (loss)	\$ 547,725	\$ 1,025,652
Net realized gain (loss) on investments and foreign currency	(10,501,276)	4,693,291
Net change in unrealized appreciation (depreciation) on investments and foreign currency	61,002,195	(74,225,556)
<b>Net increase (decrease) in net assets from investment operations</b>	<b>51,048,644</b>	<b>(68,506,613)</b>
<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>		
Net investment income	(1,500,000)	(240,568)
Net realized gain on investments and foreign currency		(1,259,432)
<b>Total distributions to Preferred Stockholders</b>	<b>(1,500,000)</b>	<b>(1,500,000)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>		
	<b>49,548,644</b>	<b>(70,006,613)</b>
<b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>		
Net investment income	(76,678)	(1,314,438)
Net realized gain on investments and foreign currency		(6,881,428)
Return of capital	(1,674,712)	(662,631)
<b>Total distributions to Common Stockholders</b>	<b>(1,751,390)</b>	<b>(8,858,497)</b>
<b>CAPITAL STOCK TRANSACTIONS:</b>		
Reinvestment of distributions to Common Stockholders	1,150,102	5,607,374
<b>Total capital stock transactions</b>	<b>1,150,102</b>	<b>5,607,374</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>		
	<b>48,947,356</b>	<b>(73,257,736)</b>
<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:</b>		
Beginning of year	92,549,672	165,807,408
End of year (including undistributed net investment income (loss) of \$(1,133,274) at 12/31/09 and \$273,411 at 12/31/08)	\$ 141,497,028	\$ 92,549,672

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.**

## Royce Focus Trust

### Financial Highlights

This table is presented to show selected data for a share of Common Stock outstanding throughout each period, and to assist stockholders in evaluating the Fund's performance for the periods presented.

	Years ended December 31,				
	2009	2008	2007	2006	2005
<b>NET ASSET VALUE, BEGINNING OF PERIOD</b>	\$ 4.76	\$ 8.92	\$ 9.75	\$ 9.76	\$ 9.75
<b>INVESTMENT OPERATIONS:</b>					
Net investment income (loss)	0.03	0.07	0.15	0.16	0.06
Net realized and unrealized gain (loss) on investments and foreign currency	2.54	(3.67)	1.12	1.50	1.44
<b>Total investment operations</b>	<b>2.57</b>	<b>(3.60)</b>	<b>1.27</b>	<b>1.66</b>	<b>1.50</b>
<b>DISTRIBUTIONS TO PREFERRED STOCKHOLDERS:</b>					
Net investment income	(0.08)	(0.01)	(0.02)	(0.01)	(0.01)
Net realized gain on investments and foreign currency		(0.07)	(0.07)	(0.09)	(0.11)
<b>Total distributions to Preferred Stockholders</b>	<b>(0.08)</b>	<b>(0.08)</b>	<b>(0.09)</b>	<b>(0.10)</b>	<b>(0.12)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS FROM INVESTMENT OPERATIONS</b>	<b>2.49</b>	<b>(3.68)</b>	<b>1.18</b>	<b>1.56</b>	<b>1.38</b>
<b>DISTRIBUTIONS TO COMMON STOCKHOLDERS:</b>					
Net investment income	(0.00)	(0.07)	(0.44)	(0.20)	(0.06)
Net realized gain on investments and foreign currency		(0.37)	(1.57)	(1.37)	(1.15)
Return of capital	(0.09)	(0.03)			
<b>Total distributions to Common Stockholders</b>	<b>(0.09)</b>	<b>(0.47)</b>	<b>(2.01)</b>	<b>(1.57)</b>	<b>(1.21)</b>
<b>CAPITAL STOCK TRANSACTIONS:</b>					

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Effect of reinvestment of distributions by Common Stockholders	(0.00)	(0.01)	(0.00)	(0.00)	(0.03)
Effect of rights offering					(0.13)

Total capital stock transactions	(0.00)	(0.01)	(0.00)	(0.00)	(0.16)
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<b>NET ASSET VALUE, END OF PERIOD</b>	\$ 7.16	\$ 4.76	\$ 8.92	\$ 9.75	\$ 9.76
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<b>MARKET VALUE, END OF PERIOD</b>	\$ 6.33	\$ 4.60	\$ 8.97	\$ 10.68	\$ 9.53
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**TOTAL RETURN (a):**

Market Value	40.84%	(44.94)%	3.02%	30.50%	3.03%
Net Asset Value	53.95%	(42.71)%	12.22%	16.33%	13.31%

**RATIOS BASED ON AVERAGE NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS:**

Total expenses (b,c)	1.42%	1.34%	1.32%	1.36%	1.48%
Management fee expense	1.16%	1.13%	1.14%	1.16%	1.21%
Other operating expenses	0.26%	0.21%	0.18%	0.20%	0.27%
Net investment income (loss)	0.49%	0.72%	1.13%	1.54%	0.63%

**SUPPLEMENTAL DATA:**

Net Assets Applicable to Common Stockholders, End of Period (in thousands)	\$141,497	\$92,550	\$165,807	\$158,567	\$143,244
Liquidation Value of Preferred Stock, End of Period (in thousands)	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Portfolio Turnover Rate	46%	51%	62%	30%	42%

**PREFERRED STOCK:**

Total shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Asset coverage per share	\$ 166.48	\$ 117.55	\$ 190.81	\$ 183.57	\$ 168.24
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average month-end market value per share	\$ 23.56	\$ 22.89	\$ 24.37	\$ 24.98	\$ 25.38

- (a) The Market Value Total Return is calculated assuming a purchase of Common Stock on the opening of the first business day and a sale on the closing of the last business day of each period reported. Dividends and distributions are assumed for the purposes of this calculation to be reinvested at prices obtained under the Fund's Distribution Reinvestment and Cash Purchase Plan. Net Asset Value Total Return is calculated on the same basis, except that the Fund's net asset value is used on the purchase and sale dates instead of market value.
- (b) Expense ratios based on total average net assets including liquidation value of Preferred Stock were 1.16%, 1.14%, 1.15%, 1.17% and 1.22% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.
- (c) Expense ratios based on average net assets applicable to Common Stockholders before waiver of fees by the investment adviser would have been 1.48% and 1.39% for the years ended December 31, 2009 and 2008, respectively; before waiver of fees and after earnings credits would have been 1.48%, 1.39%, 1.31%, 1.36% and 1.48% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

2009 Annual Report to Stockholders |

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## Royce Focus Trust

### Notes to Financial Statements

#### Summary of Significant Accounting Policies:

Royce Focus Trust, Inc. (the Fund), is a diversified closed-end investment company incorporated under the laws of the State of Maryland. The Fund commenced operations on March 2, 1988 and Royce & Associates, LLC (Royce) assumed investment management responsibility for the Fund on November 1, 1996.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the evaluation of subsequent events through February 23, 2010, the issuance date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Under the Fund's organizational documents, the officers and directors are indemnified against certain liabilities that may arise out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

At December 31, 2009, officers, employees of Royce & Associates, Fund directors, the Royce retirement plans and other affiliates owned 24% of the Fund.

#### Valuation of Investments:

Securities are valued as of the close of trading on the New York Stock Exchange (NYSE) (generally 4:00 p.m. Eastern time) on the valuation date. Securities that trade on an exchange, and securities traded on Nasdaq's Electronic Bulletin Board, are valued at their last reported sales price or Nasdaq official closing price taken from the primary market in which each security trades or, if no sale is reported for such day, at their bid price. Other over-the-counter securities for which market quotations are readily available are valued at their highest bid price, except in the case of some bonds and other fixed income securities which may be valued by reference to other securities with comparable ratings, interest rates and maturities, using established independent pricing services. The Fund values its non-U.S. dollar denominated securities in U.S. dollars daily at the prevailing foreign currency exchange rates as quoted by a major bank. Securities for which market quotations are not readily available are valued at their fair value under procedures established by the Fund's Board of Directors. In addition, if, between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and may make the closing price unreliable, the Fund may fair value the security. The Fund uses an independent pricing service to provide fair value estimates for relevant non-U.S. equity securities on days when the U.S. market volatility exceeds a certain threshold. This pricing service uses proprietary correlations it has developed between the movement of prices of non-U.S. equity securities and indices of U.S.-traded securities, futures contracts and other indications to estimate the fair value of relevant non-U.S. securities. When fair value pricing is employed, the prices of securities used by the Fund may differ from quoted or published prices for the same security. Investments in money market funds are valued at net asset value per share.

Various inputs are used in determining the value of the Fund's investments, as noted above. These inputs are summarized in the three broad levels below:

Level 1 quoted prices in active markets for identical securities

Level 2 other significant observable inputs (including quoted prices for similar securities, foreign securities that may be fair valued and repurchase agreements)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used to value the Fund's investments as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Common stocks	\$ 113,531,804	\$26,639,512		\$ 140,171,316
	5,226,474	26,383,000		31,609,474



Cash  
equivalents

Level 3  
Reconciliation:

	Balance as of 12/31/08	Sales	Realized and Unrealized Gain (Loss) <sup>(1)</sup>	Balance as of 12/31/09
Preferred stocks	\$7,285,707	\$9,000,000	\$1,714,293	

<sup>(1)</sup> The net change in unrealized appreciation (depreciation) is included in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized. Net realized gain (loss) from investments and foreign currency transactions is included in the accompanying Statement of Operations.

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## Royce Focus Trust

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### Notes to Financial Statements (continued)

#### Repurchase Agreements:

The Fund may enter into repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. The Fund restricts repurchase agreements to maturities of no more than seven days. Securities pledged as collateral for repurchase agreements, which are held until maturity of the repurchase agreements, are marked-to-market daily and maintained at a value at least equal to the principal amount of the repurchase agreement (including accrued interest). Repurchase agreements could involve certain risks in the event of default or insolvency of the counter-party, including possible delays or restrictions upon the ability of the Fund to dispose of its underlying securities.

#### Foreign Currency:

Net realized foreign exchange gains or losses arise from sales and maturities of short-term securities, sales of foreign currencies, expiration of currency forward contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities, including investments in securities at the end of the reporting period, as a result of changes in foreign currency exchange rates.

#### Securities Lending:

The Fund loans securities to qualified institutional investors for the purpose of realizing additional income. Collateral for the Fund on all securities loaned is accepted in cash and cash equivalents and invested temporarily by the custodian. The collateral maintained is at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. The Fund retains the risk of any loss on the securities on loan as well as incurring the potential loss on investments purchased with cash collateral received for securities lending.

#### Taxes:

As a qualified regulated investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes substantially all of its taxable income for its fiscal year. The Schedule of Investments includes information regarding income taxes under the caption Tax Information.

#### Distributions:

Effective May 18, 2009, the Fund pays any dividends and capital gain distributions annually in December on the Fund's Common Stock. Prior to that date, the Fund paid quarterly distributions on the Fund's Common Stock at the annual rate of 5% of the rolling average of the prior four calendar quarter-end NAVs of the Fund's Common Stock, with the fourth quarter distribution being the greater of 1.25% of the rolling average or the distribution required by IRS regulations. Distributions to Preferred Stockholders are accrued daily and paid quarterly and distributions to Common Stockholders are recorded on ex-dividend date. Distributable capital gains and/or net investment income are first allocated to Preferred Stockholder distributions, with any excess allocable to Common Stockholders. If capital gains and/or net investment income are allocated to both Preferred and Common Stockholders, the tax character of such allocations is proportional. To the extent that distributions are not paid from long-term capital gains, net investment income or net short-term capital gains, they will represent a return of capital. Distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. Permanent book and tax differences relating to stockholder distributions will result in reclassifications within the capital accounts. Undistributed net investment income may include temporary book and tax basis differences, which will reverse in a subsequent period. Any taxable income or gain remaining undistributed at fiscal year end is distributed in the following year.

#### Investment Transactions and Related Investment Income:

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Non-cash dividend income is recorded at the fair market value of the securities received. Interest income is recorded on an accrual basis. Premium and discounts on debt securities are amortized using the effective yield-to-maturity method. Realized gains and losses

from investment transactions are determined on the basis of identified cost for book and tax purposes.

**Expenses:**

The Fund incurs direct and indirect expenses. Expenses directly attributable to the Fund are charged to the Fund's operations, while expenses applicable to more than one of the Royce Funds are allocated equitably. Certain personnel, occupancy costs and other administrative expenses related to The Royce Funds are allocated by Royce under an administration agreement and are included in administrative and office facilities and legal expenses. The Fund has adopted a deferred fee agreement that allows the Directors to defer the receipt of all or a portion of Directors' Fees otherwise payable. The deferred fees are invested in certain Royce Funds until distributed in accordance with the agreement.

**Compensating Balance Credits:**

The Fund has an arrangement with its custodian bank, whereby a portion of the custodian's fee is paid indirectly by credits earned on the Fund's cash on deposit with the bank. This deposit arrangement is an alternative to purchasing overnight investments. Conversely, the Fund pays interest to the custodian on any cash overdrafts, to the extent they are not offset by credits earned on positive cash balances.

## Royce Focus Trust

### Notes to Financial Statements (continued)

#### Capital Stock:

The Fund issued 299,149 and 864,595 shares of Common Stock as reinvestment of distributions by Common Stockholders for the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009, 1,000,000 shares of 6.00% Cumulative Preferred Stock were outstanding. The Fund, at its option, may redeem the Cumulative Preferred Stock, in whole or in part, at the redemption price. The Cumulative Preferred Stock is classified outside of permanent equity (net assets applicable to Common Stockholders) in the accompanying financial statements in accordance with accounting for redeemable equity instruments, that requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity to the extent that the redemption is at a fixed or determinable price and at the option of the holder or upon the occurrence of an event that is not solely within the control of the issuer.

The Fund is required to meet certain asset coverage tests with respect to the Cumulative Preferred Stock as required by the 1940 Act. In addition, pursuant to the Rating Agency Guidelines established by Moody's, the Fund is required to maintain a certain discounted asset coverage. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Cumulative Preferred Stock at a redemption price of \$25.00 per share, plus an amount equal to the accumulated and unpaid dividends, whether or not declared on such shares, in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to Common Stockholders and could lead to sales of portfolio securities at inopportune times. The Fund has met these requirements since issuing the Cumulative Preferred Stock.

#### Investment Advisory Agreement:

The Investment Advisory Agreement between Royce and the Fund provides for fees to be paid at an annual rate of 1.0% of the Fund's average daily net assets applicable to Common Stockholders plus the liquidation value of Preferred Stock. Royce voluntarily waived a portion of its advisory fee (\$65,753) attributable to issues of the Fund's Preferred Stock for those months in which the Fund's average annual NAV total return failed to exceed the applicable Preferred Stock's dividend rate. For the year ended December 31, 2009, the Fund accrued and paid Royce advisory fees totaling \$1,299,576.

#### Purchases and Sales of Investment Securities:

For the year ended December 31, 2009, the cost of purchases and proceeds from sales of investment securities, other than short-term securities and collateral received for securities loaned, amounted to \$50,803,730 and \$58,785,404, respectively.

#### Distributions to Stockholders:

The tax character of distributions paid to common stockholders during 2009 and 2008 was as follows:

Distributions paid from:	2009	2008
Ordinary income	\$ 76,678	\$1,314,438
Long-term capital gain		6,881,428
Return of capital	1,674,712	662,631
	<u>\$1,751,390</u>	<u>\$8,858,497</u>

The tax character of distributions paid to preferred stockholders during 2009 and 2008 was as follows:

Distributions paid from:	2009	2008
Ordinary income	\$1,500,000	\$ 240,568
Long-term capital gain		1,259,432
Return of capital		
	<u>\$1,500,000</u>	<u>\$1,500,000</u>

As of December 31, 2009, the tax basis components of distributable earnings included in stockholders' equity were as follows:

Capital loss carryforward to 12/31/17	\$(12,252,785)
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Unrealized appreciation (depreciation)	25,019,254
Post October loss*	(287,305)
Accrued preferred distributions	(33,333)
	<hr/>
	\$ 12,445,831

\*Under the current tax law, capital losses, foreign currency losses and losses realized on Passive Foreign Investment Companies after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. As of December 31, 2009, the Fund had \$287,305 of post October losses.

## Royce Focus Trust

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### Notes to Financial Statements (continued)

#### Distributions to Stockholders (continued):

The difference between book and tax basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral on wash sales, partnership investments and the unrealized gains on Passive Foreign Investment Companies.

For financial reporting purposes, capital accounts and distributions to stockholders are adjusted to reflect the tax character of permanent book/tax differences. These differences are primarily due to differing treatments of income and gains on various investment securities and foreign currency transactions held by the Fund, timing differences and different characterization of distributions made by the Fund. For the year ended December 31, 2009, the Fund recorded the following permanent reclassifications. Results of operations and net assets were not affected by these reclassifications.

<u>Undistributed Net Investment Income</u>	<u>Accumulated Net Realized Gain (Loss)</u>	<u>Paid-in Capital</u>
\$(377,732)	\$(97,396)	\$475,128

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (2006-2009) and has concluded that as of December 31, 2009, no provision for income tax is required in the Fund's financial statements.

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## Royce Focus Trust

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### Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders of  
Royce Focus Trust, Inc.  
New York, New York**

We have audited the accompanying statement of assets and liabilities of Royce Focus Trust, Inc., ( Fund ) including the schedule of investments, as of December 31, 2009, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2009, by correspondence with the custodian and brokers or by other appropriate auditing procedures where broker replies were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Royce Focus Trust, Inc. at December 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER, & BAKER LLP

Philadelphia, Pennsylvania  
February 23, 2010

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## Directors and Officers

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All Directors and Officers may be reached c/o The Royce Funds, 745 Fifth Avenue, New York, NY 10151

### Charles M. Royce, Director\*, President

Age: 70 | Number of Funds Overseen: 30 | Tenure: Since 1986

Non-Royce Directorships: Director of Technology Investment Capital Corp.

Principal Occupation(s) During Past Five Years: President, Co-Chief Investment Officer and Member of Board of Managers of Royce & Associates, LLC ( Royce ), the Trust s investment adviser.

### Mark R. Fetting, Director\*

Age: 55 | Number of Funds Overseen: 44 | Tenure: Since 2001

Non-Royce Directorships: Director/Trustee of registered investment companies constituting the 14 Legg Mason Funds.

Principal Occupation(s) During Past 5 Years: President, CEO, Chairman and Director of Legg Mason, Inc. and Chairman of Legg Mason Funds. Mr. Fetting s prior business experience includes having served as a member of the Board of Managers of Royce; President of all Legg Mason Funds; Senior Executive Vice President of Legg Mason, Inc.; Director and/or officer of various Legg Mason, Inc. affiliates; Division President and Senior Officer of Prudential Financial Group, Inc. and related companies.

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### Richard M. Galkin, Director

Age: 71 | Number of Funds Overseen: 30 | Tenure: Since 1986

Non-Royce Directorships: None

Principal Occupation(s) During Past Five Years: Private investor. Mr. Galkin s prior business experience includes having served as President of Richard M. Galkin Associates, Inc., telecommunications consultants, President of Manhattan Cable Television (a subsidiary of Time, Inc.), President of Haverhills Inc. (another Time, Inc. subsidiary), President of Rhode Island Cable Television and Senior Vice President of Satellite Television Corp. (a subsidiary of Comsat).

### Stephen L. Isaacs, Director

Age: 70 | Number of Funds Overseen: 30 | Tenure: Since 1989

Non-Royce Directorships: None

Principal Occupation(s) During Past Five Years: President of The Center for Health and Social Policy (since September 1996); Attorney and President of Health Policy Associates, Inc., consultants. Mr. Isaacs s prior business experience includes having served as Director of Columbia University Development Law and Policy Program and Professor at Columbia University (until August 1996).



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### [William L. Koke, Director\\*\\*](#)

Age: 75 | Number of Funds Overseen: 30 | Tenure: Since 1996

Non-Royce Directorships: None

Principal Occupation(s) During Past Five Years: Private investor. Mr. Koke's prior business experience includes having served as President of Shoreline Financial Consultants, Director of Financial Relations of SONAT, Inc., Treasurer of Ward Foods, Inc. and President of CFC, Inc.

### [Arthur S. Mehlman, Director](#)

Age: 67 | Number of Funds Overseen: 44 | Tenure: Since 2004

Non-Royce Directorships: Director/Trustee of registered investment companies constituting the 14 Legg Mason Funds and Director of Municipal Mortgage & Equity, LLC.

Principal Occupation(s) During Past Five Years: Director of The League for People with Disabilities, Inc.; Director of University of Maryland Foundation (non-profits). Formerly: Director of University of Maryland College Park Foundation (non-profit) (from 1998 to 2005); Partner, KPMG LLP (international accounting firm) (from 1972 to 2002); Director of Maryland Business Roundtable for Education (from July 1984 to June 2002).

### [David L. Meister, Director](#)

Age: 70 | Number of Funds Overseen: 30 | Tenure: Since 1986

Non-Royce Directorships: None

Principal Occupation(s) During Past Five Years: Consultant. Chairman and Chief Executive Officer of The Tennis Channel (from June 2000 to March 2005). Mr. Meister's prior business experience includes having served as Chief Executive Officer of Seniorlife.com, a consultant to the communications industry, President of Financial News Network, Senior Vice President of HBO, President of Time-Life Films and Head of Broadcasting for Major League Baseball.

### [G. Peter O Brien, Director](#)

Age: 64 | Number of Funds Overseen: 44 | Tenure: Since 2001

Non-Royce Directorships: Director/Trustee of registered investment companies constituting the 14 Legg Mason Funds; Director of Technology Investment Capital Corp.

Principal Occupation(s) During Past Five Years: Trustee Emeritus of Colgate University (since 2005); Board Member of Hill House, Inc. (since 1999); Formerly: Trustee of Colgate University (from 1996 to 2005), President of Hill House, Inc. (from 2001 to 2005) and Managing Director/Equity Capital Markets Group of Merrill Lynch & Co. (from 1971 to 1999).

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### [John D. Diederich, Vice President and Treasurer](#)

Age: 58 | Tenure: Since 2001

Principal Occupation(s) During Past Five Years: Chief Operating Officer, Managing Director and member of the Board of Managers of Royce; Chief Financial Officer of Royce; Director of Administration of the Trust; and President of RFS, having been employed by Royce since April 1993.

[Jack E. Fockler, Jr., Vice President](#)

Age: 51 | Tenure: Since 1995

Principal Occupation(s) During Past Five Years: Managing Director and Vice President of Royce, and Vice President of RFS, having been employed by Royce since October 1989.

[W. Whitney George, Vice President](#)

Age: 51 | Tenure: Since 1995

Principal Occupation(s) During Past Five Years: Co-Chief Investment Officer, Managing Director and Vice President of Royce, having been employed by Royce since October 1991.

[Daniel A. O Byrne, Vice President and Assistant Secretary](#)

Age: 47 | Tenure: Since 1994

Principal Occupation(s) During Past Five Years: Principal and Vice President of Royce, having been employed by Royce since October 1986.

[John E. Denneen, Secretary and Chief Legal Officer](#)

Age: 42 | Tenure: 1996-2001 and Since April 2002

Principal Occupation(s) During Past Five Years: General Counsel, Principal, Chief Legal and Compliance Officer and Secretary of Royce; Secretary and Chief Legal Officer of The Royce Funds.

[Lisa Curcio, Chief Compliance Officer](#)

Age: 50 | Tenure: Since 2004

Principal Occupation(s) During Past Five Years: Chief Compliance Officer of The Royce Funds (since October 2004) and Compliance Officer of Royce (since June 2004); Vice President, The Bank of New York (from February 2001 to June 2004).

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\* Interested Director

\*\* Retired from the Funds Board of Directors effective January 1, 2010.

Each director will hold office until their successors have been duly elected and qualified or until their earlier resignation or removal. The Statement of Additional Information, which contains additional information about the Trust's directors and officers, is available and can be obtained without charge at [www.roycefunds.com](http://www.roycefunds.com) or by calling (800) 221-4268.

## Notes to Performance and Other Important Information

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The thoughts expressed in this *Review and Report* concerning recent market movements and future prospects for small company stocks are solely the opinion of Royce at December 31, 2009, and, of course, historical market trends are not necessarily indicative of future market movements. Statements regarding the future prospects for particular securities held in the Funds' portfolios and Royce's investment intentions with respect to those securities reflect Royce's opinions as of December 31, 2009 and are subject to change at any time without notice. There can be no assurance that securities mentioned in this *Review and Report* will be included in any Royce-managed portfolio in the future. The Funds invest primarily in securities of micro-, small- and mid-cap companies, which may involve considerably more risk than investments of larger-cap companies. All publicly released material information is always disclosed by the Funds on the website at [www.roycefunds.com](http://www.roycefunds.com).

The Russell 2000 is an index of domestic small-cap stocks. It measures the performance of the 2,000 smallest publicly traded U.S. companies in the Russell 3000 index. The Russell 2000 Value and Growth indices consist of the respective value and growth stocks within the Russell 2000 as determined by Russell Investments. The Russell Microcap Index measures the performance of the smallest 1,000 companies in the Russell 2000. The S&P 500 and S&P SmallCap 600 are indices of U.S. large- and small-cap stocks, respectively, selected by Standard & Poor's based on market size, liquidity and industry grouping, among other factors. The Nasdaq Composite is an index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The MSCI EAFE Index (Europe, Australasia, Far East) is designed to measure the equity market performance of developed equity markets, excluding the U.S. and Canada. The MSCI World ex-U.S.A. Small Core index represents the small-cap segment in the world's developed equity markets excluding the United States. Returns for the market indices used in this *Review and Report* were based on information supplied to Royce by Russell Investments and Morningstar. Royce has not independently verified the above described information. *The Royce Funds* is a service mark of The Royce Funds.

### Forward-Looking Statements

This material contains forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the Exchange Act), that involve risks and uncertainties, including, among others, statements as to:

- the Funds' future operating results
- the prospects of the Funds' portfolio companies
- the impact of investments that the Funds have made or may make
- the dependence of the Funds' future success on the general economy and its impact on the companies and industries in which the Funds invest, and
- the ability of the Funds' portfolio companies to achieve their objectives.

This *Review and Report* uses words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements for any reason.

The Royce Funds have based the forward-looking statements included in this *Review and Report* on information available to us on the date of the report, and we assume no obligation to update any such forward-looking statements. Although The Royce Funds undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make through future stockholder communications or reports.

### Authorized Share Transactions

Royce Value Trust, Royce Micro-Cap Trust and Royce Focus Trust may each repurchase up to 5% of the issued and outstanding shares of its respective common stock and up to 10% of the issued and outstanding shares of its respective preferred stock during the year ending December 31, 2010. Any such repurchases would take place at then prevailing prices in the open market or in other transactions. Common stock repurchases would be effected at a price per share that is less than the share's then current net asset value, and preferred stock repurchases would be effected at a price per share that is less than the share's liquidation value.

Royce Value Trust, Royce Micro-Cap Trust and Royce Focus Trust are also authorized to offer their common stockholders an opportunity to subscribe for additional shares of their common stock through rights offerings at a price per share that may be less than the share's then current net asset value. The timing and terms of any such offerings are within each Board's discretion.

### Annual Certifications

As required, the Funds have submitted to the New York Stock Exchange (NYSE) for Royce Value Trust and Royce Micro-Cap Trust and to Nasdaq for Royce Focus Trust, respectively, the annual certification of the Funds' Chief Executive Officer that he is not aware of any violation of the NYSE's or Nasdaq's Corporate Governance listing standards. The Funds also have included the

certification of the Funds' Chief Executive Officer and Chief Financial Officer required by section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Funds' form N-CSR for the period ended December 31, 2009, filed with the Securities and Exchange Commission.

## Change to Fund's Investment Restrictions

At the December 2-3, 2009 regular meeting of the Board of Directors of Royce Value Trust, the Board approved a change to the Fund's non-fundamental investment policies reducing the percentage of the Fund's total assets required to be invested in common stocks and convertible securities from 75% to 65%. Such change is effective May 1, 2010.

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## Proxy Voting

A copy of the policies and procedures that The Royce Funds use to determine how to vote proxies relating to portfolio securities and information regarding how each of The Royce Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available, without charge, on The Royce Funds' website at [www.roycefunds.com](http://www.roycefunds.com), by calling 1-800-221-4268 (toll-free) and on the website of the Securities and Exchange Commission (SEC), at [www.sec.gov](http://www.sec.gov).

## Form N-Q Filing

The Funds file their complete schedules of investments with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Royce Funds' holdings are also on the Funds' website approximately 15 to 20 days after each calendar quarter end and remain available until the next quarter's holdings are posted. The Funds' Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 1-800-732-0330. The Funds' complete schedules of investments are updated quarterly, and are available at [www.roycefunds.com](http://www.roycefunds.com).

### Royce Value Trust, Inc.

At the 2009 Annual Meeting of Stockholders held on September 23, 2009, the Fund's stockholders elected four Directors, consisting of:

	VOTES FOR	VOTES WITHHELD
* Charles M. Royce	64,235,213	1,332,858
* G. Peter O'Brien	64,168,654	1,399,417
** William L. Koke	8,290,443	129,275
** David L. Meister	8,297,589	122,129

\*Common Stock and Preferred Stock voting together as a single class.

\*\*Preferred Stock voting as a separate class.

### Royce Micro-Cap Trust, Inc.

At the 2009 Annual Meeting of Stockholders held on September 23, 2009, the Fund's stockholders elected four Directors, consisting of:

	VOTES FOR	VOTES WITHHELD
* Charles M. Royce	25,715,712	707,676
* G. Peter O'Brien	25,615,917	807,471
** William L. Koke	2,213,076	88,364
** David L. Meister	2,180,064	121,376

\*Common Stock and Preferred Stock voting together as a single class.

\*\*Preferred Stock voting as a separate class.

### Royce Focus Trust, Inc.

At the 2009 Annual Meeting of Stockholders held on September 23, 2009, the Fund's stockholders elected four Directors, consisting of:

	VOTES FOR	VOTES WITHHELD
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* Charles M. Royce	16,512,734	302,507
* G. Peter O Brien	14,903,285	1,911,956
** Stephen L. Isaacs	948,560	7,373
** David L. Meister	948,560	7,373

\*Common Stock and Preferred Stock voting together as a single class.

\*\*Preferred Stock voting as a separate class.

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## Cultural Issues

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An important element of our culture comes from being contrarians. Throughout our 35-plus years as small-cap value investors, we have typically swum against the current.

Every company has a culture. That is, every company develops certain distinct, if not distinctive, ways of doing business, handling employees, looking at the wider world, etc. Some of this is related to a company's size. For example, our own field of asset management boasts some very well known, very large organizations that offer a vast menu of financial services to complement their expertise in mutual fund management. Although their businesses and ours share extensive common ground, their corporate cultures would tend to be vastly different from our own here at Royce.

As a smaller company, our culture remains distinctly entrepreneurial, which we can trace back to our roots as a firm that initially consisted of Chuck Royce and a small handful of people in the early '70s. Even today, with more than 30 investment professionals and a little more than 100 people employed overall, we are still very much on the small side as companies go, and as a result, we happily retain our entrepreneurial bent.

Another element of our culture comes from being contrarians. Throughout our 35-plus years as small-cap value investors, we have typically swum against the current. Our disciplined approach generally has us buying when most others are selling and vice versa. We also focus very closely on risk. In most of our funds, we are at least as interested in preserving capital as we are in making it grow. In addition, we have a long-term time horizon, seeking strong absolute returns over three-year periods or longer. Finally, our work is centered on small-cap investing. We have broadened the market cap range to include mid-cap stocks in some portfolios over the last few years, but the vast majority of our net assets remain invested in companies with market capitalizations less than \$2.5 billion.

Each of these core tenets has contributed to how we think about our goals as a business, and each has exerted some influence on the development of our culture. For example, we look to hire people who we think will fit well with our culture, one that, in addition to the traits already described, is professional and collegial. True to our nature as contrarians, we often seek talented professionals when others are not—most recently during 2009, when most of our peers were contracting in size. When bringing new people into the firm, we ask ourselves, "How is this person likely to work out over the long run?" We look less to meet immediate needs but instead try to fill what we see as long-term roles, trying to find people capable of the kind of thinking that can improve and evolve our investment practice.

When we began in earnest to increase the size of our investment staff in 1998, our first moves were to bring in portfolio managers Buzz Zaino and Charlie Dreifus, two highly friendly competitors of Chuck's with a similar level of experience and capability in the small-cap world. They in turn were drawn to our singular focus on small-cap stocks and value investing. Each came to us from larger firms in which small-cap investing was part of a much larger investment picture.

Yet shortly before this, our current Co-Chief Investment Officer, Whitney George, was beginning to assume greater portfolio management responsibilities. We liked both the long years of experience that Buzz and Charlie brought as much as the promise and fresh outlook that Whitney's relative youth provided. In both cases, we were thinking mostly of the long-term well-being of the firm and the ongoing improvement of our small-cap value approach.

We obviously think very highly of professionals with the quality of experience that Buzz and Charlie brought. However, we were equally confident in the talent (and potential) of relatively younger professionals, such as Jenifer Taylor, Jay Kaplan, Chip Skinner and David Nadel, who have also joined our firm. They embrace our contrarian habits and our singular devotion to small-cap value investing. All of our talented staff will continue to play significant roles in keeping our entrepreneurial culture the unique force that we believe it to be.





**Wealth Of Experience**

With approximately \$29 billion in open- and closed-end fund assets under management, Royce & Associates is committed to the same small-company investing principles that have served us well for more than 35 years. Charles M. Royce, our President and Co-Chief Investment Officer, enjoys one of the longest tenures of any active mutual fund manager. Royce’s investment staff also includes Co-Chief Investment Officer W. Whitney George, 15 Portfolio Managers, nine assistant portfolio managers and analysts, and eight traders.

**Multiple Funds, Common Focus**

Our goal is to offer both individual and institutional investors the best available small-cap value portfolios. Unlike a lot of mutual fund groups with broad product offerings, we have chosen to concentrate on small-company value investing by providing investors with a range of funds that take full advantage of this large and diverse sector.

**Consistent Discipline**

Our approach emphasizes paying close attention to risk and maintaining the same discipline, regardless of market movements and trends. The price we pay for a security must be significantly below our appraisal of its current worth. This requires a thorough analysis of the financial and business dynamics of an enterprise, as though we were purchasing the entire company.

**Co-Ownership Of Funds**

It is important that our employees and shareholders share a common financial goal; our officers, employees and their families currently have approximately \$99 million invested in *The Royce Funds*.

745 Fifth Avenue | New York, NY 10151 | P (800)  
221-4268 | [www.roycefunds.com](http://www.roycefunds.com)

<b>General Information</b>	<b>RIA Services</b>	<b>Broker/Dealer Services</b>	<b>Computershare</b>
Additional Report Copies and Prospectus Inquiries (800) 221-4268	Fund Materials and Performance Updates (800) 33-ROYCE (337-6923)	Fund Materials and Performance Updates (800) 59-ROYCE (597-6923)	Transfer Agent and Registrar (800) 426-5523



**Item 2. Code(s) of Ethics.** As of the end of the period covered by this report, the Registrant had adopted a code of ethics, as defined in Item 2 of Form N-CSR, applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of this code of ethics is filed as an exhibit to this Form N-CSR. No substantive amendments were approved or waivers were granted to this code of ethics during the period covered by this report.

**Item 3. Audit Committee Financial Expert.**

- (a)(1) The Board of Directors of the Registrant has determined that it has an audit committee financial expert.
- (a)(2) Arthur S. Mehlman was designated by the Board of Directors as the Registrant's Audit Committee Financial Expert, effective April 15, 2004. Mr. Mehlman is independent as defined under Item 3 of Form N-CSR.

**Item 4. Principal Accountant Fees and Services.**

- (a) Audit Fees:  
Year ended December 31, 2009 -\$29,000  
Year ended December 31, 2008 -\$29,500
- (b) Audit-Related Fees:  
Year ended December 31, 2009 -\$1,500 Preparation of reports to rating agency for Preferred Stock  
Year ended December 31, 2008 -\$1,500 Preparation of reports to rating agency for Preferred Stock
- (c) Tax Fees:  
Year ended December 31, 2009 -\$6,750 - Preparation of tax returns  
Year ended December 31, 2008 -\$6,500 - Preparation of tax returns
- (d) All Other Fees:  
Year ended December 31, 2009 -\$0  
Year ended December 31, 2008 -\$0
- (e)(1) Annual Pre-Approval: On an annual basis, the Registrant's independent auditor submits to the Audit Committee a schedule of proposed audit, audit-related, tax and other non-audit services to be rendered to the Registrant and/or investment adviser(s) for the following year that require pre-approval by the Audit Committee. This schedule provides a description of each type of service that is expected to require pre-approval and the maximum fees that can be paid for each such service without further Audit Committee approval. The Audit Committee then reviews and determines whether to approve the types of scheduled services and the projected fees for them. Any subsequent revision to already pre-approved services or fees (including fee increases) are presented for consideration at the next regularly scheduled Audit Committee meeting, as needed.

If subsequent to the annual pre-approval of services and fees by the Audit Committee, the Registrant or one of its affiliates determines that it would like to engage the Registrant's independent auditor to perform a service not already pre-approved, the request is to be submitted to the Registrant's Chief Financial Officer, and if he or she determines that the service fits within the independence guidelines (e.g., it is not a prohibited service), he or she will then arrange for a discussion of the proposed service and fee to be included on the agenda for the next regularly scheduled Audit Committee meeting so that pre-approval can be considered.

Interim Pre-Approval: If, in the judgment of the Registrant's Chief Financial Officer, a proposed engagement needs to commence before the next regularly scheduled Audit Committee meeting, he or she shall submit a written summary of the proposed engagement to all members of the Audit Committee, outlining the services, the estimated maximum cost, the category of the services (e.g., audit, audit-related, tax or other) and the rationale for engaging the Registrant's independent auditor to perform the services. To the extent the proposed engagement involves audit, audit-related or tax services, any individual member of the Audit Committee who is an independent Board member is authorized to pre-approve the engagement. To the extent the proposed engagement

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involves non-audit services other than audit-related or tax, the Chairman of the Audit Committee is authorized to pre-approve the engagement. The Registrant's Chief Financial Officer will arrange for this interim review and coordinate with the appropriate member(s) of the Committee. The independent auditor may not commence the engagement under consideration until the Registrant's Chief Financial Officer has informed the auditor in writing that pre-approval has been obtained from the Audit Committee or an individual member who is an independent Board member. The member of the Audit Committee who pre-approves any engagements in between regularly scheduled Audit Committee meetings is to report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next regularly scheduled meeting.

(e)(2) Not Applicable

(f) Not Applicable

(g) Year ended December 31, 2009 -\$8,250  
Year ended December 31, 2008 -\$8,000

(h) No such services were rendered during 2009 or 2008.

**Item 5. Audit Committee of Listed Registrants.** The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Richard M. Galkin, Stephen L. Isaacs, William L. Koke, Arthur S. Mehlman, David L. Meister and G. Peter O'Brien are members of the Registrant's audit committee.

**Item 6. Investments.**

(a) See Item 1.

(b) Not applicable.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

June 5, 2003, as amended  
through October 22, 2009

**Royce & Associates Proxy Voting Guidelines and Procedures**

These procedures apply to Royce & Associates, LLC ( Royce ) and all funds and other client accounts for which it is responsible for voting proxies, including all open and closed-end registered investment companies ( The Royce Funds ), limited partnerships, limited liability companies, separate accounts, other accounts for which it acts as investment adviser and any accounts for which it acts as sub-adviser that have delegated proxy voting authority to Royce. Such authority is determined at the inception of each client account and generally: (i) is specifically authorized in the applicable investment management agreement or other written instrument or (ii) where not specifically authorized, is granted to Royce where general investment discretion is given to it in the applicable investment management agreement. The Boards of Trustees/Directors of The Royce Funds (the Boards ) have delegated all proxy voting decisions to Royce subject to these policies and procedures. Notwithstanding the above, from time to time the Boards may reserve voting authority for specific securities.

Receipt of Proxy Material. Under the continuous oversight of the Head of Administration, an Administrative Assistant designated by him is responsible for monitoring receipt of all proxies and ensuring that proxies are received for all securities for which Royce has proxy voting responsibility. All proxy materials are logged in upon receipt by Royce's Librarian

Voting of Proxies. Once proxy material has been logged in by Royce's Librarian, it is then promptly reviewed by the designated Administrative Assistant to evaluate the issues presented. Regularly recurring matters are usually voted as recommended by the issuer's board of directors or management. The Head of Administration or his designee, in consultation with the Chief Investment Officer, develops and updates a list of matters Royce treats as regularly recurring and is responsible for ensuring that the designated Administrative Assistant has an up-to-date list of these matters at all times, including instructions from Royce's Chief Investment Officer on how to vote on

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those matters on behalf of Royce clients. Examples of regularly recurring matters include non-contested elections of directors and non-contested approval of independent auditors. Non-regularly recurring matters are brought to the attention of the portfolio manager(s) for the account(s) involved by the designated Administrative Assistant, and, after giving some consideration to advisories from Glass Lewis & Co., an independent third party research firm, the portfolio manager directs that such matters be voted in a way that he or she believes should better protect or enhance the value of the investment. If the portfolio manager determines that information concerning any proxy requires analysis, is missing or incomplete, he or she then gives the proxy to an analyst or another portfolio manager for review and analysis.

- a. From time to time, it is possible that one Royce portfolio manager will decide (i) to vote shares held in client accounts he or she manages differently from the vote of another Royce portfolio manager whose client accounts hold the same security or (ii) to abstain from voting on behalf of client accounts he or she manages when another Royce portfolio manager is casting votes on behalf of other Royce client accounts.

The designated Administrative Assistant reviews all proxy votes collected from Royce's portfolio managers prior to such votes being cast. If any difference exists among the voting instructions given by Royce's portfolio managers, as described above, the designated Administrative Assistant then presents these proposed votes to the Head of Administration, or his designee, and the Chief Investment Officer. The Chief Investment Officer, after consulting with the relevant portfolio managers, either reconciles the votes or authorizes the casting of differing votes by different portfolio managers. The Head of Administration, or his designee, maintains a log of all votes for which different portfolio managers have cast differing votes, that describes the rationale for allowing such differing votes and contains the initials of both the Chief Investment Officer and Head of Administration, or his designee, allowing such differing votes. The Head of Administration, or his designee, performs a weekly review of all votes cast by Royce to confirm that any conflicting votes were properly handled in accordance with the above-described procedures.

- b. There are many circumstances that might cause Royce to vote against an issuer's board of directors or management proposal. These would include, among others, excessive compensation, unusual management stock options, preferential voting and poison pills. The portfolio managers decide these issues on a case-by-case basis as described above.
- c. A portfolio manager may, on occasion, determine to abstain from voting a proxy or a specific proxy item when he or she concludes that the potential benefit of voting is outweighed by the cost, when it is not in the client account's best interest to vote.
- d. When a client has authorized Royce to vote proxies on its behalf, Royce will generally not accept instructions from the clients regarding how to vote proxies.
- e. If a security is on loan under The Royce Funds' Securities Lending Program with State Street Bank and Trust Company (Loaned Securities), the Head of Administration, or his designee, will recall the Loaned Securities and request that they be delivered within the customary settlement period after the notice, to permit the exercise of their voting rights if the number of shares of the security on loan would have a material effect on The Royce Funds' voting power at the up-coming stockholder meeting. A material effect is defined as any case where the Loaned Securities are 1% or more of a class of a company's outstanding equity securities. Monthly, the Head of Administration or his designee will review the summary of this activity by State Street. A quarterly report detailing any exceptions that occur in recalling Loaned Securities will be given to the Boards.

Custodian banks are authorized to release all proxy ballots held for Royce client account portfolios to Glass Lewis & Co. for voting, utilizing the Viewpoint proxy voting platform. Substantially all portfolio companies utilize Broadridge to collect their proxy votes.

Under the continuous oversight of the Head of Administration, or his designee, the designated Administrative Assistant is responsible for voting all proxies in a timely manner. Votes are returned to Broadridge using Viewpoint as ballots are received, generally two weeks before the scheduled meeting date. The issuer can thus see that the

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shares were voted, but the actual vote cast is not released to the company until 4:00 pm on the day before the meeting. If proxies must be mailed, they go out at least ten business days before the meeting date.

**Conflicts of Interest.** The designated Administrative Assistant reviews reports generated by Royce's portfolio management system ( Quest PMS ) that set forth by record date, any security held in a Royce client account which is issued by a (i) public company that is, or a known affiliate of which is, a separate account client of Royce (including sub-advisory relationships), (ii) public company, or a known affiliate of a public company, that has invested in a privately-offered pooled vehicle managed by Royce or (iii) public company, or a known affiliate of a public company, by which the spouse of a Royce employee or an immediate family member of a Royce employee living in the household of such employee is employed, for the purpose of identifying any potential proxy votes that could present a conflict of interest for Royce. The Head of Administration, or his designee, develops and updates the list of such public companies or their known affiliates which is used by Quest PMS to generate these daily reports. This list also contains information regarding the source of any potential conflict relating to such companies. Potential conflicts identified on the conflicts reports are brought to the attention of the Head of Administration or his designee by the designated Administrative Assistant. An R&A Compliance Officer then reviews them to determine if business or personal relationships exist between Royce, its officers, managers or employees and the company that could present a material conflict of interest. Any such identified material conflicts are voted by Royce in accordance with the recommendation given by an independent third party research firm (Glass Lewis & Co.). The Head of Administration or his designee maintains a log of all such conflicts identified, the analysis of the conflict and the vote ultimately cast. Each entry in this log is signed by the Chief Investment Officer before the relevant votes are cast.

**Recordkeeping.** A record of the issues and how they are voted is stored in the Viewpoint system. Copies of all physically executed proxy cards, all proxy statements (with it being permissible to rely on proxy statements filed and available on Edgar) and any other documents created or reviewed that are material to making a decision on how to vote proxies are retained in the Company File maintained by Royce's Librarian in an easily accessible place for a period of not less than six years from the end of the fiscal year during which the last entry was made on such record, the first two years at Royce's office. In addition, copies of each written client request for information on how Royce voted proxies on behalf of that client, and a copy of any written response by Royce to any (written or oral) client request for information on how Royce voted proxies on behalf of that client will be maintained by Royce's Head of Administration and/or Royce's Director of Alternative Investments, or their designee (depending on who received such request) for a period of not less than six years from the end of the fiscal year during which the last entry was made on such record, the first two years at Royce's office. Royce's Compliance Department shall maintain a copy of any proxy voting policies and procedures in effect at any time within the last five years.

**Disclosure.** Royce's proxy voting procedures will be disclosed to clients upon commencement of a client account. Thereafter, proxy voting records and procedures are generally disclosed to those clients for which Royce has authority to vote proxies as set forth below:

- The Royce Funds' proxy voting records are disclosed annually on Form N-PX (with such voting records also available at [www.roycefunds.com](http://www.roycefunds.com)). Proxy voting procedures are available in the Statement of Additional Information for the open-end funds, in the annual report on Form N-CSR for the closed-end funds and at [www.roycefunds.com](http://www.roycefunds.com).
- Limited Liability Company and Limited Partnership Accounts' proxy voting records are disclosed to members/partners upon request and proxy voting procedures (along with a summary thereof) are provided to members/partners annually (and are available at [www.roycefunds.com](http://www.roycefunds.com)).
- Separate Accounts' proxy voting records and procedures are disclosed to separate account clients annually.

### **Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

(a)(1) Portfolio Managers of Closed-End Management Investment Companies (information as of December 31, 2009)

<b>Name</b>	<b>Title</b>	<b>Length of Service</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Charles M. Royce	President and member of the Board of Directors of the Registrant	Since 1993	President, Co-Chief Investment Officer and member of the Board of Managers of Royce & Associates, LLC ( Royce ), investment adviser to the Registrant, Royce Focus Trust, Inc., Royce Value Trust, Inc. ( RVT ), The

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			Royce Fund ( TRF ) and Royce Capital Fund ( RCF ) (collectively, The Royce Funds ).
Chris Flynn	Assistant Portfolio Manager*	Since April 1, 2007	Assistant Portfolio Manager of the Registrant (since April 1, 2007); and Principal, Assistant Portfolio Manager and Senior Analyst at Royce (since 1993).
James Harvey	Assistant Portfolio Manager*	Since April 1, 2007	Assistant Portfolio Manager of the Registrant (since April 1, 2007); and Assistant Portfolio Manager and Analyst at Royce (since 1999).

\*Assistant Portfolio Managers may have investment discretion over a portion of the Registrant's portfolio subject to the supervision of the Registrant's Portfolio Manager.

(a)(2) Other Accounts Managed by Portfolio Manager and Potential Conflicts of Interest (information as of December 31, 2009)

**Other Accounts**

<u>Name of Portfolio Manager</u>	<u>Type of Account</u>	<u>Number of Accounts Managed</u>	<u>Total Assets Managed</u>	<u>Number of Accounts Managed for which Advisory Fee is Performance-Based</u>	<u>Value of Managed Accounts for which Advisory Fee is Performance Based</u>
Charles M. Royce					
	Registered investment companies	16	\$16,055,825,086	5	\$1,412,086,153
	Private pooled investment vehicles	1	\$28,700,000	1	\$28,700,000
	Other accounts*	11	\$44,079,272	-	-
Chris Flynn					
	Registered investment companies	4	\$5,407,692,757	2	\$1,372,932,868
	Private pooled investment vehicles	0	-	-	-
	Other accounts*	0	-	-	-
James Harvey					
	Registered investment companies	4	\$509,795,734	3	\$307,264,893
	Private pooled investment vehicles	1	\$15,914,000	1	\$15,914,000
	Other accounts*	0	-	-	-

\*Other accounts include all other accounts managed by the Portfolio Manager in either a professional or personal capacity except for personal accounts subject to pre-approval and reporting requirements under the Registrant's Rule 17j-1 Code of Ethics.

**Conflicts of Interest**

The fact that a Portfolio Manager has day-to-day management responsibility for more than one client account may create actual, potential or only apparent conflicts of interest. For example, the Portfolio Manager may have an opportunity to purchase securities of limited availability. In this circumstance, the Portfolio Manager is expected to review each account's investment guidelines, restrictions, tax considerations, cash balances, liquidity needs and other factors to determine the suitability of the investment for each account and to ensure that his or her managed accounts are



treated equitably. The Portfolio Manager may also decide to purchase or sell the same security for multiple managed accounts at approximately the same time. To address any conflicts that this situation may create, the Portfolio Manager will generally combine managed account orders (i.e., enter a bunched order) in an effort to obtain best execution or a more favorable commission rate. In addition, if orders to buy or sell a security for multiple accounts managed by common Portfolio Managers on the same day are executed at different prices or commission rates, the transactions will generally be allocated by Royce & Associates, LLC ( Royce ) to each of such managed accounts at the weighted average execution price and commission. In circumstances where a pre-allocated bunched order is not completely filled, each account will normally receive a pro-rated portion of the securities based upon the account's level of participation in the order. Royce may under certain circumstances allocate securities in a manner other than pro-rata if it determines that the allocation is fair and equitable under the circumstances and does not discriminate against any account.

As described below, there is a revenue-based component of each Portfolio Manager's Performance-Related Variable Compensation and the Portfolio Managers also receive Firm-Related Variable Compensation based on revenues (adjusted for certain imputed expenses) generated by Royce. In addition, Charles M. Royce receives variable compensation based on Royce's retained pre-tax profits from operations. As a result, the Portfolio Managers may receive a greater relative benefit from activities that increase the value to Royce of The Royce Funds and/or other Royce client accounts, including, but not limited to, increases in sales of Registrant's shares and assets under management.

Also, as described above, the Portfolio Managers generally manage more than one client account, including, among others, registered investment company accounts, separate accounts and private pooled accounts managed on behalf of institutions (e.g., pension funds, endowments and foundations) and for high-net-worth individuals. The appearance of a conflict of interest may arise where Royce has an incentive, such as a performance-based management fee (or any other variation in the level of fees payable by the Registrant or other Royce client accounts to Royce), which relates to the management of one or more of The Royce Funds or accounts with respect to which the same Portfolio Manager has day-to-day management responsibilities. Except as described below, no Royce Portfolio Manager's compensation is tied to performance fees earned by Royce for the management of any one client account. Although variable and other compensation derived from Royce revenues or profits is impacted to some extent, the impact is relatively minor given the small percentage of Royce firm assets under management for which Royce receives performance-measured revenue. Notwithstanding the above, the Performance-Related Variable Compensation paid to Charles M. Royce as Portfolio Manager of two registered investment company accounts (the Registrant and Royce Value Trust) is based, in part, on performance-based fee revenues. The Registrant and Royce Value Trust pay Royce a fulcrum fee that is adjusted up or down depending on the performance of the Fund relative to its benchmark index. In addition, five other registered investment company accounts, Royce Select Fund I, Royce Select Fund II, Royce Global Select Fund, Royce SMid-Cap Select Fund and Royce Asia-Pacific Select Fund, each pay Royce a performance-based fee.

Finally, conflicts of interest may arise when a Portfolio Manager personally buys, holds or sells securities held or to be purchased or sold for the Registrant or other Royce client account or personally buys, holds or sells the shares of one or more of The Royce Funds. To address this, Royce has adopted a written Code of Ethics designed to prevent and detect personal trading activities that may interfere or conflict with client interests (including Registrant's stockholders' interests). Royce generally does not permit its Portfolio Managers to purchase small- or micro-cap securities in their personal investment portfolios.

Royce and The Royce Funds have adopted certain compliance procedures which are designed to address the above-described types of conflicts. However, there is no guarantee that such procedures will detect each and every situation in which a conflict arises.

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### (a)(3) Description of Portfolio Manager Compensation Structure (information as of December 31, 2009)

Royce seeks to maintain a compensation program that is competitively positioned to attract and retain high-caliber investment professionals. All Portfolio Managers, receive from Royce a base salary, Performance-Related Variable Compensation (generally the largest element of each Portfolio Manager's compensation with the exception of Charles M. Royce), Firm-Related Variable Compensation based primarily on registered investment company and other client account revenues generated by Royce and a benefits package. Portfolio Manager compensation is reviewed and may be modified from time to time as appropriate to reflect changes in the market, as well as to adjust the factors used to determine variable compensation. Except as described below, each Portfolio Manager's compensation consists of the following elements:

- **BASE SALARY.** Each Portfolio Manager is paid a base salary. In setting the base salary, Royce seeks to be competitive in light of the particular Portfolio Manager's experience and responsibilities.
- **PERFORMANCE-RELATED VARIABLE COMPENSATION.** Each Portfolio Manager receives quarterly Performance-Related Variable Compensation that is either asset-based, or revenue-based and therefore in part based on the value of the net assets of the account for which he or she is being compensated, determined with reference to each of the registered investment company and other client accounts they are managing. The revenue used to determine the quarterly Performance-Related Variable Compensation received by Charles M. Royce that relates to each of the Registrant and Royce Value Trust is performance-based fee revenue. For all Portfolio Managers, the Performance-Related Variable Compensation applicable to the registered investment company accounts managed by the Portfolio Manager is subject to downward adjustment or elimination based on a combination of 3-year, 5-year and 10-year risk-adjusted pre-tax returns of such accounts relative to all small-cap objective funds with three years of history tracked by Morningstar (as of December 31, 2009 there were 333 such Funds tracked by Morningstar), 5-year absolute returns of such accounts relative to 5-year U.S. Treasury Notes and absolute returns over the prior full market cycle and current cycle to date vs. the accounts' benchmark. The Performance-Related Variable Compensation applicable to non-registered investment company accounts managed by a Portfolio Manager, and to Royce Select Funds, is not subject to performance-related adjustment.

Payment of the Performance-Related Variable Compensation may be deferred, and any amounts deferred are forfeitable, if the Portfolio Manager is terminated by Royce with or without cause or resigns. The amount of the deferred Performance-Related Variable Compensation will appreciate or depreciate during the deferral period, based on the total return performance of one or more Royce-managed registered investment company accounts selected by the Portfolio Manager at the beginning of the deferral period. The amount deferred will depend on the Portfolio Manager's total direct, indirect beneficial and deferred unvested investments in the Royce registered investment company account for which he or she is receiving portfolio management compensation.

- **FIRM-RELATED VARIABLE COMPENSATION.** Each Portfolio Manager receives quarterly variable compensation based on Royce's net revenues.
- **BENEFIT PACKAGE.** Each Portfolio Manager also receives benefits standard for all Royce employees, including health care and other insurance benefits, and participation in Royce's 401(k) Plan and Money Purchase Pension Plan. From time to time, on a purely discretionary basis, Portfolio Managers may also receive options to acquire stock in Royce's parent company, Legg Mason, Inc. Those options typically represent a relatively small portion of a Portfolio Managers' overall compensation.

Charles M. Royce, in addition to the above-described compensation, also receive variable compensation based on Royce's retained pre-tax operating profit. This variable compensation, along with the Performance-Related Variable Compensation and Firm-Related Variable Compensation, generally represents the most significant element of Mr. Royce's compensation. A portion of the above-described compensation payable to Mr. Royce relates to his responsibilities as Royce's Chief Executive Officer, Co-Chief Investment Officer and President of The Royce Funds.

### (a)(4) Dollar Range of Equity Securities in Registrant Beneficially Owned by Portfolio Manager (information as of December 31, 2009)

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The following table shows the dollar range of the Registrant's shares owned beneficially and of record by the Portfolio Managers, including investments by his immediate family members sharing the same household and amounts invested through retirement and deferred compensation plans.

<b>Portfolio Manager</b>	<b>Dollar Range of Registrant's Shares Beneficially Owned</b>
Charles M. Royce	Over\$1,000,000
Chris Flynn	\$50,000-\$100,000
James Harvey	None

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**Not Applicable

**Item 10. Submission of Matters to a Vote of Security Holders.**Not Applicable.

**Item 11. Controls and Procedures.**

(a) Disclosure Controls and Procedures. The Principal Executive and Financial Officers concluded that the Registrant's Disclosure Controls and Procedures are effective based on their evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) Internal Control over Financial Reporting. There were no significant changes in Registrant's internal control over financial reporting or in other factors that could significantly affect this control subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses during the second fiscal quarter of the period covered by this report. .

**Item 12. Exhibits.** Attached hereto.

(a)(1) The Registrant's code of ethics pursuant to Item 2 of Form N-CSR.

(a)(2) Separate certifications by the Registrant's Principal Executive Officer and Principal Financial Officer as required by Rule 30a-2(a) under the Investment Company Act of 1940.

(a)(3) Not Applicable

(b) Separate certifications by the Registrant's Principal Executive Officer and Principal Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and required by Rule 30a-2(b) under the Investment Company Act of 1940.

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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ROYCE MICRO-CAP TRUST, INC.**

BY: /s/Charles M. Royce  
**Charles M. Royce**  
**President**

Date: March 3, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**ROYCE MICRO-CAP TRUST, INC.**

BY: /s/Charles M. Royce  
**Charles M. Royce**  
**President**

Date: March 3, 2010

**ROYCE MICRO-CAP TRUST, INC.**

BY: /s/John D. Diederich  
**John D. Diederich**  
**Chief Financial Officer**

Date: March 3, 2010