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COLTEC INDUSTRIES INC

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED **DECEMBER 31, 1998**

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-7568

COLTEC INDUSTRIES INC

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State of Incorporation)

13-1846375
(I.R.S. Employer
Identification No.)

3 COLISEUM CENTRE
2550 WEST TYVOLA ROAD
CHARLOTTE, NC
(Address of principal
executive offices)

28217
(Zip Code)

Registrant's telephone number, including area code: (704) 423-7000

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$.01 per share	New York Stock Exchange Pacific Exchange

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

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 X 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 registrant's knowledge, in definitive proxy or information statements incorporated by referenced in Part III of this Form 10-K or any

amendment to this Form 10-K. X

On February 18, 1999, there were issued and outstanding 63,056,735 shares of the registrant's Common Stock, par value \$.01 per share (excluding 25,000,000 shares of Common Stock held by a subsidiary of Coltec). On February 18, 1999, the aggregate market value of the registrant's voting stock (based on a closing price of \$17.6875 per share) held by non-affiliates was \$1,108,397,623. For purposes of the foregoing calculation, all directors and officers of the registrant have been deemed to be affiliates, but the registrant disclaims that any of such directors or officers is an affiliate.

DOCUMENTS INCORPORATED BY REFERENCE

None.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes statements that reflect projections or expectations of future financial or economic performance of Coltec, and statements of Coltec's plans and objectives for future operations, including those in the "Business" and "Legal Proceedings" sections or relating to future capital expenditures or estimated costs to resolve and the corresponding effect on Coltec of certain litigation and environmental matters. Coltec believes such statements to be "forward looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. No assurance can be given that actual results or events will not differ materially from those projected, estimated, assumed or anticipated in any such forward looking statements. Important factors that could result in such differences in addition to other factors noted with such forward looking statements, include: general economic conditions in Coltec's markets, including inflation, recession, interest rates and other economic factors; casualty to or other disruption of Coltec's facilities and operations; and other factors that generally affect the business of aerospace and industrial companies.

Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date of this Form 10-K. All subsequent written and oral forward looking statements attributable to Coltec or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Coltec does not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events.

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PART I

ITEM 1. BUSINESS.

Coltec Industries Inc and its consolidated subsidiaries (together referred to as "Coltec") manufacture and sell a diversified range of highly-engineered aerospace and industrial products, primarily in the United States, Canada and Europe. Coltec's operations are conducted through two principal segments: its Aerospace and Industrial Segments. Set forth below is a description of the business conducted by the respective divisions within Coltec's two operating segments. See the five-year presentation of financial information in respect of each reportable segment under the caption "Segment Information" in Management's Discussion and Analysis of Financial Condition and Results of Operations and the information in note 17 of the Notes to Consolidated Financial Statements.

PROPOSED MERGER WITH THE B.F.GOODRICH COMPANY

On November 22, 1998, Coltec, The B.F. Goodrich Company, a New York corporation ("BFGoodrich"), and a wholly-owned subsidiary of BFGoodrich entered into an agreement and plan of merger. Under the terms of the merger agreement, this wholly-owned subsidiary of BFGoodrich will merge with and into Coltec, with Coltec as the surviving corporation in the merger. Upon completion of the merger each share of Coltec common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.56 of a share of BFGoodrich common stock. The merger is expected to be accounted for as a pooling of interests. The merger agreement has been approved by the boards of directors of both companies. Completion of the merger is subject to certain customary conditions, including, among others, approval of the merger agreement by the shareholders of both companies and the receipt of regulatory approvals. A special meeting of the shareholders of Coltec has been scheduled for April 9, 1999 at which the Coltec shareholders will consider and vote upon a proposal to approve and adopt the merger agreement.

When Coltec and BFGoodrich entered into the merger agreement, both also entered into reciprocal stock option agreements pursuant to which each granted

to the other an option to purchase 19.9% of the outstanding shares of its common stock upon the occurrence of certain specified events. The reciprocal stock option agreements were entered into as a condition of the merger agreement and serve as an inducement for each of the companies to complete the merger.

The headquarters of the combined company will be located in Charlotte, North Carolina.

For additional information regarding the merger, see Coltec's Current Report on Form 8-K filed November 24, 1998 and the Joint Proxy Statement/Prospectus included in the BFGoodrich Registration Statement on Form S-4 (SEC File No. 333-74067).

For a discussion of certain pending litigation relating to the merger, see Item 3. "Legal Proceedings--The AlliedSignal Litigation."

AEROSPACE

Through its Aerospace Segment, Coltec is a manufacturer of landing gear systems, engine fuel controls, flight attendant and cockpit seats, turbine blades, fuel injectors, nozzles and related components for commercial and military aircraft. The operating units and principal products, markets and competitors of the Aerospace Segment are as follows:

OPERATING UNITS	PRINCIPAL PRODUCTS	PRINCIPAL MARKETS	PRINCIPAL COMPETITORS
Menasco	Aircraft landing gear and flight control actuators, landing gear parts, repairs and overhaul	Commercial and military aircraft manufacturers, airlines, U.S. Government	BFGoodrich, Messier-Dowty

1

OPERATING UNITS	PRINCIPAL PRODUCTS	PRINCIPAL MARKETS	PRINCIPAL COMPETITORS
Walbar	Aircraft and industrial gas turbine engines and services, turbocharger rotating assemblies	Aircraft and stationary gas turbine engine manufacturers, diesel engine manufacturers	Chromalloy, Howmet
Chandler Evans Control	Aircraft engine fuel pump and control systems	Aircraft engine manufacturers, U.S. Government and aftermarket	Argotech, Hamilton Standard, Sundstrand, Allied Signal Controls and Accessories
Delavan Gas Turbine	Aircraft engine fuel nozzles, valves and afterburner spray bars	Aircraft engine manufacturers, U.S. Government and aftermarket	Parker-Hannifin, Textron
Lewis Engineering	Aircraft instrumentation, temperature sensors, and level control products and electrical harnesses	Commercial and military aircraft, engine manufacturers and process industries	Ametek, Rogerson, BFGoodrich, Norwich Aerospace
AMI Industries, Inc.	Aircraft flight attendant and cockpit seats	Commercial aircraft manufacturers and airlines	IPECO, Sicma

Menasco. Menasco is one of the leading suppliers of landing gear systems

for medium-to-heavy commercial and military aircraft. The design, manufacture and test of aircraft landing gear and components and related overhaul and repair comprise 90% of Menasco's sales volume. Landing gear and precision components are highly engineered and manufactured to customer specifications and sold to aircraft manufacturers, aircraft operators and to the United States Government ("U.S. Government"), both as original equipment and as spare parts for existing aircraft. Menasco's historical concentration of landing gear sales among a limited number of companies reflects the relatively small number of medium and heavy aircraft manufacturers. Landing gear systems generally account for up to 2% of the total cost of an aircraft. Menasco also provides spare parts for landing gear and landing gear repair and overhaul services. Aftermarket business represented 19% of Menasco's total sales in 1998.

The remaining 10% of Menasco's sales are primarily flight control actuators. Menasco produces large hydraulic and mechanical actuators and has the capability to produce shock mitigation equipment for both military and commercial applications.

Walbar. Walbar is an original equipment manufacturer and coating and repair service center for aircraft and industrial gas turbine engine components. Its product base ranges from complex precision machined turbine parts to high-technology protective coatings. Its primary machined products are turbine blades, vanes and other related turbine airfoil components. Walbar also manufactures disks, integrally bladed rotors and complex impellers, as well as complete rotating assemblies for flight and auxiliary power engines and locomotive turbochargers. Following the reduction in U.S. Government appropriation for military aircraft engines, Walbar has successfully increased its focus on non-aerospace applications, and now enjoys significant market share in the locomotive turbocharger market and the gas turbine power generation market.

Chandler Evans Control Systems. The Chandler Evans Control Systems division ("Chandler Evans") produces gas turbine engine fuel controls and pumps, and pneumatic and hydraulic components for use on aircraft and helicopter engines and aircraft systems. Chandler Evans has carved a niche market in the area of small engine fuel pumps and controls for both commercial and military applications. Chandler Evans also supplies small turbine engines with Full Authority Digital Electronic Control ("FADEC") systems. Computerized electronics in a FADEC system make aircraft safer and less expensive to operate.

2

Delavan Gas Turbine Products. The Delavan Gas Turbine Products division ("Delavan") designs and manufactures fuel injectors, flow control valves, fuel manifolds, afterburner spray bars and other accessories for commercial and military gas turbine engines. Product applications in the aerospace industry include products for engines powering large commercial and regional airliners, business aircraft, military and commercial helicopters, military fighters and transports and auxiliary power units. In the industrial sector, Delavan's fuel injectors and valves are utilized in large land-based gas turbines found in electrical power generation plants and natural gas pipeline installations.

Lewis Engineering. Lewis Engineering designs, develops and produces electromechanical and electronic instrumentation for aircraft cockpits, landing gear electrical harnesses and temperature sensors for aircraft and engine systems. These products are used in commercial transport, general aviation and military markets.

AMI Industries, Inc. AMI Industries, Inc. ("AMI") designs and manufactures aircraft flight attendant and cockpit seats.

One customer (Boeing) in the Aerospace Segment represented approximately 19% of Coltec's 1998 total sales.

INDUSTRIAL

Through its Industrial Segment, Coltec manufactures industrial seals, gaskets, packing products, self-lubricating bearings and oil seals and hubdometers. The Industrial Segment also produces spray nozzles for agricultural, home heating and industrial applications, as well as high-horsepower diesel engines for naval ships and diesel and gas and dual-fuel engines for electric power plants. Coltec also produces air compressors and vacuum pumps. The operating units and principal products, markets and competitors of the Industrial Segment are as follows:

OPERATING UNITS	PRINCIPAL PRODUCTS	PRINCIPAL MARKETS	PRINCIPAL COMPETITORS
Garlock Sealing Technologies	Seals, gaskets, packings and expansion joints, butterfly valves, polytetrafluoroethylene (PTFE) sheet and film, OEM parts and gaskets	Chemical, pulp and paper, refining, utilities, industrial and electronics	Applied Industrial Technologies, CR Industries, A.W. Chesterton, Richard Klinger, AMRI, Durco, Neotecha, Dewal, W. Gore, Durametallic, John Crane
Fairbanks Morse Engine	Diesel, gas and dual-fuel engines	U.S. Navy, marine, locomotive and stationary power markets	Caterpillar, Cooper Industries, General Motors
Quincy Compressor	Air compressors and vacuum pumps	Manufacturing, climate control, oil and gas industries	Gardner-Denver, Sullair, Ingersoll-Rand, Champion
Garlock Bearings	Self-lubricated bearings	Automotive and equipment manufacturers	Kolbenschmidt, Rexnord
Stemco	Heavy duty wheel-end systems, oil seals, hub-caps and hubdometers, hubnuts	Fleet truck operators, truck parts distributors and vehicle assemblers	CR Industries, Federal Mogul, Nelson, Donaldson

OPERATING UNITS	PRINCIPAL PRODUCTS	PRINCIPAL MARKETS	PRINCIPAL COMPETITORS
Delavan Spray Technologies	Spray nozzles, accessories, pumps and systems	Home heating, industrial and agriculture	Spraying Systems, Danfoss
France Compressor Products	Compressor valves and seals	Compressor manufacturers and end users	Hoerbiger, C. Lee Cook
Haber Tool	Cold-forming dies, details, jigs, fixtures, precision machinery	Fastener and automotive manufacturers	Form Flow, Furon, Uclid, Burnett
Plastomer Products	PTFE tape	Industrial manufacturers	Fluoroglas, W. Gore
Sterling Die	Thread-rolling dies	Fastener manufacturers	Reed Rico
Ortman Fluid Power	Hydraulic and pneumatic cylinders	Fluid power market	Parker-Hannifin, Miller Fluid Power
Garlock Rubber Technologies	Sheet Rubber Products	Steel mills, chemical processing, refineries and paper mills	BFGoodrich
Coltec Specialty Products	Engineered PTFE products	Semiconductor, petro-chemical refining plants	Furon, EGC
Cefilac	Seals, gaskets and packings, metal o-rings and spiral wound gaskets	Chemical, power, petro-chemical refining plants	John Crane, Laddy
Helicoflex	Metal o-rings, spring loaded seals	Power generation, petro-chemical refining plants	Advanced Products

The more significant operating units in the Industrial Segment are discussed below.

Garlock Sealing Technologies. The Garlock Sealing Technologies division ("Garlock Sealing") produces and markets fluid sealing devices that prevent leakage and exclude contaminants from rotating and reciprocating machinery. Garlock Sealing produces seal joints for high temperatures and corrosive environment applications.

The newest Garlock Sealing products are positioned to meet current emission standards for valves, pumps and flanges. To assist customers in complying with more stringent global regulations for fugitive volatile organic compound emissions, Garlock Sealing has developed a variety of products using traditional and newly developed materials. Garlock Sealing products include compression packings, gaskets and gasketing materials, hydraulic, oil and mechanical seals, elastomeric expansion joints, industrial textiles, metallic gaskets and other specialized industrial products.

Sophisticated Garlock Sealing products protect equipment in industry applications where performance is vital to safety and environmental concerns. These applications include natural resource recovery, petroleum refining, chemicals, primary metals, food and pharmaceuticals, power generation, mining, pulp and paper, water and waste treatment, construction and transportation.

Fairbanks Morse Engine Division. The Fairbanks Morse Engine division ("Fairbanks Morse") manufactures a broad range of heavy-duty diesel engines. It has the capacity to provide diesel engines from 640 to 29,320 horsepower. In addition, Fairbanks Morse manufactures dual-fuel, gas and diesel engines ranging in size from four to 18 cylinders. Engines are offered in both conventional "V" and in-line, four-cycle versions as

well as in-line, two-cycle opposed-piston configurations. They are used for marine propulsion and marine power generation and in pump, compressor and electrical power generation applications. Fairbanks Morse also sells FM/ALCO(Registered) locomotive products throughout the world except in India where General Electric has retained rights to manufacture and sell such products.

Quincy Compressor. The Quincy Compressor division ("Quincy") manufactures a wide range of helical screw and reciprocating air compressors and vacuum pumps. Quincy products vary in size from one-third to 350 horsepower and are used in a variety of industrial applications, including industrial base load, pneumatic temperature and instrument control, diesel and gas engine starting, paint spraying and emergency standby service. Much of Quincy's business is in the highly competitive industrial and climate control compressor markets.

Garlock Bearings. Garlock Bearings produces specialized self-lubricating bearings, which consist of either steel or reinforced epoxy composite backings with non-metallic bearing surfaces of PTFE fibers or a mixture that includes PTFE. PTFE provides maintenance-free performance and reduced friction. Garlock Bearings' products typically perform as sleeve bearings or thrust washers under conditions of no lubrication, minimal lubrication or pre-lubrication.

Stemco. Stemco develops and manufactures unitized hub systems, hub oil seals, hubcaps, axle nuts and distance-measuring devices for medium and heavy-duty trucks.

Delavan Spray Technologies. The Delavan Spray Technologies division designs and manufactures atomizers for combustion and industrial applications and atomizers, pumps and accessories for agricultural, industrial and oil burner metering applications.

Haber Tool Company. Haber Tool manufactures cold-forging dies, tooling products, details, jigs, fixtures, precision machining.

Garlock Rubber Technologies. The Garlock Rubber Technologies division ("Garlock Rubber") manufactures high-quality rubber sheet products used for gasketing and other applications in steel mills, chemical processing, refineries and paper production, including conveyor belts. All of Garlock Rubber's products are consumable.

Coltec Specialty Products. The Coltec Specialty Products division manufactures PTFE fluid sealing products for the semiconductor industry and reprocesses PTFE compounds for the chemical and semiconductor industry.

Cefilac. Cefilac produces seals, gaskets and packings, metal o-rings and spiral-wound gaskets used in the chemical, power and refining industries.

Helicoflex. Helicoflex produces metal o-rings and spring-loaded seals and metal c-rings. Helicoflex sealing products are specifically designed for equipment and processes exposed to high temperatures, cryogenic temperatures, high pressures, vacuum conditions, radioactive environments or corrosive applications.

INTERNATIONAL OPERATIONS

Coltec's international operations, mainly in Canada and France, are conducted through foreign-based manufacturing or sales subsidiaries, or both, and include export sales of domestic divisions to unrelated foreign customers. Export sales of diesel engines are made either directly or through foreign representatives. Compressors are sold through foreign distributors. Certain products of the Industrial Segment are sold in foreign countries through sales representatives or sales agents.

Coltec's Canadian operations include the manufacture of landing gear systems and aircraft flight controls, the provision of repair and overhaul services for these systems and controls for Canadian and other customers and the manufacture of turbine components and turbine and compressor rotating parts primarily for aircraft gas turbine engines. The Canadian operations also manufacture and market seals, gasketing material, packings and truck products, and market parts for Fairbanks Morse diesel engines and accessories, and other products for use in Canada and other countries.

Coltec operates 18 plants in Canada, Mexico, France, the United Kingdom, Australia, Germany and Poland. In addition, Coltec occupies leased office and warehouse space in various foreign countries.

5

Devaluations or fluctuations relative to the United States dollar in the exchange rates of the currency of any country where Coltec has foreign operations could adversely affect the profitability of such operations in the future.

For financial information on operations by geographic segments, see note 17 of the Notes to Consolidated Financial Statements.

Coltec's contracts with foreign nations for delivery of military equipment, including components, are subject to deferral or cancellation by U.S. Government regulation or orders regulating sales of military equipment abroad. Any such action on the part of the U.S. Government could have an adverse effect on Coltec.

ACQUISITIONS AND DIVESTITURES

For a discussion of material acquisitions and divestitures by Coltec during the three-year period ended December 31, 1998, see note 2 of the Notes to Consolidated Financial Statements.

SALES BY CLASS OF PRODUCTS

During the last three fiscal years, landing gear systems was the only class of similar products that accounted for at least 10% of total Coltec sales. In 1998, 1997 and 1996, sales of landing gear systems constituted 22%, 18% and 15%, respectively, of Coltec's total sales.

BACKLOG

At December 31, 1998, Coltec's backlog of firm unfilled orders was \$922.0 million compared with \$875.6 million at December 31, 1997. Approximately \$276.6 million of the 1998 year-end backlog is scheduled to be shipped after 1999.

CONTRACT RISKS

Coltec, through its various operating units, primarily Menasco, Chandler Evans, Walbar and Delavan, produces products for manufacturers of commercial aircraft pursuant to contracts that generally call for deliveries at predetermined prices over varying periods of time and that provide for termination payments intended to compensate for certain costs incurred in the event of cancellation. In addition, certain commercial aviation contracts contain provisions for termination for convenience similar to those contained in U.S. Government contracts described below. Longer-term agreements normally provide for price adjustments intended to compensate for deferral of delivery depending upon market conditions.

A portion of the business of Coltec's Menasco, Chandler Evans, Walbar and Delavan divisions has been as a subcontractor and as a prime contractor in supplying products in connection with military programs. Substantially all of

Coltec's U.S. Government contracts are firm fixed-price contracts. Under firm fixed-price contracts, Coltec agrees to perform certain work for a fixed price and, accordingly, realizes all the benefit or detriment occasioned by decreased or increased costs of performing the contracts. From time to time, Coltec accepts fixed-price contracts for products that have not been previously developed. In such cases, Coltec is subject to the risk of delays and cost overruns. Under U.S. Government regulations, certain costs, including certain financing costs, portions of research and development costs, and certain marketing expenses related to the preparation of competitive bids and proposals, are not allowable. The U.S. Government also regulates the methods under which costs are allocated to U.S. Government contracts. With respect to U.S. Government contracts that are obtained pursuant to an open bid process and therefore result in a firm fixed price, the U.S. Government has no right to renegotiate any profits earned thereunder. In U.S. Government contracts where the price is negotiated at a fixed price rather than on a cost-plus basis, as long as the financial and pricing information supplied to the U.S. Government is current, accurate and complete, the U.S. Government similarly has no right to renegotiate any profits earned thereunder. If the U.S. Government later conducts an audit of the contractor and determines that such data was inaccurate or incomplete and that the contractor thereby made an excessive profit, the U.S. Government may take action to recoup the amount of such excessive profit, plus treble damages, and take other enforcement actions. U.S. Government contracts are, by their terms, subject to termination by the U.S. Government either for its convenience or for default of the contractor. Fixed-price type contracts provide for payment upon termination for items delivered to and accepted by the U.S. Government, and, if the termination is for convenience, for payment of the contractor's costs incurred plus the costs of settling and paying claims by

6

terminated subcontractors, other settlement expenses, and a reasonable profit on its costs incurred. However, if a contract termination is for default by the contractor (a) the contractor is paid such amount as may be agreed upon for completed and partially-completed products and services accepted by the U.S. Government, (b) the U.S. Government is not liable for the contractor's costs with respect to unaccepted items, and is entitled to repayment of advance payments and progress payments, if any, related to the terminated portions of the contracts, and (c) the contractor may be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source.

In addition to the right of the U.S. Government to terminate, U.S. Government contracts are conditioned upon the continuing availability of congressional appropriations. Congress usually appropriates funds on a fiscal-year basis even though contract performance may take many years. Consequently, at the outset of a major program, the contract is usually partially funded, and additional monies are normally committed to the contract by the procuring agency only as appropriations are made by Congress for future fiscal years.

CAPITAL EXPENDITURES

Capital expenditures were \$53.5 million in 1998 compared to \$81.2 million in 1997 and \$44.6 million in 1996, as Coltec continued to invest in capital improvements to increase efficiency, reduce costs, pursue new opportunities, expand product capacity and improve facilities. The level of capital expenditures has and will vary from year to year, affected by the timing of capital spending for production equipment for new products, periodic plant and facility expansion as well as cost reduction and labor efficiency programs. Capital expenditures during 1998 included amounts for enterprise resource planning systems at several divisions. Coltec estimates capital expenditures for 1999 to approximate \$55.0 million, including amounts for equipment purchases related to capacity expansions and upgrades.

RESEARCH AND PATENTS

Most divisions of Coltec maintain staffs of manufacturing and product engineers whose activities are directed at improving the products and processes of Coltec's operations. Manufactured and development products are subject to extensive tests at various divisional plants. Total research and development cost, including product development, was \$57.9 million for 1998, \$46.5 million for 1997 and \$44.1 million for 1996.

Coltec owns a number of United States and other patents and trademarks and has granted licenses under some of such trademarks. Management does not consider the business of Coltec as a whole to be materially dependent upon any patent, patent right or trademark.

YEAR 2000

For a discussion of Year 2000 issues as they relate to Coltec, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000."

EMPLOYEE RELATIONS

As of December 31, 1998, Coltec had approximately 9000 employees, of whom approximately 4,000 were salaried. Approximately 45% of the hourly employees are represented by unions for collective bargaining purposes. Three collective bargaining agreements covering approximately 150 employees will be negotiated during 1999. Union agreements relate, among other things, to wages, hours and conditions of employment, and the wages and benefits furnished are generally comparable to industry and area practices.

In 1998, two collective bargaining agreements covering approximately 500 hourly employees were renegotiated. Coltec considers the labor relations of Coltec to be satisfactory, although it has experienced work stoppages from time to time in the past.

Coltec is subject to extensive U.S. Government regulations with respect to many aspects of its employee relations, including increasingly important occupational health and safety and equal employment opportunity matters. Failure to comply with certain of these requirements could result in ineligibility to receive U.S. Government contracts. These conditions are common to the various industries in which Coltec participates and entail risks of financial and other exposure.

For litigation relating to labor and other matters, see Item 3. "Legal Proceedings--Other Litigation."

7

ENVIRONMENTAL MATTERS

Coltec's operations are subject to a variety of environmental laws. Coltec takes a proactive approach to comply with all environmental laws at its manufacturing operations and in proposing and implementing any remedial plans that may be necessary. Coltec is either in material compliance with all applicable regulations or is operating in accordance with the appropriate variances and compliance schedules or similar arrangements. Coltec has identified certain situations that will require future capital and non-capital expenditures to maintain or improve compliance with current environmental laws. The majority of the identified situations relate to remediation projects at former operating sites which have been sold or closed and primarily deal with soil and groundwater remediation.

Coltec has been notified that it is among potentially responsible parties under the environmental laws for the costs of investigating and, in some cases remediating, contamination by hazardous materials at several sites. Such laws can impose joint and several liability for the costs of investigating and

remediating properties contaminated by hazardous materials. Liability for these costs can be imposed on present and former owners or operators of the properties or on parties who generated the wastes that contributed to the contamination.

Coltec's policy is to accrue environmental remediation costs when it is both probable that a liability has been incurred and the amount can be reasonably estimated. The measurement of liability is based on an evaluation of currently available facts with respect to each individual situation and takes into consideration factors such as existing technology, presently enacted laws and regulations and prior experience in remediation of contaminated sites.

Investigations have been completed for approximately 21 sites and continuing investigations are being done at approximately 10 sites. Accruals are provided for all sites based on the factors discussed above. As assessments progress and remediation plans are implemented, estimated costs become more fact-based and less judgment-based. These estimated costs are reviewed periodically and related liabilities are adjusted to reflect additional technical and legal information.

Coltec currently estimates that its future non-capital expenditures related to environmental matters will range between \$26.0 million and \$55.0 million representing management's best estimate of probable non-capital expenditures. At December 31, 1998, Coltec had accrued \$34.3 million for expenditures which are estimated to be incurred over the next 10 to 20 years. In addition, capital expenditures aggregating \$5.0 million related to environmental matters may be required during the next two years. Although Coltec is pursuing insurance recovery in connection with certain of the underlying matters, no receivable has been recorded with respect to any potential recovery of costs in connection with any environmental matter. During 1998, costs associated with environmental remediation and ongoing assessment were not significant.

Actual costs to be incurred for identified situations in future periods may vary from estimates, given inherent uncertainties in evaluating environmental exposures due to unknown conditions, changing government regulations and legal standards regarding liability and evolving related technologies. Subject to the imprecision in estimating future environmental costs, Coltec believes that compliance with current environmental laws at its operations and cleanup projects, will not require significant capital expenditures or have a material adverse effect on its consolidated results of operations or financial position.

ITEM 2. PROPERTIES.

Coltec operates 64 manufacturing plants in 20 states in the U.S. and in Canada, Mexico, France, the United Kingdom, Australia, Germany and Poland. In addition, Coltec has other facilities throughout the United States and in various foreign countries, which include sales offices, repair and service facilities, light manufacturing and assembly facilities, administrative offices and warehouses.

8

Certain information with respect to Coltec's significant manufacturing plants that are owned in fee, all of which (other than the New York and Ontario facilities) are encumbered pursuant to a credit agreement and related security documents between Coltec and certain banks, is set forth below:

SEGMENT	LOCATION	APPROXIMATE NUMBER OF SQUARE FEET	APPROXIMATE ACREAGE
Aerospace.....	West Hartford, Connecticut (a)	549,800	71
	Euless, Texas	442,000	42
	Oakville, Ontario	287,000	14
	Mississauga, Ontario	141,000	7
Industrial.....	Palmyra, New York	682,000	137
	Beloit, Wisconsin	856,000	73
	Longview, Texas	205,000	43
	Quincy, IL	323,000	64

(a) Approximately 250,000 square feet are utilized by the Aerospace Segment with the balance leased to third parties.

In addition to the owned facilities, certain manufacturing activities are conducted within leased premises, the largest of which is in the Industrial Segment, located in Germany, and covers approximately 137,000 square feet. Some of these leases provide for options to purchase or to renew such leases.

Coltec's total manufacturing facilities presently being utilized aggregate approximately 4,885,800 square feet of floor area of which approximately 4,367,000 square feet of area are owned in fee and the balance is leased from third parties.

Coltec leases approximately 35,000 square feet at 3 Coliseum Centre, 2550 West Tyvola Road, Charlotte, North Carolina, for its executive offices, and has renewal options under such lease through 2010.

In the opinion of management, Coltec's principal properties, whether owned or leased, are suitable and adequate for the purposes for which they are used and are suitably maintained for such purposes. See Item 1, "Business--Environmental Matters" for a description of proceedings under applicable environmental laws regarding certain of Coltec's properties.

ITEM 3. LEGAL PROCEEDINGS.

ASBESTOS LITIGATION

As of December 31, 1998 and 1997, two subsidiaries of Coltec were among a number of defendants (typically 15 to 40) in approximately 101,400 and 110,000 actions, respectively (including approximately 4,700 and 2,400 actions, respectively, in advanced stages of processing), filed in various states by plaintiffs alleging injury or death as a result of exposure to asbestos fibers. During 1998, 1997 and 1996, these two subsidiaries of Coltec were named defendants in approximately 34,400, 38,200 and 39,900 new actions, respectively. Through December 31, 1998, approximately 244,000 of the approximately 345,400 total actions brought have been settled or otherwise disposed.

The damages claimed for personal injury or death vary from case to case and in many cases plaintiffs seek \$1 million or more in compensatory damages and \$2 million or more in punitive damages from an extensive list of defendants. Although the law in each state differs to some extent, it appears, based on advice of counsel, that liability for compensatory damages would be shared among all responsible defendants, thus limiting the potential monetary impact of such judgments on any individual defendant.

Following a decision of the Pennsylvania Supreme Court, in a case in which neither Coltec nor any of its subsidiaries were parties, that held insurance

carriers are obligated to cover asbestos-related bodily injury actions if any injury or disease process, from first exposure through manifestation, occurred during a covered policy period (the "continuous trigger theory of coverage"), Coltec settled litigation with its primary and most of its first-level excess insurance carriers, substantially on the basis of the Pennsylvania Supreme Court's ruling. Coltec has negotiated a final agreement with most of its excess carriers that are in the layers of coverage immediately

9

above its first layer. Coltec is currently receiving payments pursuant to this agreement. Coltec believes that, with respect to the remaining carriers, a final agreement can be achieved without litigation and on substantially the same basis that it has resolved the issues with its other carriers. Payments were made by Coltec with respect to asbestos liability and related costs aggregating \$53.7 million in 1998, \$59.2 million in 1997, and \$71.3 million in 1996, substantially all of which were covered by insurance. Settlements are generally made on a group basis with payments made to individual claimants over periods of one to four years. Related to payments not covered by insurance, Coltec recorded charges to operations amounting to \$8.0 million in 1998, 1997 and 1996. The average cost to the Company for unreimbursed expenses and liability per case disposed was approximately \$217 in 1998, \$253 in 1997 and \$404 in 1996.

In accordance with Coltec's internal procedures for the processing of asbestos product liability actions and due to the proximity to trial or settlement, certain outstanding actions have progressed to a stage where Coltec can reasonably estimate the cost to dispose of these actions. As of December 31, 1998, Coltec estimates that the aggregate remaining cost of the disposition of the settled actions for which payments remain to be made and actions in advanced stages of processing, including associated legal costs, is approximately \$116.5 million, and Coltec expects that this cost will be substantially covered by insurance.

With respect to the 96,700 outstanding actions as of December 31, 1998 which are in preliminary procedural stages, Coltec lacks sufficient information upon which judgments can be made as to the validity or ultimate disposition of such actions, thereby making it difficult to estimate with reasonable certainty the potential liability or costs to Coltec. The lawsuits are disposed of over a period of time ranging from one year to more than five years, with the majority being disposed of by the third year after filing. When asbestos actions are received they are typically forwarded to local counsel to ensure that the appropriate preliminary procedural response is taken. The complaints typically do not contain sufficient information to permit a reasonable evaluation as to their merits at the time of receipt, and in jurisdictions encompassing a majority of the outstanding actions, the practice has been that little or no discovery or other action is taken until several months prior to the date set for trial. Accordingly, Coltec generally does not have the information necessary to analyze the actions in sufficient detail to estimate the ultimate liability or costs to Coltec, if any, until the actions appear on a trial calendar. A determination to seek dismissal, to attempt to settle or to proceed to trial is typically not made prior to the receipt of such information.

Coltec believes that it will continue to receive some number of asbestos lawsuits into the foreseeable future. It is difficult, however, to predict the number of asbestos lawsuits that Coltec's subsidiaries will receive or the time frame in which they will be received. Coltec has noted that, with respect to recently settled actions or actions in advanced stages of processing, the mix of the injuries alleged and the mix of the occupations of the plaintiffs have been changing from those traditionally associated with Coltec's asbestos-related actions. Coltec is not able to determine with reasonable certainty whether this trend will continue. Based upon the foregoing, and due to the unique factors inherent in each of the actions, including the nature of the disease, the occupation of the plaintiff, the presence or absence of other possible causes of a plaintiff's illness, the availability of legal defenses, such as the statute

of limitations or state of the art, the jurisdiction in which a lawsuit is filed, the pendency of tort reform and whether the lawsuit is an individual one or part of a group, management is unable to estimate with reasonable certainty the cost of disposing of outstanding actions in preliminary procedural stages or of actions that may be filed in the future. However, Coltec believes that its subsidiaries are in a favorable position compared to many other defendants because, among other things, the asbestos fibers in its asbestos-containing products were encapsulated. Subsidiaries of Coltec continue to distribute encapsulated asbestos-bearing product in the United States with annual sales of less than \$1.5 million. All sales are accompanied by appropriate warnings. The end users of such product are sophisticated users, who utilize the product for critical applications where no known substitutes exist or have been approved.

Insurance coverage of a small non-operating subsidiary formerly distributing asbestos-bearing products is nearly depleted. Considering the foregoing, as well as the experience of Coltec's subsidiaries and other defendants, and given the substantial amount of other insurance coverage that Coltec expects to be available from its solvent carriers to cover the majority of its exposure, Coltec believes that pending and reasonably anticipated future actions are not likely to have a materially adverse effect on Coltec's consolidated results of operations or financial condition. Although the insurance coverage which Coltec has is substantial, it should be noted that insurance coverage for asbestos claims is not available to cover exposures initially occurring on and after July 1,

10

1984. Coltec's subsidiaries continue to be named as defendants in new cases, some of which allege initial exposure after July 1, 1984.

In addition to claims for personal injury, Coltec's subsidiaries have been involved in an insignificant number of property damage claims based upon asbestos-containing materials found in schools, public facilities and private commercial buildings. Based upon the proceedings to date, the overwhelming majority of these claims have been resolved without a material adverse impact on Coltec. Likewise, the insignificant number of claims remaining to be resolved are not expected to have a materially adverse effect on Coltec's consolidated results of operations or financial condition.

Coltec has recorded an accrual for its liabilities for asbestos-related matters that are deemed probable and can be reasonably estimated (settled actions and actions in advanced states of processing), and has separately recorded an asset equal to the amount of such liabilities that is expected to be recovered by insurance. In addition, Coltec has recorded a receivable for that portion of payments previously made for asbestos product liability actions and related litigation costs that is recoverable from its insurance carriers. Liabilities for asbestos-related matters and the receivable from insurance carriers included in the Consolidated Balance Sheets were as follows at December 31, 1998 and 1997 (in thousands):

	1998	1997
	-----	-----
Accounts and notes receivable.....	\$ 95,448	\$ 56,039
Other assets.....	32,577	16,249
Accrued expenses.....	93,700	50,688
Other liabilities.....	22,833	2,682

THE ALLIEDSIGNAL LITIGATION

On February 26, 1999, AlliedSignal, Inc. filed a lawsuit in the U.S.

District Court for the Northern District of Indiana against BFGoodrich, Coltec and Menasco Aerospace Ltd., a separately incorporated entity of Coltec conducting Coltec's landing gear business in Ontario, Canada. In its complaint, AlliedSignal alleges that the merger between BFGoodrich and Coltec would violate a long-term strategic alliance agreement between AlliedSignal and Coltec dated June 30, 1995. AlliedSignal further alleges that the merger would violate U.S. antitrust laws.

In its complaint, AlliedSignal contends that the strategic alliance agreement requires Coltec/Menasco and AlliedSignal, for a period of ten years, to notify the other party of any request for a bid or contract for an aircraft landing gear system, to jointly develop proposals for any bid or contract requests, and, if either party is named as a landing systems integrator, to attempt to purchase components from the other party. Specifically, AlliedSignal alleges that, by their actions in connection with the proposed merger with BFGoodrich, Coltec and Menasco have breached and/or anticipatorily breached provisions of the strategic alliance agreement relating to non-competition, non-assignment and proprietary information. AlliedSignal has commenced an arbitration proceeding to adjudicate its contract claim and, in this complaint, seeks preliminary injunction of the merger pending the final resolution of the arbitration.

In its antitrust claim, AlliedSignal alleges that the merger between BFGoodrich and Coltec may violate antitrust laws by lessening competition in the markets for landing gear structures, integrated landing gear systems and wheels and brakes and by lessening competition in innovation. AlliedSignal requests that the court permanently enjoin the merger between BFGoodrich and Coltec and Menasco and permanently enjoin BFGoodrich from acquiring any direct or indirect interest in either Coltec or Menasco. AlliedSignal's complaint also requests the court to award AlliedSignal costs and reasonable attorneys' fees in connection with its complaint.

On March 15, 1999, the State of Indiana filed a motion to intervene in the lawsuit filed by AlliedSignal. This motion to intervene relates only to AlliedSignal's claim that the merger between BFGoodrich and Coltec violates antitrust law.

Coltec intends to vigorously defend the lawsuit filed by AlliedSignal; however, the lawsuit and the motion to intervene could delay or prevent the merger.

11

OTHER LITIGATION

In September 1983, the local employees' union at Menasco Canada Ltee. (now Coltec Aerospace Canada Ltd.) ("Menasco Canada"), a federation of trade unions and several member-employees filed a complaint in the Province of Quebec Superior Court against Menasco Canada, alleging, among other things, an illegal lock-out, failure to negotiate in good faith, interference with the affairs of the union and various violations of local law. The plaintiffs are collectively seeking approximately Cdn. \$14.0 million in damages, and Menasco Canada has filed a cross-claim for Cdn. \$21.0 million and has closed its operations in Quebec Province. Coltec does not believe that this action will have a material adverse effect on Coltec's consolidated results of operations or financial condition.

On September 24, 1986, approximately 150 former salaried employees of Crucible Inc (a former subsidiary of Coltec) commenced an action claiming benefits under a corporate employment policy that had been established in 1962 and was terminated in 1972 by Coltec's Board of Directors. (George W. Henglein, et al. v. Colt Industries Operating Corporation Informal Plan for Plant Shutdown Benefits for Salaried Employees, et al., U.S. District Court for the Western District of Pennsylvania, 86-cv-2021). Plaintiffs alleged that the policy

continued after the Board of Directors' action by reason of Coltec's failure to notify them of elimination of the employment policy. As a result of that failure to notify, the policy was converted into a welfare or pension benefit plan upon the passage of the Employee Retirement Income Security Act in 1974. Based upon the occurrence of this conversion, the plaintiffs were entitled to benefits in 1982 when the Crucible Inc operations in Midland, Pennsylvania closed.

Following a non-jury trial in the U.S. District Court for the Western District of Pennsylvania, Coltec's motion to dismiss was granted and the plaintiffs appealed. The U.S. Court of Appeals for the Third Circuit remanded the case to the District Court directing it to make specific findings of fact and conclusions of law and also found for Coltec on the jurisdiction of the District Court. Coltec again moved for dismissal and again its motion to dismiss was granted by the District Court. This second decision of the District Court was appealed to the Court of Appeals and the case was again remanded to the District Court for additional findings as to the application of the law. On February 10, 1994, the District Court for the third time dismissed the plaintiffs' complaint and the plaintiffs appealed to the Court of Appeals. On September 26, 1994, the Third Circuit Court of Appeals for the third time remanded the case to the District Court. The Court of Appeals held the record established by plaintiffs in the District Court was insufficient so as to allow the Court of Appeals the ability to apply the appropriate legal standard. On November 4, 1994 the Court of Appeals denied Coltec's request for a rehearing. Coltec petitioned the U.S. Supreme Court for a writ of certiorari; its petition was denied in 1995. Coltec again moved for dismissal before the District Court based upon the holding of the Court of Appeals that plaintiffs had failed to establish their case at trial. The District Court denied the motion and sua sponte ordered a new trial de novo. A trial was held during July 1996 with both parties introducing evidence. A decision was rendered in 1997 finding the existence of an informal plan. The District Court remanded to the administrator of Coltec's employee benefit plans the duties of calculating the benefits due to those plaintiffs entitled.

The District Court held that all but six of the named plaintiffs' claims were time barred. Both Coltec and plaintiffs filed timely notices of appeal. Notwithstanding its filing of a notice of appeal, defendant has claimed and so notified the Court of Appeals that it was of the opinion that the District Court's order was not final and thus not now appealable. In December 1997, plaintiffs concurred with Coltec's position. Coltec does not believe that this action will have a material adverse effect on Coltec's consolidated results of operations or financial condition.

In addition to the litigation described above, there are various pending legal proceedings involving Coltec which are routine in nature and incidental to the business of Coltec. Coltec does not believe that these proceedings will have a material adverse effect on Coltec's consolidated results of operations or financial condition.

The U.S. Government conducts investigations into procurement of defense contracts as a part of a continuing process. Under current federal law, if such investigations establish the existence of improper activities, among other matters, debarment or suspension of a company from participating in the procurement of defense contracts could result. These conditions are common to the aerospace and government industries in which Coltec participates and entail the risk of financial and other exposure. See Item 1. "Business--Contract

12

Risks." Coltec is not aware of any such investigation, nor is Coltec aware of any facts which, if known to investigators, might prompt any investigation.

PRODUCT LIABILITY INSURANCE

Coltec has product liability insurance coverage for liabilities arising

from aircraft products which management believes to be adequate. In addition, with respect to other products (exclusive of liability for exposure to asbestos products), Coltec has product liability insurance in amounts exceeding \$2.5 million per occurrence, which management believes to be adequate.

Coltec is self-insured (for claims arising after July 1984) with respect to liability for exposure to asbestos products since third party insurance became unavailable in July 1984.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

13

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET PRICE AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Coltec's common stock (symbol COT) is listed on the New York Stock Exchange and the Pacific Exchange. The high and low sales prices of Coltec's common stock as reported on the New York Stock Exchange for each calendar quarter during 1998 and 1997 were as follows:

	1998		1997	
	HIGH	LOW	HIGH	LOW
First quarter.....	26 9/16	21 5/8	20 15/16	17 3/4
Second quarter.....	25 7/16	18 9/16	23	18 3/8
Third quarter.....	21 5/8	14 1/8	24	20
Fourth quarter.....	20 1/2	13	24 13/16	19 1/2

At December 31, 1998, there were 564 shareholders of record. Coltec paid no dividends on its common stock in 1998 or 1997 and no dividends are expected to be paid by Coltec on its common stock in 1999. Payment of dividends by Coltec is restricted by the terms of the credit agreement dated as of March 24, 1992, as amended and restated as of December 18, 1996 (the "Credit Agreement"), among Coltec, certain of its subsidiaries and various financial institutions. The Credit Agreement prohibits Coltec from authorizing, declaring or paying any dividends (other than, among other things, distributions on Coltec common stock or on the convertible preferred securities issued by Coltec Capital Trust) or repurchasing Coltec common stock or such convertible preferred securities, except, in any fiscal year, subject to certain limitations, Coltec may pay dividends or repurchase Coltec common stock or such convertible preferred securities in an amount equal to the greater of \$7.5 million or 30% of Consolidated Net Income (as defined in the Credit Agreement) for the preceding fiscal year.

RECENT SALES OF UNREGISTERED SECURITIES.

- (i) In April 1998, Coltec issued \$300,000,000 in aggregate principal amount of its 7 1/2% Senior Notes due 2008 (the "Senior Notes"). All of the Senior Notes were sold by Coltec in transactions exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), to Credit Suisse First Boston Corporation, BT Alex. Brown Incorporated, BancAmerica Robertson Stephens and NationsBanc

Montgomery Securities LLC (the "initial note purchasers") in reliance on Section 4(2) of the Securities Act and Regulation D under the Securities Act. All of the Senior Notes were simultaneously sold by the initial note purchasers in transactions exempt from the registration requirements of the Securities Act to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. The aggregate initial offering price for the Senior Notes was \$299,541,000 and the aggregate discount to the initial note purchasers was \$6,000,000.

- (ii) In April 1998, Coltec Capital Trust issued 3,000,000 of its 5 1/4% Convertible Preferred Securities, Term Income Deferrable Equity Securities (TIDES)SM* (the "Convertible Preferred Securities") with a stated value and liquidation preference of \$50 per share. Coltec owns all of the outstanding common securities of Coltec Capital Trust. Each Convertible Preferred Security is convertible, at the option of the holder, into 1.7058 shares of Coltec common stock, subject to certain adjustments. All of the Convertible Preferred Securities were initially sold by Coltec Capital Trust in transactions exempt from the registration requirements of the Securities Act to Credit Suisse First Boston Corporation, Lehman Brothers Inc. and CIBC Oppenheimer Corp. (the "initial purchasers") in reliance on Section 4(2) of the Securities Act and Regulation D under the Securities Act. The Convertible Preferred Securities were simultaneously sold by the initial purchasers in transactions exempt from the registration requirements of the Securities Act to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to a limited number of institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) in reliance on Section 4(1) of the Securities Act. The aggregate initial offering price for the Convertible Preferred Securities was \$150,000,000. Coltec paid the initial

14

purchasers an aggregate fee of \$4,140,000 as compensation for arranging the investment of the proceeds from the sale of the Convertible Preferred Securities.

*The terms Term Income Deferrable Equity Securities (TIDES)SM and TIDESSM are registered servicemarks of Credit Suisse First Boston Corporation.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected consolidated financial data of Coltec and subsidiaries for the five years ended December 31, 1998.

COLTEC INDUSTRIES INC SELECTED CONSOLIDATED FINANCIAL DATA

Statement of Earnings Data:	YEARS ENDED DECEMBER 31,				
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)				
	1998	1997	1996	1995	1994
Net sales.....	\$1,504.1	\$1,314.9	\$1,159.7	\$1,099.6	\$1,000.2
Operating income (a).....	188.1	197.8	157.6	142.0	165.2
Interest expense, net.....	53.4	54.0	74.9	89.9	89.5
Gain on divestiture.....	56.2	--	--	--	--
Income taxes.....	(64.9)	(48.9)	(28.1)	(17.6)	(27.2)
Minority interest in net loss of subsidiary (net of tax).....	3.7	--	--	--	--
Earnings from continuing operations before extraordinary item (a).....	122.3	94.9	54.6	34.5	48.5
Discontinued operations (b).....	--	--	57.1	36.7	45.5
Extraordinary item (net of tax) (c).....	(4.3)	--	(30.6)	(.3)	(1.5)
Net earnings.....	\$ 118.0	\$ 94.9	\$ 81.1	\$ 70.9	\$ 92.5
Earnings per common share: (d)					
Before extraordinary item.....	\$ 1.81	\$ 1.42	\$.79	\$.49	\$.70
Discontinued operations.....	--	--	.82	.53	.65
Extraordinary item.....	(.06)	--	(.44)	--	(.02)
Net earnings.....	\$ 1.75	\$ 1.42	\$ 1.17	\$ 1.02	\$ 1.33
Balance Sheet Data (At End of Period):					
Working capital.....	\$ 169.2	\$ 187.9	\$ 215.6	\$ 208.9	\$ 189.6
Total assets.....	1,055.6	933.0	849.5	894.5	847.5
Total debt.....	582.6	759.4	720.3	945.8	970.1
Convertible Preferred Securities (f).....	145.3	--	--	--	--
Shareholders' equity.....	(300.3)	(359.2)	(417.0)	(453.8)	(525.6)
Other Operating Data:					
Operating margin (a).....	12.5%	15.0%	13.6%	12.9%	16.5%
Cash provided by operating activities.....	\$ 142.3	\$ 61.4	\$ 49.5	\$ 91.0	\$ 98.2
Capital expenditures.....	53.5	81.2	44.6	42.5	38.2
Depreciation of property, plant and equipment.....	34.0	29.7	27.0	26.8	25.3
Ratio of earnings to fixed charges (e).....	4.0	3.5	2.1	1.6	1.8
Order backlog (at end of period).....	922.0	875.6	678.3	657.1	594.2
Number of employees (at end of period).....	8,820	9,072	8,153	8,213	8,387

(Footnotes on next page)

15

(Footnotes from previous page)

(a) Operating income for 1998 included charges of \$42.0 million as follows: \$25.0 million to recognize program costs during the ramp-up of the Boeing 777 program and a \$2.0 million expense for training costs and Year 2000 compliance for new computer systems in the Aerospace Segment; and \$12.0 million to record additional warranty and legal reserves and \$3.0 million expense for training costs and Year 2000 compliance for new computer systems in the Industrial Segment. Operating income for 1996 included a charge of \$14.2 million related to the bankruptcy of a major aerospace customer (Fokker). Operating income for 1995 included a special charge of \$27.0 million primarily to cover the costs of closing the Walbar compressor blade facility in Canada. The charge also covered selected workforce reductions throughout Coltec.

(b) See note 2 to consolidated financial statements.

(c) See note 3 to consolidated financial statements.

(d) Represents diluted earnings per common share. See note 5 to consolidated

financial statements.

(e) For purposes of calculating the ratio of earnings to fixed charges, earnings are determined by adding fixed charges (excluding capitalized interest) and income taxes to earnings from continuing operations before extraordinary item. Fixed charges consist of interest expense, capitalized interest and that portion of rental expense deemed to be representative of the interest factor.

(f) See note 12 to consolidated financial statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The financial review that follows is based on continuing operations, excluding the impact of the 1996 discontinued operations discussed in note 2 to consolidated financial statements, and Coltec's two operating segments, Aerospace and Industrial. Earnings per share information represents diluted earnings per common share (see note 5 to consolidated financial statements). The following discussion of operating results has been structured to provide an analysis from the perspective of Coltec as a whole, followed by a more detailed analysis for each operating segment. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, effective December 31, 1998. The Company's 1998 reportable segments under SFAS No. 131 are the same as segments previously reported in 1997 and 1996. The following are the major products in each operating segment:

Aerospace: Menasco landing gear and flight control actuation systems; Walbar blades, vanes and discs for jet and other gas turbine engines; Chandler Evans fuel pumps and control systems; Delavan gas turbine products; Lewis Engineering cockpit instrumentation and sensors; AMI flight attendant seats.

Industrial: Garlock seals, gaskets, packings, bearings, valves and tape; FM Engine large diesel and dual-fuel engines; Quincy air compressors; Delavan spray nozzles; France compressor products; Haber dies; Ortman Fluid Power cylinders.

PROPOSED MERGER WITH THE B. F. GOODRICH COMPANY

On November 22, 1998, Coltec, BFGoodrich and a wholly owned subsidiary of BFGoodrich entered into an agreement and plan of merger. Under the terms of the merger agreement, this wholly owned subsidiary of BFGoodrich will merge with and into Coltec, with Coltec as the surviving corporation in the merger. Upon completion of the merger, each share of Coltec common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.56 of a share of BFGoodrich common stock. The merger is expected to be accounted for as a pooling of interests. The merger agreement has been approved by the boards of directors of both companies. Completion of the merger is subject to certain customary conditions, including, among others, approval of the merger agreement by the shareholders of both companies and the receipt of regulatory approvals. A special meeting of the shareholders of Coltec has been scheduled for April 9, 1999 at which the Coltec shareholders will consider and vote upon a proposal to approve and adopt the merger agreement.

16

SEGMENT INFORMATION

The following table shows financial information by reportable segment for the five years ended December 31, 1998.

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(DOLLARS IN MILLIONS)				
Net sales:					
Aerospace.....	\$ 724.8	\$ 558.3	\$ 433.5	\$ 378.3	\$ 339.2
Industrial.....	780.5	757.6	726.9	722.6	662.7
Intersegment elimination(a).....	(1.2)	(1.0)	(.7)	(1.3)	(1.7)
Total.....	\$1,504.1	\$1,314.9	\$1,159.7	\$1,099.6	\$1,000.2
Operating income:					
Aerospace.....	\$ 90.1 (f)	\$ 97.7 (e)	\$ 51.6 (d)	\$ 32.4 (c)	\$ 51.0
Industrial.....	135.5 (f)	139.8 (e)	147.1	146.6	145.4
Total segments.....	225.6	237.5	198.7	179.0	196.4
Corporate unallocated(b).....	(37.5)	(39.7)	(41.1)	(37.0) (c)	(31.2)
Total.....	\$ 188.1 (f)	\$ 197.8 (e)	\$ 157.6 (d)	\$ 142.0 (c)	\$ 165.2
Operating margin:					
Aerospace.....	12.4%	17.5%	11.9%	8.6%	15.0%
Industrial.....	17.4	18.5	20.2	20.3	21.9
Total.....	12.5%	15.0%	13.6%	12.9%	16.5%
Return on total assets:(g)					
Aerospace.....	20.1%	22.3%	12.4%	8.3%	14.3%
Industrial.....	37.1	45.0	51.2	49.1	53.3
Total.....	17.8%	21.2%	18.5%	15.9%	19.5%
Backlog:(h)					
Aerospace.....	\$ 792.2	\$ 734.3	\$ 560.7	\$ 538.0	\$ 445.7
Industrial.....	129.8	142.0	117.8	119.5	148.5
Intersegment elimination.....	--	(.7)	(.2)	(.4)	--
Total.....	\$ 922.0	\$ 875.6	\$ 678.3	\$ 657.1	\$ 594.2

(a) Reflects elimination of intercompany sales between divisions in different segments.

(b) Represents corporate selling and administrative expense, including other income and expense that is not allocable to individual industry segments.

(c) Operating income for 1995 included a special charge of \$27.0 million as follows: \$23.4 million in the Aerospace Segment and \$3.6 million in Corporate Unallocated. Excluding the special charge, operating income, operating margin and return on total assets for 1995 would have been \$55.8 million, 14.7% and 13.4%, respectively, for Aerospace.

(d) Operating income for 1996 included a charge of \$14.2 million related to the bankruptcy of a major aerospace customer (Fokker). Excluding this charge, operating income, operating margin and return on total assets for 1996 would have been \$65.8 million, 15.2% and 18.1%, respectively, for Aerospace and \$171.8 million, 15.9% and 22.0%, respectively, for Coltec.

(e) Operating income for 1997 included a special charge of \$10.0 million for the restructuring of its Industrial Segment. In 1997 the remaining \$10.0 million accrual for the 1995 special charge related to the Aerospace Segment was reversed.

(Footnotes continued on next page)

(Footnotes continued from previous page)

- (f) Operating income for 1998 included charges of \$42.0 million as follows: \$25.0 million to recognize program costs during the ramp-up of the Boeing 777 program and a \$2.0 million expense for training costs and Year 2000 compliance for new computer systems in the Aerospace Segment; and \$12.0 million to record additional warranty and legal reserves and \$3.0 million expense for training costs and Year 2000 compliance for new computer systems in the Industrial Segment. Excluding these charges operating income, operating margin and return on assets for 1998 would have been \$117.1 million, 16.2% and 26.1%, respectively, for Aerospace, \$150.5 million, 19.3% and 41.2%, respectively, for Industrial and \$230.1 million, 15.3% and 21.8%, respectively, for Coltec.
- (g) Return on total assets is calculated for each segment by dividing annualized segment operating income by segment total assets at end of applicable period, and for Coltec by dividing Coltec's annualized operating income by total assets at end of applicable period.
- (h) Of the \$922.0 million backlog at December 31, 1998, \$276.6 million was scheduled to be shipped after 1999.

RESULTS OF OPERATIONS--1998 COMPARED TO 1997

Company Review

Net sales for 1998 increased 14.4% to \$1.50 billion from \$1.31 billion for 1997 as a result of continued sales increases in the Aerospace Segment. Gross profit increased slightly to \$423.3 million for 1998 from \$416.6 million for 1997. Gross profit in 1998 was unfavorably affected by a charge of \$25.0 million to recognize program costs associated with the development of Boeing programs and a charge of \$12.0 million to record additional warranty and legal reserves. Excluding these charges, gross profit was \$460.3 million for 1998 resulting in a 30.6% gross profit margin as compared to 31.7% in 1997. Although selling and administrative expenses totaled \$235.2 million for 1998 (\$230.2 million excluding a \$5.0 million expense for Year 2000 compliance for new and existing computer systems) compared to \$218.8 million for 1997, selling and administrative expenses decreased as a percentage of sales, 15.6% for 1998 (15.3% excluding Year 2000 expense) as compared to 16.6% for 1997.

In the second quarter of 1998, Coltec performed a study of total revenue and costs for certain commercial aircraft programs. This study was performed on the Boeing 777 as the program reached its 200th shipset milestone. Based on this study which considered recent market conditions including normal market uncertainties related to shipping schedules beyond five years and expected future program efficiencies and related costs, Coltec's revised its total estimated revenue and costs for the Boeing 777 program. In accordance with the Coltec's accounting policy for commercial jet aircraft, Coltec reduced inventory by \$25.0 million, which resulted in a charge of \$25.0 million to current operations in 1998.

Also in the second quarter of 1998, Coltec recorded a \$12.0 million charge to establish additional warranty and legal reserves for claims and outstanding cases. Based on first time production of commercial engine applications, warranty claims escalated during the first six months of 1998. Based on the liability for individual claims and cases being probable and estimable, Coltec recorded a liability for these cases. In the last six months of 1998, two warranty claims were settled for a total of \$4.6 million. None of the remaining claims or cases is expected to be individually material to Coltec's consolidated financial position or results of operations.

In the second quarter of 1998, selling and administrative expenses included expenses of \$5.0 million for Year 2000 compliance. After reviewing costs

incurred for new computer systems scheduled to start up in the second quarter of 1998, Coltec determined that approximately \$5.0 million of such costs related to items that should be expensed. These expenses primarily included certain consulting fees, software maintenance fees and training and travel costs.

Operating income decreased to \$188.1 million for 1998 from \$197.8 million for 1997 as a result of \$42.0 million of charges in the second quarter of 1998. Operating margin for 1998 was 12.5% (15.3% excluding \$42.0 million of charges) compared to 15.0% for 1997.

18

In May 1998, Coltec sold the capital stock of its Holley Performance Products subsidiary to Kohlberg & Co., L.L.C., a private merchant-banking firm, for \$100 million in cash. The sale resulted in a pre-tax gain of \$56.2 million, net of liabilities retained.

Interest expense decreased slightly to \$53.4 million in 1998 from \$54.0 million for 1997. The effective tax rate was 34.0% in 1998 and 1997.

In April 1998, Coltec privately placed \$300.0 million principal amount of Senior Notes and \$150.0 million liquidation value of Convertible Preferred Securities. The proceeds from the Senior Notes and Convertible Preferred Securities were used to reduce Coltec's indebtedness under its credit agreement. Distributions on the Convertible Preferred Securities were \$3.7 million after-tax in 1998, which are classified as minority interest in net loss of subsidiaries in Coltec's consolidated statements of earnings.

As a result of the foregoing, earnings before extraordinary item for 1998 were \$122.3 million as compared to \$94.9 million in 1997. Coltec incurred an extraordinary charge of \$4.3 million, net of taxes, or \$.06 per share in 1998 in connection with early debt repayment. Net earnings were \$118.0 million in 1998, or \$1.75 per share (diluted), compared to net earnings of \$94.9 million, or \$1.42 per share (diluted), in 1997.

Segment Review--Aerospace

Sales in 1998 for the Aerospace Segment totaled \$724.8 million, increasing 29.8% from \$558.3 million in 1997. At Menasco, sales increased by \$89.0 million in 1998 as compared to 1997 due to rising commercial aircraft production. Menasco deliveries of main landing gear systems for the Boeing 737 increased from 196 shipsets in 1997 to 272 in 1998. Higher sales for Menasco also reflected increased shipments of fully integrated landing gear systems. Sales increases in 1998 were also driven by higher sales volumes of the engine components businesses primarily as a result of increased original equipment sales. The acquisition of AMI in June 1997 was a significant contributor to the increase in sales for 1998.

Operating income for the Aerospace Segment for 1998 was \$90.1 million (\$117.1 million excluding 1998 charges totaling \$27.0 million (\$25.0 million to recognize program costs associated with development of Boeing programs and \$2.0 million for Year 2000 compliance for new computer systems) as compared to \$97.7 million for 1997. The increase, excluding charges, was also driven by generally higher sales volumes throughout the Aerospace Segment. Operating margins increased to 16.2% in 1998, excluding charges, from 15.7% in 1997 primarily due to increased production to absorb fixed costs and productivity initiatives.

Segment Review--Industrial

Industrial sales increased slightly to \$780.5 million in 1998, from \$757.6 in 1997. Sales were unfavorably impacted by the divestiture of Holley Performance Products, the effect of which was offset by Coltec's first quarter acquisitions. Continued economic weakness in Asia and South America and slower growth in key markets including pulp and paper, chemical, refining and steel,

adversely affected industrial sales growth. As a result, Coltec's industrial businesses experienced modest sales increases, except for Delavan Spray Technologies which had a decrease in 1998 sales due to its relocation in late 1997.

Operating income for the Industrial Segment was \$135.5 million in 1998 compared to \$139.8 million in 1997. Operating income in 1998 included charges of \$12.0 million to record additional warranty and legal reserves and \$3.0 million for Year 2000 compliance for new computer systems. Excluding these charges, the Industrial Segment operating income increased slightly to \$150.5 million for 1998. Operating margin excluding the second quarter charges decreased slightly from prior periods due to lower operating margins on the 1998 acquisitions, although such acquisitions were accretive.

Acquisitions and Divestitures

In January 1998, Coltec acquired Marine & Petroleum Mfg., Inc.'s ("M&P") manufacturing facilities based in Texas for approximately \$17.0 million and Tex-o-Lon and Repro-Lon for approximately \$25.0 million. The M&P facilities produce flexible graphite and PTFE fluid sealing products used in the petrochemical industry. Tex-o-Lon manufactures, machines and distributes PTFE products, primarily for the semiconductor industry. Repro-Lon reprocesses PTFE compounds for the chemical and semiconductor industries. These acquisitions were

19

combined into one division, Coltec Specialty Products, and are included in Coltec's Industrial Segment. The acquisitions were accounted for as purchases; accordingly, the purchase price, which was financed through available cash resources, was allocated to the acquired assets based upon their fair market values. The \$31.7 million excess of the purchase price over net assets is being amortized over 25 years.

In February 1998, Coltec purchased for \$45.6 million the Sealing Division of Groupe Carbone Lorraine, which was segregated into two divisions within the Company's Industrial Segment. Cefilac, based in Saint Etienne and Montbrison, France, produces seals, gaskets and packings, metal o-rings and spiral-wound gaskets used in the chemical, power and refining industries. Helicoflex based in Columbia, South Carolina, produces metal o-rings and spring-loaded seals and metal c-rings. Helicoflex sealing products are specifically designed for equipment and processes exposed to high temperatures, cryogenic temperatures, high pressures, vacuum conditions, radioactive environments or corrosive applications. This acquisition was accounted for as a purchase and the purchase price, also financed through available cash resources, was allocated to the acquired assets based upon their fair market values. The \$25.0 million excess of the purchase price over net assets is being amortized over 25 years.

In August 1998, Coltec acquired from Federal-Mogul Corporation the 20% of Garlock Bearings that it did not previously own for approximately \$12.0 million. Garlock Bearings is a producer of self-lubricating bearings.

In June 1997, Coltec acquired the assets of AMI, a Colorado-based manufacturer of flight attendant and cockpit seats for commercial aircraft, for approximately \$25.0 million. The purchase agreement also includes contingent payments based on earning levels for the years ended December 31, 1997-2000. These contingent payments will be recorded as additional purchase price and amortized over the remaining life of goodwill. For financial statement purposes, the acquisition was accounted for as a purchase and, accordingly, AMI's results are included in Coltec's consolidated financial statements since the date of acquisition. The purchase price, which was financed through available cash resources, has been allocated to the acquired assets based upon their fair market values. The \$12.2 million excess of the purchase price over net assets is being amortized over 25 years.

In October 1997, Coltec acquired the assets of the sheet rubber and conveyor belt business of Dana Corporation's Boston Weatherhead division for \$28.0 million. The acquisition was accounted for as a purchase and its results are included in Coltec's consolidated financial statements since the date of acquisition. The purchase price, which was also financed through available cash resources, has been allocated to the acquired assets based upon their fair market values. The \$6.9 million excess of the purchase price over net assets is being amortized over 25 years.

The impact of these acquisitions was not material in relation to Coltec's consolidated results of operations or financial position. Consequently, pro forma information is not presented. Coltec also had several small acquisitions during 1998 and 1997, which were not material to Coltec's consolidated results of operations or financial position.

In May 1998, Coltec sold the capital stock of its Holley Performance Products subsidiary to Kohlberg & Co., L.L.C., a private merchant banking firm, for \$100 million in cash. The sale resulted in a pre-tax gain of \$56.2 million, net of liabilities retained. The proceeds from this divestiture were applied toward reducing debt. In 1997, Holley had gross revenues and operating income of approximately \$99.0 million and \$8.0 million, respectively.

RESULTS OF OPERATIONS--1997 COMPARED TO 1996

Company Review

Net sales for 1997 increased 12.9% to \$1.31 billion from \$1.16 billion in 1996 primarily driven by increases in the Aerospace Segment. Gross profit increased to \$416.6 million in 1997 from \$348.6 million in 1996. In 1997 gross profit margin increased to 31.7% from 30.1% in 1996, primarily as a result of the 1996 bankruptcy of Fokker, a major aerospace customer. Selling and administrative expenses totaled \$218.8 million, or 16.6%, of sales in 1997 compared to \$191.0 million, or 16.5%, of sales (15.9% excluding the Fokker impact) in 1996. The increase resulted from costs associated with expanding Coltec's businesses, both domestically and internationally.

20

Operating income amounted to \$197.8 million in 1997 compared to \$157.6 million for 1996. The 1996 amount includes the effect of the \$14.2 million charge related to the bankruptcy of Fokker. Operating margin for 1997 was 15.0% and was 13.6% (14.8% excluding the effect of the charge related to Fokker) for 1996.

Interest expense decreased 27.8% from \$74.9 million in 1996 to \$54.0 million in 1997 as a result of lower interest rates primarily from refinancing high-cost, fixed-rate debt with lower-cost, variable-rate bank debt, and a full year impact of applying a substantial portion of the proceeds from the 1996 second quarter sale of Coltec's automotive original equipment ("OE") components operations to debt reduction.

The effective tax rate was 34.0% in 1997 and 1996.

The 1996 results of discontinued operations reflect the aforementioned 1996 second quarter sale of the automotive OE components operations as well as the 1996 fourth quarter sale of Farnam Sealing Systems. Note 2 to the consolidated financial statements describes these transactions.

The 1996 extraordinary charge of \$30.6 million relates to the refinancing of high-cost, fixed-rate debt with lower-cost, variable-rate bank debt. In January and December 1996, Coltec redeemed \$605.8 million of such high-cost debt.

Net earnings and earnings from continuing operations were \$94.9 million, or

\$1.42 per share, in 1997 while 1996 net earnings amounted to \$81.1 million, or \$1.17 per share, with earnings from continuing operations for 1996 of \$54.6 million, or \$0.79 per share. The 1996 charge related to Fokker impacted earnings by \$0.13 per share. The reduction in interest expense increased earnings by \$0.20 per share in 1997.

Segment Review--Aerospace

Sales in 1997 for the Aerospace Segment aggregated \$558.3 million, a 28.8% increase over 1996 sales of \$433.5 million. At Menasco, which represented approximately 50% of this increase, sales increased due to rising commercial aircraft production as well as improved military sales. Menasco deliveries of main landing gear systems for the Boeing 737 increased to 196 shipsets in 1997 from 72 shipsets in 1996, while military sales benefited primarily from higher shipset deliveries for the F-15 and F-16 programs (151 shipsets in 1997 versus 83 shipsets in 1996). At Chandler Evans, higher sales were primarily due to increased sales of spare parts while original equipment sales also improved. Aerospace Segment sales were favorably impacted by the acquisition of AMI in July 1997. Sales in 1997 for the other aerospace businesses increased due to increased sales volumes resulting from the continued strengthening of the commercial aircraft market and regional airlines.

Operating income for the Aerospace Segment increased 48.5% to \$97.7 million in 1997, including the reversal of \$10.0 million of the 1995 special charge which primarily related to the closing of the Walbar compressor blade facility in Canada. In 1995, the special charge included amounts for contractual obligation with customers, which Coltec could not fulfill upon the closing of the facility and related legal fees. These amounts were reversed during 1997 because the customers did not enforce the contracts. Operating income was \$65.8 million in 1996, excluding the 1996 charge for the Fokker bankruptcy. The Segment's operating margin for 1997 was 17.3% (15.7% excluding the special charge reversal) versus 15.2% in 1996 excluding the Fokker bankruptcy charge. At Menasco, operating margin was impacted by improved manufacturing efficiencies due to higher production. Chandler Evans realized higher margins due to higher after-market sales and selling price increases for certain products. The increase was also driven by higher sales volumes and improved margins for the other engine components businesses.

Segment Review--Industrial

Industrial Segment sales increased to \$757.6 million in 1997 from \$726.9 million in 1996. During 1997, the Quincy and Fairbanks Morse divisions had significant sales volume increases. The Fairbanks Morse increase was due to increased orders and the recovery from a ten-week strike in 1996. Garlock Sealing also experienced sales increases in part as a result of Coltec's acquisition of the sheet rubber and conveyor belt business from Dana Corporation's Boston Weatherhead division. The above increases, totaling approximately \$35.0 million, were partially offset by lower sales volumes of \$8.6 million at Holley.

21

Operating income for the Industrial Segment was \$139.8 million in 1997 (\$149.8 million excluding the special charge of \$10.0 million for restructuring costs in the Industrial Segment; see note 4 to the consolidated financial statements) compared to \$147.1 million in 1996. The Industrial Segment's operating margin for 1997 was 18.5% (19.8% before the \$10.0 million special charge) compared to 20.2% in 1996. Operating income increased for Quincy and Fairbanks Morse by approximately \$10.0 million due to the higher sales volumes as mentioned above while Garlock's income was impacted by approximately \$2.0 million of increased costs related to international initiatives. Holley's operating income was \$4.7 million lower primarily as a result of decreased sales volumes.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Coltec generated cash from operations of \$142.3 million in 1998 compared to \$61.4 million in 1997. The increase in operating cash flows stemmed from the increase in net earnings and depreciation and amortization, the decrease in payments of liabilities of discontinued operations in 1998, and special charge payments made in 1997. The cash flow generated by the decrease in inventory was offset by the increase in accounts receivable. Working capital at December 31, 1998 of \$169.2 million was \$18.7 million lower than year-end 1997 as a result of the decrease in inventory. The 1998 ratio of current assets to current liabilities was 1.62 compared to 1.78 in 1997. Cash and cash equivalents increased to \$21.8 million in 1998 from \$14.7 million in 1997.

In 1998 Coltec invested \$53.5 million in capital expenditures compared to \$81.2 million in 1997. Coltec invested \$94.2 million and \$60.7 million in 1998 and 1997, respectively, in business acquisitions (see note 2 to consolidated financial statements).

Coltec used \$87.4 million in financing activities in 1998. In April 1998, Coltec sold \$300.0 million of Senior Notes and \$150.0 million of Convertible Preferred Securities (see note 12 to consolidated financial statements). The proceeds from the Senior Notes and Convertible Preferred Securities, which are effectively guaranteed by Coltec, were used to reduce Coltec's indebtedness under its revolving credit facility. In 1998, the Company repurchased \$51.4 million of treasury stock. 1997 financing activities generated \$80.2 million primarily from the \$82.5 million proceeds from sale of accounts receivable. The purchase of \$42.7 million of treasury stock in 1997 was offset by a \$39.5 million net increase in Coltec's revolving credit facility. Financing activities in 1996 used cash of \$323.0 million. A substantial portion of the proceeds from the 1996 second quarter sale of Coltec's automotive OE components operations was applied to debt reduction. During 1996, Coltec refinanced \$617.0 million of high-cost, fixed-rate debt with lower-cost, variable-rate bank debt. Coltec also purchased treasury stock with a cost of \$46.4 million in 1996.

Capital Expenditures

Capital expenditures were \$53.5 million in 1998 compared to \$81.2 million in 1997 and \$44.6 million in 1996, as Coltec continued to invest in capital improvements to increase efficiency, reduce costs, pursue new opportunities, expand production capacity and improve facilities. The level of capital expenditures has and will vary from year to year, affected by the timing of capital spending for production equipment for new products, periodic plant and facility expansion, and cost reduction and labor efficiency programs. Capital expenditures during 1998 included amounts for enterprise resource planning systems at several divisions. Coltec estimates capital expenditures for 1999 to approximate \$55.0 million, including amounts for equipment purchases related to capacity expansions and upgrades.

Environmental Matters

Coltec's policy is to accrue environmental remediation costs when it is both probable that a liability was incurred and the amount can be reasonably estimated. Coltec currently estimates that its future non-capital expenditures related to environmental matters will range between \$26.0 million and \$55.0 million representing management's best estimate of probable non-capital expenditures. Investigations have been completed for approximately 21 sites and continuing investigations are being done at approximately 10 sites. Accruals are provided for all sites based on the factors discussed above. As assessments progress and remediation plans are

implemented, estimated costs become more fact-based and less judgment-based. These estimated costs are reviewed periodically and related liabilities are adjusted to reflect additional technical and legal information. In connection with these environmental expenditures, Coltec had accrued \$34.3 million at December 31, 1998 representing management's best estimate of probable non-capital expenditures. These non-capital expenditures are estimated to be incurred over the next 10 to 20 years. In addition, capital expenditures aggregating \$5.0 million may be required during the next two years related to environmental matters. Although Coltec is pursuing insurance recovery in connection with certain of these matters, no receivable has been recorded with respect to any potential recovery of costs in connection with any environmental matter. During 1998, costs associated with environmental remediation and ongoing assessment were not significant. See note 16 to consolidated financial statements.

Asbestos Litigation

Coltec and certain of its subsidiaries are defendants in various lawsuits involving asbestos-containing products. See note 16 to consolidated financial statements. Based on the factors discussed in such notes as well as the experience of Coltec's subsidiaries and other defendants in asbestos litigation, the likely sharing of judgments among multiple responsible defendants, and the substantial amount of insurance coverage that Coltec expects to be available from its solvent carriers, Coltec believes that pending and reasonably anticipated future actions are not likely to have a material effect on Coltec's consolidated results of operations or financial condition.

Other Commitments and Contingencies

Liabilities of discontinued operations at December 31, 1998 of \$140.0 million relate to contingent contractual obligations, reserves for postretirement benefits and other future estimated costs for various discontinued operations. Coltec expects future cash payments will extend at least over the next five to ten years.

Consistent with industry practice, Coltec uses the program method of accounting for long-term commercial jet aircraft programs. The program method of accounting involves the use of various estimates related to total program revenues and costs. These estimates involve various assumptions and projections relative to the outcome of future events, including the quantity and timing of shipset deliveries. Also included are assumptions relative to future labor performances and rates, and projections relative to material and overhead costs. These assumptions involve various levels of expected performance improvements. Coltec reevaluates its estimates periodically and reflects changes in estimates in current operations.

Year 2000

As is the case with most other companies, Coltec recognizes the need to ensure that its operations will not be adversely impacted by the Year 2000 date transition and is faced with the task of addressing related issues. With senior management accountability and corporate staff guidance, all operating units have completed the assessment phase with respect to information technology ("IT") systems, facilities equipment and products and are in varying stages of plan implementation to address Coltec's Year 2000 issues. With regard to IT systems, facilities equipment and products, Coltec is more than approximately 70%, 80% and 95% complete, respectively, with its total planned efforts including implementation and testing. Coltec expects that its implementation and testing efforts will be substantially complete by September 1999. Coltec is also evaluating whether the Year 2000 transition issues resulting from relationships with customers, suppliers and other constituents will have an impact on Coltec's results of operations, financial condition or cash flows. Coltec has initiated formal communication with its active suppliers to determine the extent to which Coltec is vulnerable to suppliers and customers who fail to address their own

Year 2000 issues.

Coltec estimates that total IT system expenditures (including all computer systems replaced since January 1, 1997) will approximate \$32.0 million, which will be funded from operating cash flows. At December 31, 1998, approximately \$28.0 million of the \$32.0 million had been incurred, \$23.0 million of which has been capitalized since January 1, 1997 and \$5.0 million of Year 2000 costs was expensed in 1998. The remaining costs of modifying its existing software for the Year 2000 date transition should have an immaterial impact on consolidated operating results. The costs of the project and the date on which Coltec plans to complete Year 2000 compliance efforts are based on management's best estimates, which were derived from assumptions of future

23

events including the continued availability of certain resources, third parties' Year 2000 readiness and other factors. There can be no assurance that these assumptions will prove to be accurate, and actual results could differ materially from those currently anticipated.

Although Coltec believes that its critical systems will be fully compliant prior to year-end 1999, Coltec also believes that prudent business practices call for the development of contingency plans. Coltec has Year 2000 contingency plans in place. Coltec will continually assess these contingency plans during 1999. Such contingency plans primarily address mitigating the impact of internal system and third party failures.

Based on the nature and diversity of Coltec's business operations, a worst case scenario may be that one or more significant customers or key suppliers suffers a business disruption. Because of Coltec's varied customer and supplier base it is unlikely that such an occurrence would result in a significant loss of sales for any period of time. Unless there is a disruption of power supply affecting more than one of Coltec's major divisions, customers or suppliers, Coltec does not expect the Year 2000 transition to have a material adverse effect on its consolidated results of operation, financial position or cash flows. However, if all Year 2000 issues are not properly identified, or assessment, remediation and testing are not effected timely with respect to Year 2000 problems that are identified, there can be no assurance that the Year 2000 issue will not have a material adverse effect on Coltec's consolidated results of operations, financial position or cash flows or adversely affect Coltec's relationships with suppliers, customers or others. Additionally, there can be no assurance that the Year 2000 issues of other entities will not have a material adverse effect on Coltec's consolidated results of operations, financial position or cash flows.

Financial Resources

At December 31, 1998, total debt was \$582.6 million compared with \$759.4 million at year-end 1997. In February 1998, Coltec amended its revolving credit facility to increase the commitment thereunder from \$850 million to \$900 million. The revolving credit facility was further amended in April 1998 to allow Coltec to issue the \$300.0 million of Senior Notes and \$150.0 million of Convertible Preferred Securities, to provide that the Senior Notes would be secured equally and ratably with the lenders under the revolving credit facility and to provide that the total commitment under the revolving credit facility would be reduced by two-thirds of the gross proceeds to Coltec from the Senior Notes and Convertible Preferred Securities which amounted to a \$300.0 million reduction. In December 1997, Coltec amended the revolving credit facility to establish an \$80.0 million sublimit for Canadian borrowings. The revolving credit facility also provides for a maximum issuance of \$125.0 million for letters of credit. At December 31, 1998, \$239.5 million of borrowings and \$14.2 million of letters of credit were outstanding under the revolving credit facility, leaving availability of \$346.3 million. Coltec believes that internally generated funds and borrowings available under the revolving credit

facility will be sufficient to meet its foreseeable working capital, capital expenditure and debt service requirements.

Coltec has entered into interest rate swap agreements to reduce (hedge) the impact of interest rate changes for variable rate borrowings under its revolving credit facility. At December 31, 1998, the agreements included an aggregate notional amount of \$280.0 million, fixed interest rates ranging from 5.78% to 6.40% and maturity dates ranging from January 2000 to October 2002. At December 31, 1997, the agreements included an aggregate notional amount of \$405.0 million, fixed interest rates ranging from 5.78% to 6.40% and maturity dates ranging from April 1998 to October 2002. The interest rate differential is reflected as an adjustment to interest expense over the life of the swaps. Coltec's hedging activities had an immaterial impact on consolidated operating results for the years ended December 31, 1998 and 1997.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Coltec utilizes forward exchange contracts to hedge U.S. dollar-denominated sales, under long-term contracts, of certain Canadian subsidiaries. Coltec does not engage in speculation. Coltec's forward exchange contracts do not subject Coltec to risk due to exchange rate movements because gains and losses on these contracts offset gains and losses on the sales and related receivables being hedged. At December 31, 1998 and 1997, Coltec had \$120.5 million and \$162.0 million, respectively, of notional value forward exchange contracts, denominated in Canadian dollars. The contracts have varying maturities with none exceeding five years. Gains

24

and losses on forward exchange contracts are deferred and recognized in cost of sales over the life of the underlying long-term contract being hedged.

Coltec's currency rate exposure on its remaining foreign subsidiaries at December 31, 1998 would not materially affect the consolidated financial position, results of operations or cash flows of Coltec.

Coltec has entered into interest swap agreements to reduce (hedge) the impact of interest rate changes for variable rate borrowings under its revolving credit facility and its agreement to sell accounts receivable on a revolving basis (see note 6 to consolidated financial statements). At December 31, 1998, the agreements included an aggregate notional amount of \$280.0 million, fixed interest rates ranging from 5.78% to 6.40% and maturity dates ranging from January 2000 to October 2002.

Interest Rate Risk

The table below provides information about Coltec's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table represents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional values and weighted average interest rates by expected (contractual) maturity dates. Notional values are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 1998.

	EXPECTED MATURITY DATE						TOTAL	FAIR VALUE
	1999	2000	2001	2002	2003	THEREAFTER		
	(IN THOUSANDS)							
Debt								
Fixed Rate.....	\$5,127	\$11,394	\$ 3,128	\$ 1,991	\$833	\$320,632	\$343,105	\$358,938
--Avg. Interest Rate.....	6.5%	7.5%	2.4%	.3%	.6%	7.5%	7.2%	
Variable Rate.....	--	--	239,500	--	--	--	239,500	239,500
--Avg. Interest Rate.....	--	--	5.6%	--	--	--	5.6%	
Interest Rate Swaps								
Variable to Fixed.....	--	50,000	40,000	190,000	--	--	280,000	(10,909)
Average Pay Rate.....	--	5.780%	6.112%	6.151%	--	--	6.079%	
Average Receive Rate.....	--	5.065%	5.072%	5.107%	--	--	5.094%	

Exchange Rate Risk

The table below provides information about Coltec's Canadian dollar-denominated forward exchange contracts. The table presents the notional values, fair values and average hedge rates by expected (contractual) maturity dates. These notional values generally are used to calculate the contractual payments to be exchanged under the contract.

CURRENCY SOLD	CURRENCY RECEIVED	1999	2000	2001	2002	2003	TOTAL
(IN THOUSANDS)							
Forward Contracts:							
U.S. Dollar.....	Canadian Dollar						
Notional Value.....		63,840	32,645	24,000	--	--	(120,485)
Fair Value.....		(5,676)	(3,623)	(3,105)	--	--	(12,404)
Avg. Hedge Rate.....		1.392	1.360	1.330	--	--	1.371

25

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

COLTEC INDUSTRIES INC
CONSOLIDATED STATEMENTS OF EARNINGS

	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net sales.....	\$1,501,054	\$1,314,869	\$1,159,691
Cost of sales.....	1,080,731	898,269	811,123
Gross profit.....	420,323	416,600	348,568
Selling and administrative.....	235,204	218,808	190,993
Operating income.....	185,119	197,792	157,575
Gain on divestiture.....	56,194	--	--
Interest expense and other, net.....	(53,438)	(54,043)	(74,894)
Earnings from continuing operations before income taxes, minority interest in net loss of subsidiary and extraordinary item.....	190,875	143,749	82,681
Income taxes.....	(64,898)	(48,875)	(28,111)
Minority interest in net loss of subsidiaries (net of tax).....	(3,684)	--	--
Earnings from continuing operations before extraordinary item.....	122,293	94,874	54,570
Discontinued operations (net of tax)			
Income from operations.....	--	--	19,252
Gain on sale.....	--	--	37,931
Total discontinued operations.....	--	--	57,183
Extraordinary item (net of tax).....	(4,326)	--	(30,614)

Net earnings.....	\$ 117,967	\$ 94,874	\$ 81,139
Basic earnings per common share			
Before extraordinary item.....	\$ 1.88	\$ 1.44	\$.79
Discontinued operations			
Income from operations.....	--	--	.28
Gain on sale.....	--	--	.55
Total discontinued operations.....	--	--	.83
Extraordinary item.....	(.07)	--	(.44)
Net earnings.....	\$ 1.81	\$ 1.44	\$ 1.18
Weighted-average common shares.....	65,090	65,896	69,091
Diluted earnings per common share			
Before extraordinary item.....	\$ 1.81	\$ 1.42	\$.79
Discontinued operations			
Income from operations.....	--	--	.28
Gain on sale.....	--	--	.54
Total discontinued operations.....	--	--	.82
Extraordinary item.....	(.06)	--	(.44)
Net earnings.....	\$ 1.75	\$ 1.42	\$ 1.17
Diluted weighted-average common shares.....	69,443	66,911	69,376

The accompanying notes to consolidated financial statements are an integral part of these statements.

26

COLTEC INDUSTRIES INC
CONSOLIDATED BALANCE SHEETS

DECEMBER 31,
1998
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

Current assets:	
Cash and cash equivalents.....	\$ 21,785
Accounts and notes receivable, net of allowance of \$3,109 in 1998 and \$2,894 in 1997.....	148,185
Inventory, net.....	236,003
Deferred income taxes.....	20,464
Other current assets.....	15,612
Total current assets.....	442,049
Property, plant and equipment, net.....	306,642
Costs in excess of net assets acquired, net.....	214,647
Other assets.....	92,310
	\$ 1,055,648

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Current portion of long-term debt.....	\$ 5,127
Accounts payable.....	91,595
Accrued expenses.....	171,084
Current portion of liabilities of discontinued operations.....	4,999

Total current liabilities.....	272,805
Long-term debt.....	577,478
Deferred income taxes.....	139,909
Other liabilities.....	85,490
Liabilities of discontinued operations.....	134,995
Company-obligated, mandatorily redeemable convertible preferred securities of subsidiary Coltec Capital Trust holding solely convertible junior subordinated debentures of the company.....	145,293
Commitments and contingencies	
Shareholders' equity:	
Preferred stock--\$.01 par value, 2,500,000 shares authorized, issued and outstanding--none	
Common stock--\$.01 par value, 100,000,000 shares authorized, 70,583,695 and 70,501,948 shares issued at December 31, 1998 and 1997, respectively (excluding 25,000,000 shares held by a wholly owned subsidiary).....	706
Capital surplus.....	643,615
Retained deficit.....	(795,356)
Unearned compensation.....	(2,671)
Accumulated other comprehensive income (loss).....	(18,688)

	(172,394)
Less cost of 7,526,960 and 4,666,406 shares of common stock in treasury at December 31, 1998 and 1997, respectively.....	(127,928)

	(300,322)

	\$ 1,055,648

1997

ASSETS

Current assets:	
Cash and cash equivalents.....	\$ 14,693
Accounts and notes receivable, net of allowance of \$3,109 in 1998 and \$2,894 in 1997.....	120,311
Inventory, net.....	256,736
Deferred income taxes.....	15,195
Other current assets.....	20,508

Total current assets.....	427,443
Property, plant and equipment, net.....	287,619
Costs in excess of net assets acquired, net.....	157,751
Other assets.....	60,221

	\$ 933,034

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Current portion of long-term debt.....	\$ 1,811
Accounts payable.....	93,799
Accrued expenses.....	138,969
Current portion of liabilities of discontinued operations.....	4,999

Total current liabilities.....	239,578
Long-term debt.....	757,578
Deferred income taxes.....	79,229
Other liabilities.....	72,592
Liabilities of discontinued operations.....	143,218
Company-obligated, mandatorily redeemable convertible preferred securities of subsidiary Coltec Capital Trust holding solely convertible junior subordinated debentures of the company.....	--

Commitments and contingencies

Shareholders' equity:

Preferred stock--\$.01 par value, 2,500,000 shares authorized, issued and outstanding--none	
Common stock--\$.01 par value, 100,000,000 shares authorized, 70,583,695 and 70,501,948 shares issued at December 31, 1998 and 1997, respectively (excluding 25,000,000 shares held by a wholly owned subsidiary).....	705
Capital surplus.....	642,828
Retained deficit.....	(912,029)
Unearned compensation.....	(2,721)
Accumulated other comprehensive income (loss).....	(8,391)
	(279,608)
Less cost of 7,526,960 and 4,666,406 shares of common stock in treasury at December 31, 1998 and 1997, respectively.....	(79,553)
	(359,161)
	\$ 933,034

The accompanying notes to consolidated financial statements are an integral part of these statements.

27

COLTEC INDUSTRIES INC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
Cash flows from operating activities:			
Net earnings.....	\$117,967	\$ 94,874	\$ 81,139
Adjustments to reconcile net earnings to cash provided by operating activities:			
Gain on divestitures.....	(56,194)	--	(66,791)
Extraordinary item.....	6,554	--	51,001
Depreciation and amortization.....	47,947	38,415	36,014
Deferred income taxes.....	56,616	24,791	39,146
Payments of liabilities of discontinued operations.....	(8,223)	(25,052)	(19,563)
Special charge payments.....	--	(11,746)	(6,309)
Foreign currency translation adjustment.....	(8,364)	(5,594)	665
Other operating items.....	(2,958)	(6,951)	(4,370)
Changes in assets and liabilities, net of effects from acquisitions and divestitures:			
Accounts and notes receivable.....	(40,254)	(4,263)	(42,602)
Inventories.....	17,776	(42,508)	2,704
Other current assets.....	2,131	3,455	(617)
Accounts payable.....	(2,982)	35,963	(55)
Accrued expenses.....	26,379	(18,972)	(21,302)
Accrued pension liability.....	(14,076)	(20,993)	443
Cash provided by operating activities.....	142,319	61,419	49,503
Cash flows from investing activities:			
Proceeds from divestitures.....	100,000	--	329,113
Capital expenditures.....	(53,545)	(81,218)	(44,550)
Acquisition of businesses.....	(94,242)	(60,711)	--
Cash provided by (used in) investing activities.....	(47,787)	(141,929)	284,563
Cash flows from financing activities:			
Proceeds from debt refinancing.....	--	--	542,000
Issuance of long-term debt, net.....	291,451	813	--
Issuance of convertible preferred securities, net.....	143,999	--	--

Repayment of long-term debt.....	(24,265)	(8,113)	(622,582)
Increase (decrease) in revolving facility, net.....	(458,000)	39,500	(196,000)
Purchase of treasury stock.....	(51,371)	(42,695)	(46,426)
Proceeds from sale of accounts receivable.....	12,500	82,500	--
Proceeds from exercise of stock options.....	2,117	8,169	--
Other.....	(3,871)	--	--
Cash provided by (used in) financing activities.....	(87,440)	80,174	(323,008)
Increase (decrease) in cash and cash equivalents.....	7,092	(336)	11,058
Cash and cash equivalents--beginning of year.....	14,693	15,029	3,971
Cash and cash equivalents--end of year.....	\$ 21,785	\$ 14,693	\$ 15,029
Supplemental cash flow data:			
Cash paid for:			
Interest.....	\$ 52,742	\$ 50,207	\$ 74,870
Income taxes.....	18,325	19,327	27,667

The accompanying notes to consolidated financial statements are an integral part of these statements.

28

COLTEC INDUSTRIES INC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		CAPITAL SURPLUS	RETAINED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	UNEARNED COMPENSATION	TREASURY STOCK	
	SHARES	AMOUNT					SHARES	AMOUNT
	(IN THOUSANDS)							
Balance, December 31, 1995.....	70,077	\$701	\$639,419	\$(1,088,042)	\$ (1,816)	\$ (2,408)	(100)	\$ (1,616)
Net earnings.....				81,139				
Repurchase of common stock.....							(3,129)	(46,426)
Issuance of restricted stock, net.	322	3	3,941			272	(10)	(142)
Exercise of stock options.....			(139)				56	642
Minimum pension liability.....					(3,200)			
Foreign currency translation adjustments.....					665			
Balance, December 31, 1996.....	70,399	704	643,221	(1,006,903)	(4,351)	(2,136)	(3,183)	(47,542)
Net earnings.....				94,874				
Repurchase of common stock.....							(2,160)	(42,695)
Issuance of restricted stock, net.	103	1	2,173			(585)	(4)	(51)
Exercise of stock options.....			(2,566)				681	10,735
Minimum pension liability.....					1,554			
Foreign currency translation adjustments.....					(5,594)			
Balance, December 31, 1997.....	70,502	705	642,828	(912,029)	(8,391)	(2,721)	(4,666)	(79,553)
Net earnings.....				117,967				
Repurchase of common stock.....							(3,051)	(51,371)
Amortization of preferred stock issuance costs.....				(1,294)				
Issuance of restricted stock, net.	82	1	1,666			50		
Exercise of stock options.....			(879)				190	2,996
Minimum pension liability.....					(1,933)			
Foreign currency translation adjustments.....					(8,364)			
Balance, December 31, 1998.....	70,584	\$706	\$643,615	\$(795,356)	\$ (18,688)	\$ (2,671)	(7,527)	\$(127,928)
							</	

adjustments.....	665
Balance, December 31, 1996.....	(417,007)
Net earnings.....	94,874
Repurchase of common stock.....	(42,695)
Issuance of restricted stock, net.	1,538
Exercise of stock options.....	8,169
Minimum pension liability.....	1,554
Foreign currency translation adjustments.....	(5,594)
Balance, December 31, 1997.....	(359,161)
Net earnings.....	117,967
Repurchase of common stock.....	(51,371)
Amortization of preferred stock issuance costs.....	(1,294)
Issuance of restricted stock, net.	1,717
Exercise of stock options.....	2,117
Minimum pension liability.....	(1,933)
Foreign currency translation adjustments.....	(8,364)
Balance, December 31, 1998.....	\$(300,322)

The accompanying notes to consolidated financial statements are an integral part
of these statements.

29

COLTEC INDUSTRIES INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		YEARS ENDED
DECEMBER 31,		
-----		-----
1997	1996	1998
----	-----	-----
		(IN
THOUSANDS)		
Net earnings.....		\$117,967
\$94,874	\$81,139	
Other comprehensive income (/loss), net of tax:		
Foreign currency translation adjustments.....		(8,364)
(5,594)	665	
Minimum pension liability.....		(1,933)
1,554	(3,200)	
-----	-----	-----
Other comprehensive income/(loss), net of tax.....		(10,297)
(4,040)	(2,535)	
-----	-----	-----
Comprehensive income.....		\$107,670
\$90,834	\$78,604	
-----	-----	-----
-----	-----	-----

The accompanying notes to consolidated financial statements are an integral part
of these statements.

30

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

including its 400 Employees (DOLLARS IN THOUSANDS),

1. SUMMARY OF ACCOUNTING POLICIES

Organization:

Coltec Industries Inc (the Company) is a diversified manufacturing company

serving the aerospace and general industrial markets primarily in the United States, Canada and Europe.

Basis of Presentation:

Investments in which the Company has ownership of 50% or more of the voting common stock are consolidated in the financial statements. Intercompany accounts and transactions are eliminated.

Certain 1997 and 1996 amounts have been reclassified to conform to the 1998 presentation.

Accounting Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue Recognition:

Revenue, including revenue under long-term commercial and government contracts and programs, is recorded at the time deliveries or customer acceptances are made and the Company has the contractual right to bill. The Company is involved in long-term government contracts which are accounted for on a percentage completed basis. However, the Company's long-term contracts primarily relate to commercial jet aircraft programs, which are planned, committed and facilitated based on long-term delivery forecasts. Cost of sales for jet aircraft programs is determined based on estimated average total cost and revenue for the respective programs based on shipset quantities representing what is believed to be conservative customer-produced market projections. Estimated program average costs and revenues are reviewed and assessed periodically, with changes in estimates recognized as adjustments to current operations.

Program commitment quantities generally represent deliveries for the next three to five years, although initial program quantities for new programs can include orders and deliveries up to ten years. As of December 31, 1998 and 1997, the Company had delivered approximately 52% and 43%, respectively, of the total commitment quantities under these programs. The program method of accounting, an aerospace industry-developed and accepted practice, was adopted by the Company in the 1970's.

Inventories:

Inventories, including inventories under long-term commercial and government contracts and programs, are valued at the lower of cost or market. Cost elements included in inventory are material, labor and factory overhead, primarily using standard cost, which approximates actual cost. Cost on approximately 50% of the domestic inventory at December 31, 1998 and 1997 was determined on the last-in first-out basis. Cost on the remainder of the inventory is generally determined on the first-in first-out basis.

31

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

(DOLLARS IN THOUSANDS)

1. SUMMARY OF ACCOUNTING POLICIES-- (CONTINUED)

Property, Plant and Equipment:

Property, plant and equipment is carried at cost. Depreciation of plant and equipment is provided generally by using the straight-line method, based on estimated useful lives of the assets. The ranges of estimated useful lives used in computing depreciation for financial reporting are as follows:

Land improvements.....	5-40
Buildings and equipment.....	10-45
Machinery and equipment.....	3-20

For leasehold improvements, the estimated useful life is the lesser of the asset life or the lease term.

Renewals and betterments are capitalized by additions to the related asset accounts, while repair and maintenance costs are charged against earnings.

Costs in Excess of Net Assets Acquired:

It is the Company's policy to amortize the excess costs arising from acquisitions on a straight-line basis over periods not to exceed 40 years. As of December 31, 1998 the remaining weighted average life of the Company's goodwill was 25 years. In evaluating the value and future benefits of the excess costs arising from acquisitions, the recoverability from operating income is measured. Under this approach, the carrying value would be reduced if it is probable that management's best estimate of future operating income from related operations before amortization will be less than the carrying amount of the excess costs arising from acquisitions over the remaining amortization period. At December 31, 1998 and 1997, accumulated amortization related to all completed acquisitions was \$83,082 and \$74,013, respectively.

Income Taxes:

Income taxes are provided using the liability method. Under this method, deferred tax assets and liabilities are recognized based on differences between the financial statement and tax bases of assets and liabilities using presently enacted tax rates.

Environmental Expenditures:

Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are accrued when it is probable that an obligation has been incurred and the amount can be reasonably estimated. Expenditures incurred for environmental compliance with respect to pollution prevention and ongoing monitoring programs are expensed as incurred. Expenditures that increase the value of the property are capitalized.

Start-up Costs:

Start-up costs related to new operations and new product lines are expensed as incurred.

Legal Costs:

Legal costs are expensed as incurred. However, when a contingent liability is recorded, at the time such liability becomes probable and can be reasonably estimated, estimated legal costs are included in the liability.

1. SUMMARY OF ACCOUNTING POLICIES-- (CONTINUED)**Cash and Cash Equivalents:**

The Company considers all short-term investments purchased with a maturity of three months or less to be cash equivalents.

Foreign Currency Translation:

The financial statements of foreign subsidiaries were prepared in their respective local currencies and were translated into U.S. dollars at year-end rates for assets and liabilities and at monthly weighted-average rates for income and expenses. Translation adjustments are included in shareholders' equity in the Consolidated Balance Sheets. Foreign currency transaction gains and losses are included in net earnings. For 1998, 1997 and 1996, such transaction gains and losses were not significant.

Impact of New Accounting Standard:

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No 133 ("SFAS No. 133") Accounting for Derivative Instruments and Hedging Activities. The Statement established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. A company may also implement the Statement as of the beginning of any fiscal quarter after issuance. SFAS No. 133 cannot be applied retroactively. SFAS No. 133 must be applied to derivative instruments and certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997.

The Company has not yet quantified the impacts of adopting SFAS No. 133 on its consolidated financial statements and has not determined the timing of or method of adoption. However, the statement could increase volatility in net income and other comprehensive income.

2. ACQUISITIONS AND DIVESTITURES**Acquisitions**

In January 1998, the Company acquired certain Marine and Petroleum Mfg. Inc.'s manufacturing facilities based in Texas for approximately \$17,000. The plants acquired produce flexible graphite and PTFE fluid sealing products used in the petrochemical industry. The Company also acquired Texas-based Tex-o-Lon and Repro-Lon for approximately \$25,000. Tex-o-Lon manufactures, machines and distributes PTFE products, primarily for the semiconductor industry. Repro-Lon reprocesses PTFE compounds for the chemical and semiconductor industries. The acquisitions were accounted for as purchases; accordingly, the purchase price, which was financed through available cash resources, was allocated to the acquired assets based upon their fair market values. The \$31,697 combined excess of the purchase price over net assets is being amortized over 25 years.

In February 1998, the Company purchased the Sealing Division of Groupe Carbone Lorraine for \$45,600. This division, with facilities in France and South Carolina, produces high-technology metallic gaskets used in the nuclear, petroleum and chemical industries. This acquisition was accounted for as a

purchase and the purchase

33

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

2. ACQUISITIONS AND DIVESTITURES--(CONTINUED)

price, also financed through available cash resources, was allocated to the acquired assets based upon their fair market values. The \$25,042 excess of the purchase price over net assets is being amortized over 25 years.

In August 1998, the Company acquired from Federal-Mogul Corporation the 20% of Garlock Bearings that it did not previously own for approximately \$12,000. Garlock Bearings is a producer of self-lubricating bearings.

In June 1997, the Company acquired the assets of AMI Industries Inc. (AMI), a Colorado-based manufacturer of flight attendant and cockpit seats for commercial aircraft, for approximately \$25,000. The purchase agreement also includes contingent payments based on earning levels for the years ended December 31, 1997-2000. These contingent payments will be recorded as additional purchase price and amortized over the remaining life of goodwill. For financial statement purposes, the acquisition was accounted for as a purchase and, accordingly, AMI's results are included in the Company's consolidated financial statements since the date of acquisition. The purchase price, which was financed through available cash resources, has been allocated to the acquired assets based upon their fair market values. The \$12,200 excess of the purchase price over net assets is being amortized over 25 years.

In October 1997, the Company acquired the assets of the sheet rubber and conveyor belt business of Dana Corporation's Boston Weatherhead division for \$28,000. The acquisition was accounted for as a purchase and its results are included in the Company's consolidated financial statements since the date of acquisition. The purchase price, which was also financed through available cash resources, has been allocated to the acquired assets based upon their fair market values. The \$6,900 excess of the purchase price over net assets is being amortized over 25 years.

The impact of these acquisitions was not material in relation to the Company's results of operations. Consequently, pro forma information is not presented. The Company also had several small acquisitions during 1998 and 1997, which were not material to the Company's financial position or results of operations.

Divestitures

In May 1998, the Company sold the capital stock of its Holley Performance Products subsidiary to Kohlberg & Co., L.L.C., a private merchant banking firm located in Mount Kisco, New York, for \$100 million in cash. The sale resulted in a pre-tax gain of \$56,194, net of liabilities retained.

In June 1996, the Company sold Holley Automotive, Coltec Automotive and Performance Friction Products to Borg-Warner Automotive, Inc. for \$296,522 in cash. In December 1996, Coltec sold Farnam Sealing Systems division to Meillor SA for \$20,728 in cash and a note receivable for \$3,000. The sale of these automotive original equipment (OE) components businesses resulted in an after-tax gain of \$37,931 (net of income taxes of \$25,332), net of liabilities retained, transaction costs and obligations relating to the sales. The sale of the automotive OE components businesses represented a disposal of the Company's Automotive Segment. Accordingly, the 1996 Consolidated Statement of Earnings was restated to reflect the operations of the automotive OE components businesses as a discontinued operation. Net sales of the discontinued automotive OE components

businesses were \$182,599 in 1996.

In December 1996, the Company also sold the exhaust systems and components business of its Stemco division for \$11,863 resulting in a pre-tax gain of \$3,528. Such gain is reflected in the 1996 Consolidated Statement of Earnings in continuing operations. Net sales of the exhaust systems and components business were \$18,085 in 1996.

34

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

3. EXTRAORDINARY ITEM

The Company incurred an extraordinary charge of \$4,326, net of income taxes of \$2,228, in the second quarter of 1998 in connection with early debt repayment.

In 1996, the Company redeemed all of its outstanding 11 1/4% debentures and substantially all of its outstanding 9 3/4% and 10 1/4% senior notes at redemption prices ranging from 105.125% to 106.987% of par. The redemption of these notes including consent payments resulted in an extraordinary charge of \$30,614, net of income taxes of \$20,387.

4. SPECIAL CHARGES

In 1995, the Company recorded a special charge of \$27,000, primarily in the Aerospace Segment to cover the costs of closing the Walbar compressor blade facility in Canada. The facility was closed during 1996. The charge also covered selected workforce reductions throughout the Company. The special charge included costs to cover the cancellation of contractual obligations resulting from the decision to close the Walbar facility, asset write-downs, severance and employee-related costs and other costs necessary to implement the shutdown of the Walbar facility and selected workforce reductions throughout the Company.

At December 31, 1997 all related costs had been charged and the remaining accrual was reversed. The activity in the related reserve through December 31, 1997 was as follows:

	CONTRACTUAL OBLIGATIONS	ASSET WRITEDOWNS	SEVERANCE	OTHER	TOTAL
1995 charge.....	\$ 9,065	\$ 7,845	\$ 5,084	\$ 5,006	\$ 27,000
1995 activity.....	(65)	(4,549)	(1,778)	(2,553)	(8,945)
December 31, 1995.....	9,000	3,296	3,306	2,453	18,055
1996 activity.....	(961)	(1,875)	(1,876)	(1,597)	(6,309)
December 31, 1996.....	8,039	1,421	1,430	856	11,746
1997 activity.....	(1,200)	--	(517)	(29)	(1,746)
Reversal.....	(6,839)	(1,421)	(913)	(827)	(10,000)
December 31, 1997.....	\$ --	\$ --	\$ --	\$ --	\$ --

In 1997, the Company recorded a special charge of \$10,000, to cover the restructuring of its Industrial Segment. This special charge included the costs

of closing its FMD Electronics operations in Roscoe, Illinois and its Ortman Fluid Power operations in Hammond, Indiana. The special charge also included the costs to restructure the Company's Industrial Segment businesses in Canada and Germany and certain termination costs related to the relocation of the Delavan Commercial Spray Technologies headquarters to North Carolina. The third quarter 1997 charge included costs resulting from cancellation of contractual obligations, asset writedowns, severance and employee-related costs and other costs to shut down these facilities that will not benefit future operations. The related reserve activity for the year ended December 31, 1997 was as follows:

	CONTRACTUAL OBLIGATIONS	ASSET WRITEDOWNS	SEVERANCE	OTHER	TOTAL
	-----	-----	-----	-----	-----
1997 charge.....	\$ 641	\$1,049	\$ 5,425	\$2,885	\$10,000
1997 activity.....	(641)	(1,049)	(5,425)	(2,885)	(10,000)
December 31, 1997.....	\$ --	\$ --	\$ --	\$ --	\$ --
	-----	-----	-----	-----	-----

35

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

(DOLLARS IN THOUSANDS)

5. EARNINGS PER SHARE

In 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share, effective December 15, 1997. The Company's reported earnings per common share for 1996 equaled diluted earnings per share as set forth in SFAS No. 128. As a result, the Company's reported earnings per share for 1996 was not restated.

Basic earnings per common share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per common share is computed by using the treasury stock method to determine shares related to stock options and restricted stock.

	1998	1997	1996
	-----	-----	-----
	(IN THOUSANDS)		
Income available to common shareholders before extraordinary item.....	\$122,293	\$94,874	\$111,753
Dividends on convertible preferred securities, net of tax.....	3,684	--	--
Income available to common shareholders before extraordinary item plus assumed conversions.....	125,977	94,874	111,753
Extraordinary item, net of tax.....	(4,326)	--	(30,614)
Net income available to common shareholders plus assumed conversions.....	\$121,651	\$94,874	\$ 81,139
Basic weighted-average common shares.....	65,090	65,896	69,091
Stock options and restricted stock issued.....	728	1,015	285
Convertible preferred securities.....	3,625	--	--
Diluted weighted-average common and common equivalent shares.....	69,443	66,911	69,376
	-----	-----	-----

6. SALE OF ACCOUNTS RECEIVABLE

In September 1997, the Company and certain of its subsidiaries sold their U.S. and Canadian customer trade receivables to CNC Finance LLC (CNC Finance), a wholly owned bankruptcy remote subsidiary of the Company. CNC Finance entered into a three-year agreement to sell without recourse, on a revolving basis, an undivided fractional ownership interest in the receivables, based on the level of eligible receivables, up to a maximum of \$95,000 to a special purpose entity of a financial institution. At December 31, 1998 and December 31, 1997, \$95,000 and \$82,500, respectively, of the Company's receivables were sold under this agreement and the sale was reflected as a reduction of accounts receivable in the 1998 and 1997 Consolidated Balance Sheets. The undivided interests were sold at a discount, which was included in Interest expense and other, net in the 1998 and 1997 Consolidated Statements of Earnings.

7. INVENTORY

Inventories consisted of the following at December 31, 1998 and 1997:

	1998	1997
	-----	-----
Finished goods.....	\$ 42,447	\$ 53,748
Work in process and finished parts.....	154,707	158,937
Raw materials and supplies.....	38,849	44,051
	-----	-----
Total.....	\$236,003	\$256,736
	-----	-----

At December 31, 1998 and 1997, \$48,939 and \$54,441, respectively, of contract advances were offset against inventories under long-term commercial and government contracts and programs in the Consolidated Balance Sheets. Losses on commercial and government contracts and programs are recognized in full when identified.

36

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

7. INVENTORY--(CONTINUED)

Included in inventories are deferred production, engineering and tooling costs related to the Company's various long-term jet aircraft programs, which represent total costs incurred since the inception of the programs less the costs of units delivered based on the anticipated average costs of producing the total units provided for under these programs. At December 31, 1998 and 1997, inventories included \$34,593 and \$30,909, respectively, of deferred engineering costs; \$15,863 and \$26,457, respectively, of deferred production costs; and \$10,975 and \$15,850, respectively, of deferred tooling costs. Total costs incurred to date on long-term jet aircraft programs exceed the total cost of units delivered and in-process, based on the estimated average cost of all units to be delivered, by \$61,430 and \$73,216 at December 31, 1998 and 1997, respectively, and are being amortized over current and future deliveries for the respective program quantities. Certain engineering costs included in inventory are directly reimbursable from customers. At December 31, 1998 and 1997, \$12,700 and \$10,700, respectively, were reimbursable from customers.

The excess of current cost over last-in, first-out cost at December 31, 1998 and 1997 was \$19,251 and \$22,022, respectively.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 1998 and 1997:

	1998	1997
	-----	-----
Land and improvements.....	\$ 15,840	\$ 14,517
Buildings and equipment.....	143,064	135,173
Machinery and equipment.....	507,636	486,335
Leasehold improvements.....	11,530	12,209
Construction in progress.....	26,762	30,535
	-----	-----
Total.....	704,832	678,769
Less accumulated depreciation.....	398,190	391,150
	-----	-----
Total.....	\$306,642	\$287,619
	-----	-----

9. ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31, 1998 and 1997:

	1998	1997
	-----	-----
Salaries, wages and employee benefits.....	\$ 30,543	\$ 34,603
Taxes.....	2,254	13,728
Interest.....	9,543	7,115
Asbestos.....	93,700	50,688
Other.....	35,044	32,835
	-----	-----
Total.....	\$171,084	\$138,969
	-----	-----

37

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

(DOLLARS IN THOUSANDS)

10. INCOME TAXES

Domestic and foreign components of earnings from operations before income taxes, minority interest in net loss of subsidiaries and extraordinary item were as follows for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
	-----	-----	-----
Domestic.....	\$160,643	\$114,517	\$ 68,199
Foreign.....	30,232	29,232	14,482
	-----	-----	-----
Total.....	\$190,875	\$143,749	\$ 82,681
	-----	-----	-----

Income taxes on earnings from continuing operations were as follows for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
	-----	-----	-----
Current			
Domestic.....	\$ 5,941	\$ 18,094	\$ (2,912)
Foreign.....	3,544	6,872	13,634
	-----	-----	-----
	9,485	24,966	10,722
	-----	-----	-----
Deferred			
Domestic.....	47,886	17,706	24,126
Foreign.....	7,527	6,203	(6,737)
	-----	-----	-----
	55,413	23,909	17,389
	-----	-----	-----
Total.....	\$ 64,898	\$ 48,875	\$ 28,111
	-----	-----	-----

As discussed in note 2 to consolidated financial statements, the Company sold its original equipment components businesses in 1996 resulting in income tax on the gain of the sale of \$25,332. As discussed in note 3 to consolidated financial statements, the Company incurred extraordinary charges related to early retirement of debt resulting in income tax benefit of \$2,228 in 1998 and \$20,387 in 1996.

Reconciliation of tax at the U.S. statutory income tax rate of 35% for the years ended December 31, 1998, 1997 and 1996 to income taxes on earnings from continuing operations was as follows:

	1998	1997	1996
	-----	-----	-----
Tax at U.S. statutory rate.....	\$66,806	\$50,312	\$28,938
Repatriation of non-U.S. earnings.....	(1,923)	(1,195)	1,900
Non-U.S. rate differential.....	490	2,844	1,828
Utilization of tax credits.....	(1,500)	(997)	(1,104)
Adjustment of reserves.....	32	(2,736)	(6,979)
Other.....	993	647	3,528
	-----	-----	-----
Income taxes.....	\$64,898	\$48,875	\$28,111
	-----	-----	-----
Effective tax rate.....	34.0%	34.0%	34.0%
	-----	-----	-----

38

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

10. INCOME TAXES--(CONTINUED)

The significant components of deferred tax assets and liabilities at December 31, 1998 and 1997 were as follows:

	1998		1997	
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Fixed asset basis adjustments.....	\$ --	\$ (8,391)	\$ --	\$ (5,948)
Excess tax over book depreciation.....	--	(28,119)	--	(21,828)
Book/tax differences on contract income.....	--	(26,613)	--	(24,230)
Employee benefit plans.....	11,558	--	7,747	--
Accrued expenses and liabilities.....	2,957	--	10,159	--
Capital transactions, net.....	--	(61,786)	--	(27,901)
Foreign tax credit carryforwards.....	--	--	3,700	--
Other.....	--	(9,051)	--	(2,033)
	14,515	(133,960)	21,606	(81,940)
Less valuation allowance.....	--	--	(3,700)	--
Total.....	\$ 14,515	\$ (133,960)	\$ 17,906	\$ (81,940)

The valuation allowance in 1997 is attributable to foreign tax credit carryforwards which were utilized in 1998.

39

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

11. LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 1998 and 1997:

	1998	1997
Credit Agreement(a).....	\$239,500	\$697,500
9 3/4% senior notes due 1999(b).....	2,507	7,507
9 3/4% senior notes due 2000(c).....	7,405	7,405
7 1/2% senior notes due 2008(d).....	300,000	--
Other due 1999-2009.....	33,193	46,977
	582,605	759,389
Less current portion.....	5,127	1,811
	\$577,478	\$757,578

- (a) The average interest rate was 6.5% and 6.7% for 1998 and 1997, respectively.

In February 1998, the reducing revolving credit facility (the Credit Agreement), entered into with a syndicate of banks, was amended to increase the total commitment from \$850,000 to \$900,000. The Amended Credit Agreement was further amended in April, 1998 to reduce the total commitment from \$900,000 to \$600,000 (see note 12 to consolidated financial statements). The Credit Agreement provides up to \$125,000 for the issuance of letters of credit. At December 31, 1998, \$14,217 of letters of credit had been issued under the Credit Agreement. Obligations under the facility are secured by substantially all of the Company's assets. Borrowings under the facility bear interest, at the Company's option, at an annual rate equal to the base rate or the Eurodollar rate plus 0.50%. The base rate is the higher of the Federal Reserve reported certificate of deposit rate and the prime lending rate. Letter of credit fees of 0.50% are payable on outstanding letters of credit and a commitment fee of 0.1875% is payable on the unutilized facility.

The Company has entered into interest rate swaps to reduce (hedge) the impact of interest rate changes for variable rate borrowings under its credit facility and its agreement to sell receivables on a revolving basis (see note 6 to consolidated financial statements). The differential paid or received is reflected as an adjustment to interest expense over the life of the swaps. At December 31, 1998, the agreements include an aggregate notional amount of \$280,000, fixed interest rates ranging from 5.78% to 6.40% and maturity dates ranging from January 2000 to October 2002. At December 31, 1997 the agreements included an aggregate notional amount of \$405,000, fixed interest rates ranging from 5.78% to 6.40% and maturity dates ranging from April 1998 to October 2002.

- (b) In 1998, the Company purchased in the open market \$5,000 of the 9 3/4% senior notes due November 1, 1999.
 (c) The 9 3/4% senior notes due 2000 are redeemable at maturity on April 1, 2000.
 (d) The 7 1/2% senior notes are redeemable at a premium prior to maturity on April 15, 2008. See notes 12 and 19 to consolidated financial statements.

Minimum payments on long-term debt due within five years from December 31, 1998 are as follows:

1999.....	\$ 5,127
2000.....	11,394
2001.....	242,628
2002.....	1,991
2003.....	833
Thereafter.....	320,632
Total.....	\$582,605

40

COLTEC INDUSTRIES INC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

12. FINANCINGS

In April 1998, the Company privately placed, with institutional investors, \$300,000 principal amount of 7 1/2% Senior Notes due 2008 ("Senior Notes") and \$150,000 (3,000,000 shares at liquidation value of \$50 per Convertible Preferred Security) of 5 1/4% Trust Convertible Preferred Securities ("Convertible Preferred Securities"). The placement of the Convertible Preferred Securities

was made through the Company's wholly-owned subsidiary, Coltec Capital Trust ("Trust"), a newly-formed Delaware business trust. The Convertible Preferred Securities represent undivided beneficial ownership interests in the Trust. Substantially all the assets of the Trust are the 5 1/4% Convertible Junior Subordinated Deferrable Interest Debentures Due April 15, 2028 which were acquired with the proceeds from the private placement of the Convertible Preferred Securities. The Company's obligations under the Convertible Junior Subordinated Debentures, the Indenture pursuant to which they were issued, the Amended and Restated Declaration of Trust of the Trust, and the Guarantee of the Company, taken together, constitute a full and unconditional guarantee by the Company of amounts due on the Convertible Preferred Securities. The Convertible Preferred Securities are convertible at the option of the holders at any time into the common stock of the Company at an effective conversion price of \$29 5/16 per share and are redeemable at the Company's option after April 20, 2001 at 102.63% of the liquidation amount declining ratably to 100% after April 20, 2004.

The net proceeds of the Senior Notes and the Convertible Preferred Securities of approximately \$435,500 were used by the Company to reduce indebtedness under its credit facility. Dividends on the Convertible Preferred Securities were \$3,684 after tax for the year ended December 31, 1998.

13. PENSION PLANS AND OTHER BENEFITS

The Company and certain of its subsidiaries have in effect, for substantially all U.S. employees, pension plans under which funds are deposited with trustees. The benefits under these plans are based primarily on years of service and either final average salary or fixed amounts for each year of service. The Company's policy is to fund amounts which are actuarially determined to provide the plans with sufficient assets to meet future benefit payment requirements. Plan assets consist principally of publicly traded equity and fixed-income securities. Pension coverage for employees of non-U.S. subsidiaries is provided in accordance with local requirements and customary practices.

The Company also provides certain health care and life insurance benefits to its eligible retired employees, principally in the United States, with some of these retirees paying a portion of related costs. The Company funds postretirement benefits on a "pay as you go" method. Information related to these benefits is shown under other postretirement benefits.

41

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

As of December 31, 1998 and 1997, the change in benefit obligation and plan assets, the funded status and the amounts recognized in the Company's consolidated balance sheet related to the Company's pension and other postretirement benefits were as follows:

	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	1998	1997	1996	1998	1997	1996
Discount rate for benefit obligations.....	7.00%	7.25%	7.75%	7.00%	7.25%	7.75%
Expected long-term rate of return on assets.....	9.00%	9.00%	9.00%	--	--	--
Rate of increase in compensation levels.....	4.75%	4.75%	5.00%	--	--	--

For non-U.S. plans, which were not material, similar economic assumptions were used.

For measurement purposes, a 8.1% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999 decreasing gradually to 5.0% by 2005.

The components of net periodic benefit cost for the years ended December 31, 1998, 1997 and 1996 were as follows:

	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	1998	1997	1996	1998	1997	1996
Service cost.....	\$ 8,962	\$ 8,404	\$ 9,377	\$ 237	\$ 187	\$ 395
Interest cost.....	33,670	31,996	31,142	1,574	1,433	1,951
Expected return on assets.....	(73,389)	(95,430)	(52,049)	--	--	--
Amortization of transition obligations.....	--	--	--	1,030	1,022	1,107
Amortization and deferral, net.....	20,237	47,782	11,443	32	(756)	(124)
Net periodic benefit cost (income).....	\$ (10,520)	\$ (7,248)	\$ (87)	\$ 2,873	\$ 1,886	\$ 3,329

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plan. A one-percentage-point change is assumed health care cost trend rates would have the following effects:

	1-PERCENTAGE- POINT INCREASE	1-PERCENTAGE- POINT DECREASE
Effect on total of service and interest cost components.....	\$ 169	\$ (154)
Effect on postretirement benefit obligation.....	1,300	(1,200)

For discontinued operations, the total projected pension benefit obligations at December 31, 1998 and 1997 were \$199,445 and \$203,737, respectively, and are fully funded. Interest cost on the projected benefit obligations for 1998, 1997 and 1996 was \$14,646, \$16,097 and \$16,502, respectively, and was fully offset by return on assets resulting in no net periodic pension cost.

14. FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of the Company's financial instruments.

AS DISCLOSED IN NOTE 7 COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

Cash and cash equivalents, accounts and notes receivable and accounts payable:

The carrying amount approximates fair value due to the short-term nature of these items.

Long-term receivables and investments:

The fair value is based on quoted market prices for similar publicly-traded securities or on the present value of estimated future cash flows.

Long-term debt:

The fair value of variable-rate long-term debt approximates carrying value.

Forward exchange contracts and interest rate hedges:

The fair value is based on quoted market prices of similar contracts.

The estimated fair value of the Company's financial instruments at December 31, 1998 and 1997 was as follows:

	1998		1997	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Long-term receivables and investments.....	\$ 50,798	\$ 57,589	\$ 35,017	\$ 42,737
Long-term debt.....	582,605	598,438	759,389	760,609
Forward exchange contracts.....	--	(12,404)	--	(8,384)
Interest rate hedges.....	--	(10,909)	--	(3,555)

The Company utilizes forward exchange contracts to hedge U.S. dollar-denominated sales, under long-term contracts, of certain foreign subsidiaries. The Company does not engage in speculation. The Company's forward exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset gains and losses on the sales and related receivables being hedged. At December 31, 1998 and 1997, the Company had \$120,485 and \$162,000, respectively, of forward exchange contracts denominated in Canadian dollars. The contracts have varying maturities with none exceeding five years. Gains and losses on forward exchange contracts are deferred and recognized in cost of sales over the life of the underlying long-term contract being hedged.

The Company has an outstanding contingent liability for guaranteed debt and lease payments of \$30,748, and for letters of credit \$40,485. It was not practical to obtain independent estimates of the fair values for the contingent liability for guaranteed debt and lease payments and for letters of credit without incurring excessive costs. In the opinion of management, non-performance by the other parties to the contingent liabilities will not have a material effect on the Company's results of operations or financial condition.

15. STOCK OPTION AND INCENTIVE PLANS

Pursuant to the Company's stock option plans, stock options and shares of restricted stock have been granted to officers and key employees and stock options to directors. In 1998 the number of shares of common stock that may be

issued under the stock option plans was increased to 12,293,000 shares from 7,468,000 shares. Stock options outstanding under the stock option plans were granted at a price equal to 100% of the market price on the date of grant and are exercisable in annual installments of 20% or 33%, commencing one year from date of grant and expiring ten years from date of grant.

The Company applies Accounting Principles Board Opinion #25, Accounting for Stock Issued to Employees, in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for these plans. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant dates for awards under these plans consistent with SFAS No. 123, Accounting for Stock-Based

44

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

Compensation, the Company's pro forma net earnings would have been \$114,729 for 1998, \$92,137 for 1997 and \$79,425 for 1996 and earnings per share would have been \$1.71 in 1998, \$1.38 in 1997, and \$1.15 in 1996.

The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rate of 6.50% for 1998, 6.75% for 1997 and 7.0% for 1996, no dividends paid, expected life of five years for 1998, 3.7 years for 1997 and five years for 1996, and volatility of 26% for 1998, 21% for 1997 and 23% for 1996. The weighted-average fair value of options granted was \$7.90 for 1998, \$5.75 for 1997 and \$4.76 for 1996.

A summary of the status of the Company's fixed stock option plans as of December 31, 1998, 1997 and 1996 was follows:

	NUMBER OF SHARES (000S)	OPTION PRICE RANGE PER SHARE	WEIGHTED- AVERAGE EXERCISE PRICE
December 31, 1995.....	5,188	\$10.75-21.25	\$ 13.16
Granted.....	516	11.00-15.75	13.43
Exercised.....	(56)	10.75-11.63	11.37
Canceled.....	(236)	10.75-21.25	12.82
December 31, 1996.....	5,412	10.75-21.25	13.22
Granted.....	1,069	18.88-22.88	21.09
Exercised.....	(1,004)	10.75-18.75	14.64
Canceled.....	(217)	10.75-18.75	12.08
December 31, 1997.....	5,260	10.75-22.88	14.59
Granted.....	528	16.94-23.19	21.82
Exercised.....	(327)	10.75-19.35	13.00
Canceled.....	(35)	21.88	21.88
December 31, 1998.....	5,426	\$10.75-22.88	\$ 15.34

Stock options exercisable were 2,825,733, 2,156,000 and 2,103,000 at December 31, 1998, 1997 and 1996, respectively.

SECURITY DOCUMENT NO. 45

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

The following summarizes information about the Company's stock options outstanding as of December 31, 1998:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING		
	NUMBER OUTSTANDING (000S)	WEIGHTED- AVERAGE REMAINING LIFE	WEIGHTED- AVERAGE EXERCISE PRICE
\$10.75 to \$15.75.....	3,243	6.3 years	\$11.98
\$16.25 to \$20.13.....	753	6.0 years	18.00
\$21.19 to \$23.19.....	1,430	8.8 years	21.58
	-----	-----	-----
\$10.75 to \$23.19.....	5,426	6.9 years	\$15.34
	-----	-----	-----
RANGE OF EXERCISE PRICES	OPTIONS EXERCISABLE		
	NUMBER OUTSTANDING (000S)	WEIGHTED- AVERAGE EXERCISE PRICE	
\$10.75 to \$15.75.....	2,012	\$ 12.36	
\$16.25 to \$20.13.....	511	17.93	
\$21.19 to \$23.19.....	303	22.10	
	-----	-----	
\$10.75 to \$23.19.....	2,826	\$ 14.41	
	-----	-----	

In addition to the granting of stock options, the Company has granted shares of restricted stock. Restrictions on certain shares lapse 100% three years from the date of grant. Restrictions on the remaining shares lapse in annual installments of 33% commencing one year from date of grant. The unearned compensation resulting from the grant of restricted shares is reported as a reduction to shareholders' equity in the Consolidated Balance Sheets and is being charged to earnings over the period the restricted shares vest.

Shares available for grant at December 31, 1998 under the stock option plans were 4,501,500.

16. COMMITMENTS AND CONTINGENCIES

The Company and certain of its subsidiaries are liable for lease payments and are defendants in various lawsuits, including actions involving asbestos-containing products and certain environmental proceedings.

With respect to asbestos product liability and related litigation costs, as of December 31, 1998 and 1997, two subsidiaries of the Company were among a number of defendants (typically 15 to 40) in approximately 101,400 and 110,000 actions, respectively (including approximately 4,700 and 2,400 actions, respectively, in advanced stages of processing), filed in various states by

plaintiffs alleging injury or death as a result of exposure to asbestos fibers.

During 1998, 1997 and 1996, two subsidiaries of the Company received approximately 34,400, 38,200 and 39,900 new actions, respectively. Through December 31, 1998, approximately 244,000 of the approximately 345,400 total actions brought have been settled or otherwise disposed.

The damages claimed for personal injury or death vary from case to case and in many cases plaintiffs seek \$1,000 or more in compensatory damages and \$2,000 or more in punitive damages. Although the law in each state differs to some extent, it appears, based on advice of counsel, that liability for compensatory damages would be shared among all responsible defendants, thus limiting the potential monetary impact of such judgments on any individual defendant.

Following a decision of the Pennsylvania Supreme Court, in a case in which neither the Company nor any of its subsidiaries were parties, that held insurance carriers are obligated to cover asbestos-related bodily injury actions if any injury or disease process, from first exposure through manifestation, occurred during a covered

46

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

policy period (the "continuous trigger theory of coverage"), the Company settled litigation with its primary and most of its first-level excess insurance carriers, substantially on the basis of the Court's ruling. The Company has negotiated a final agreement with most of its excess carriers that are in the layers of coverage immediately above its first layer. The Company is currently receiving payments pursuant to this agreement. The Company believes that, with respect to the remaining carriers, a final agreement can be achieved without litigation and on substantially the same basis that it has resolved the issues with its other carriers. Settlements are generally made on a group basis with payments made to individual claimants over periods of one to four years. Payments were made with respect to asbestos liability and related costs aggregating \$53,722 in 1998, \$59,247 in 1997, and \$71,354 in 1996, substantially all of which were covered by insurance. Related to payments not covered by insurance, the Company recorded charges to operations amounting to \$8,000 in 1998, 1997 and 1996.

In accordance with the Company's internal procedures for the processing of asbestos product liability actions and due to the proximity to trial or settlement, certain outstanding actions have progressed to a stage where the Company can reasonably estimate the cost to dispose of these actions. As of December 31, 1998, the Company estimates that the aggregate remaining cost of the disposition of the settled actions for which payments remain to be made and actions in advanced stages of processing, including associated legal costs, is approximately \$116,500, and the Company expects that this cost will be substantially covered by insurance.

With respect to the 96,700 outstanding actions as of December 31, 1998, which are in preliminary procedural stages, the Company lacks sufficient information upon which judgments can be made as to the validity or ultimate disposition of such actions, thereby making it difficult to estimate with reasonable certainty the potential liability or costs to the Company. When asbestos actions are received they are typically forwarded to local counsel to ensure that the appropriate preliminary procedural response is taken. The complaints typically do not contain sufficient information to permit a reasonable evaluation as to their merits at the time of receipt, and in jurisdictions encompassing a majority of the outstanding actions, the practice has been that little or no discovery or other action is taken until several

months prior to the date set for trial. Accordingly, the Company generally does not have the information necessary to analyze the actions in sufficient detail to estimate the ultimate liability or costs to the Company, if any, until the actions appear on a trial calendar. A determination to seek dismissal, to attempt to settle or to proceed to trial is typically not made prior to the receipt of such information.

It is also difficult to predict the number of asbestos lawsuits that the Company's subsidiaries will receive in the future. The Company has noted that, with respect to recently settled actions or actions in advanced stages of processing, the mix of the injuries alleged and the mix of the occupations of the plaintiffs have been changing from those traditionally associated with the Company's asbestos-related actions. The Company is not able to determine with reasonable certainty whether this trend will continue. Based upon the foregoing, and due to the unique factors inherent in each of the actions, including the nature of the disease, the occupation of the plaintiff, the presence or absence of other possible causes of a plaintiff's illness, the availability of legal defenses, such as the statute of limitations or state of the art, and whether the lawsuit is an individual one or part of a group, management is unable to estimate with reasonable certainty the cost of disposing of outstanding actions in preliminary procedural stages or of actions that may be filed in the future. However, the Company believes that its subsidiaries are in a favorable position compared to many other defendants because, among other things, the asbestos fibers in its asbestos-containing products were encapsulated. Considering the foregoing, as well as the experience of the Company's subsidiaries and other defendants in asbestos litigation, the likely sharing of judgments among multiple responsible defendants, and the substantial amount of insurance coverage that the Company expects to be available from its solvent carriers, the Company believes that pending and reasonably anticipated future actions are not likely to have a material effect on the Company's results of operations or financial condition.

Although the insurance coverage which the Company has is substantial, it should be noted that insurance coverage for asbestos claims is not available to cover exposures initially occurring on and after July 1, 1984. The

47

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---(CONTINUED)

(DOLLARS IN THOUSANDS)

Company's subsidiaries continue to be named as defendants in new cases, some of which allege initial exposure after July 1, 1984.

In addition to claims for personal injury, the Company's subsidiaries have been involved in an insignificant number of property damage claims based upon asbestos-containing materials found in schools, public facilities and private commercial buildings. Based upon proceedings to date, the overwhelming majority of these claims have been resolved without a material adverse impact on the Company. Likewise, the insignificant number of claims remaining to be resolved are not expected to have a material effect on the Company's results of operations or financial condition.

The Company has recorded an accrual for its liabilities for asbestos-related matters that are deemed probable and can be reasonably estimated (settled actions and actions in advanced stages of processing), and has separately recorded an asset equal to the amount of such liabilities that is expected to be recovered by insurance. In addition, the Company has recorded a receivable for that portion of payments previously made for asbestos product liability actions and related litigation costs that is recoverable from its insurance carriers. Liabilities for asbestos-related matters and the receivable from insurance carriers included in the Consolidated Balance Sheets were as

follows at December 31, 1998 and 1997:

	1998	1997
	-----	-----
Accounts and notes receivable.....	\$95,448	\$56,039
Other assets.....	32,577	16,249
Accrued expenses.....	93,700	50,688
Other liabilities.....	22,833	2,682

With respect to environmental proceedings, the Company has been notified that it is among the Potentially Responsible Parties under federal environmental laws, or similar state laws, relative to the costs of investigating and in some cases remediating contamination by hazardous materials at several sites. Such laws impose joint and several liability for the costs of investigating and remediating properties contaminated by hazardous materials. Liability for these costs can be imposed on present and former owners or operators of the properties or on parties who generated the wastes that contributed to the contamination. The Company's policy is to accrue environmental remediation costs when it is both probable that a liability has been incurred and the amount can be reasonably estimated. The measurement of liability is based on an evaluation of currently available facts with respect to each individual situation and takes into consideration factors such as existing technology, presently enacted laws and regulations and prior experience in remediation of contaminated sites. Investigations have been completed for approximately 21 sites and continuing investigations are being done at approximately 10 sites. Accruals are provided for all sites based on the factors discussed above. As remediation assessments progress and plans are implemented, estimated costs become more fact-based and less judgment-based. These estimated costs are reviewed periodically and related liabilities adjusted to reflect additional technical and legal information. While it is often difficult to reasonably quantify future environmental-related expenditures, the Company currently estimates its future non-capital expenditures related to environmental matters to range between \$26,000 and \$55,000. In connection with these expenditures, the Company has accrued \$34,277 at December 31, 1998 representing management's best estimate of probable non-capital environmental expenditures. These non-capital expenditures are estimated to be incurred over the next 10 to 20 years. In addition, capital expenditures aggregating \$5,000 may be required during the next two years related to environmental matters. Although the Company is pursuing insurance recovery in connection with certain of these matters, no receivable has been recorded with respect to any potential recovery of costs in connection with any environmental matters.

Under operating lease commitments, expiring on various dates after December 31, 1998, the Company and certain of its subsidiaries are obligated as of December 31, 1998, to pay rentals totaling \$36,794 as follows: \$7,152 in 1999, \$6,184 in 2000, \$4,652 in 2001, \$3,674 in 2002, \$2,907 in 2003 and \$12,225 in later years.

At December 31, 1998, the Company had committed to a minimum employer contribution of \$15,456 to the Company's 401K plans.

48

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

17. SEGMENT INFORMATION

As discussed in note 2 to consolidated financial statements, the Company divested all of its automotive OE components businesses in 1996. Subsequent to the divestitures, the Company reported the results of its business units in two operating segments, Aerospace and Industrial. In 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, effective December 31, 1998, however, the Company's operating segments did not change as a result of adoption of SFAS No. 131. The Company's operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategy. The presentation of sales and operating income under Management's Discussion and Analysis of Financial Condition and Results of Operations--Segment Review--Aerospace and--Segment Review--Industrial are an integral part of the financial statements.

One customer (Boeing) in the Aerospace Segment represented approximately 19% and 14% of the Company's 1998 and 1997 total sales, respectively.

Information on total assets, depreciation of property, plant and equipment and capital expenditures by industry segment was as follows for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
	-----	-----	-----
	(IN MILLIONS)		
Total assets:			
Aerospace.....	\$ 448.9	\$437.3	\$415.5
Industrial.....	365.0	310.6	287.2
Corporate unallocated.....	241.7	185.1	146.8
Total.....	\$1,055.6	\$933.0	\$849.5
Depreciation of property, plant and equipment:			
Aerospace.....	\$ 17.9	\$ 13.4	\$ 12.2
Industrial.....	16.6	14.0	12.9
Corporate unallocated.....	1.2	2.3	1.9
Subtotal.....	35.7	29.7	27.0
Discontinued operations.....	--	--	3.5
Total.....	\$ 35.7	\$ 29.7	\$ 30.5
Capital expenditures:			
Aerospace.....	\$ 23.8	\$ 46.9	\$ 26.9
Industrial.....	29.6	31.4	13.7
Corporate unallocated.....	.1	2.9	4.0
Subtotal.....	53.5	81.2	44.6
Discontinued operations.....	--	--	5.4
Total.....	\$ 53.5	\$ 81.2	\$ 50.0

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATING CONDENSED STATEMENT OF EARNINGS

Information by country was as follows for the years ended December 31, 1998, 1997 and 1996:

	SALES (A)	OPERATING INCOME	TOTAL ASSETS
	-----	-----	-----
	(IN MILLIONS)		
1998			
United States.....	\$1,148.4	\$ 174.4	\$ 564.0
Canada.....	238.2	35.4	182.7
Other foreign countries.....	117.4	15.8	67.2
	-----	-----	-----
Total.....	1,504.0	225.6	813.9
Corporate unallocated.....	--	(37.5)	241.7
	-----	-----	-----
Total.....	\$1,504.0	\$ 188.1	\$1,055.6
	-----	-----	-----
1997			
United States.....	\$1,027.2	\$ 198.4	\$ 590.1
Canada.....	179.3	23.7	141.0
Other foreign countries.....	108.4	15.4	16.8
	-----	-----	-----
Total.....	1,314.9	237.5	747.9
Corporate unallocated.....	--	(39.7)	185.1
	-----	-----	-----
Total.....	\$1,314.9	\$ 197.8	\$ 933.0
	-----	-----	-----
1996			
United States.....	\$ 888.6	\$ 182.5	\$ 554.2
Canada.....	149.0	(5.1)	104.8
Other foreign countries.....	122.1	21.3	43.7
	-----	-----	-----
Total.....	1,159.7	198.7	702.7
Corporate unallocated.....	--	(41.1)	146.8
	-----	-----	-----
Total.....	\$1,159.7	\$ 157.6	\$ 849.5
	-----	-----	-----

(a) Sales are attributed to countries based on shipping location.

50

18. SUPPLEMENTARY EARNINGS INFORMATION

The following expenses were included in the Consolidated Statements of Earnings for the years ended December 31, 1998, 1997 and 1996.

	1998	1997	1996
	-----	-----	-----
Maintenance.....	\$27,908	\$24,000	\$22,816
Taxes, other than federal income taxes			
Payroll.....	30,062	30,025	24,633
Property.....	6,362	4,928	4,626
State and local.....	7,601	6,241	5,121
Rent.....	9,070	8,950	9,965
Research and developments costs.....	54,860	46,548	44,125

19. SUPPLEMENTAL GUARANTOR INFORMATION

As discussed in note 12 to consolidated financial statements, in April

1998, the Company privately placed \$300,000 principal amount of 7 1/2% Senior Notes due 2008 (Senior Notes). Substantially all the Company's subsidiaries incorporated in the United States (the "Subsidiary Guarantors") have fully and unconditionally guaranteed, on a joint and several basis, the Company's obligations to pay principal and interest with respect to the Senior Notes. Each Subsidiary Guarantor is wholly owned and management has determined that separate financial statements for the Subsidiary Guarantors are not material to investors. The subsidiaries of the Company that are not Subsidiary Guarantors are referred to as the "Non-Guarantor Subsidiaries".

The following supplemental consolidating condensed financial statements present balance sheets as of December 31, 1998 and 1997 and statements of earnings and of cash flows for the years ended December 31, 1998, 1997 and 1996. In the consolidating financial statements, Coltec Industries Inc ("Parent") accounts for its investments in wholly-owned subsidiaries using the equity method and the Subsidiary Guarantors account for their investments in Non-Subsidiary Guarantors using the equity method. Interest expense related to the indebtedness under the Company's credit agreement and its three series of senior notes is allocated to United States subsidiaries based on net sales.

51

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED STATEMENT OF EARNINGS

	DECEMBER 31, 1998				
	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Net sales.....	\$517,226	\$610,874	\$ 424,708	\$ (48,754)	\$1,504,054
Cost of sales.....	400,705	413,162	315,618	(48,754)	1,080,731
Gross profit.....	116,521	197,712	109,090	--	423,323
Selling and administrative.....	69,769	116,718	48,717	--	235,204
Operating income.....	46,752	80,994	60,373	--	188,119
Equity earnings in affiliates.....	75,876	41,903	--	(117,779)	--
Gain on divestiture.....	56,194	--	--	--	56,194
Interest expense and other, net.....	(35,234)	(51,381)	34,247	(1,070)	(53,438)
Earnings before income taxes, minority interest and extraordinary item.....	143,588	71,516	94,620	(118,849)	190,875
Income taxes.....	(21,295)	(18,807)	(24,796)	--	(64,898)
Minority interest in net loss of subsidiaries (net of tax).....	--	--	(3,684)	--	(3,684)
Earnings before extraordinary item.....	122,293	52,709	66,140	(118,849)	122,293
Extraordinary item (net of tax).....	(4,326)	--	--	--	(4,326)
Net earnings.....	\$117,967	\$ 52,709	\$ 66,140	\$ (118,849)	\$ 117,967

52

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED STATEMENT OF EARNINGS

	DECEMBER 31, 1997				
	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Net sales.....	\$430,206	\$586,901	\$ 340,833	\$(43,071)	\$1,314,869
Cost of sales.....	295,466	394,948	250,926	(43,071)	898,269
Gross profit.....	134,740	191,953	89,907	--	416,600
Selling and administrative.....	49,854	122,251	46,703	--	218,808
Operating income.....	84,886	69,702	43,204	--	197,792
Equity earnings of subsidiaries.....	55,570	22,156	--	(77,726)	--
Interest expense and other, net.....	(30,505)	(54,975)	31,437	--	(54,043)
Earnings before income taxes.....	109,951	36,883	74,641	(77,726)	143,749
Income taxes.....	(15,077)	(8,630)	(25,168)	--	(48,875)
Net earnings.....	\$ 94,874	\$ 28,253	\$ 49,473	\$(77,726)	\$ 94,874

53

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED STATEMENT OF EARNINGS

	DECEMBER 31, 1996				
	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Net sales.....	\$363,743	\$530,876	\$ 285,875	\$(20,803)	\$1,159,691
Cost of sales.....	253,345	360,074	218,507	(20,803)	811,123
Gross profit.....	110,398	170,802	67,368	--	348,568
Selling and administrative.....	32,749	82,812	75,432	--	190,993
Operating income.....	77,649	87,990	(8,064)	--	157,575
Equity earnings of subsidiaries.....	43,755	12,820	--	(56,575)	--
Interest expense and other, net.....	(66,891)	(16,676)	8,673	--	(74,894)
Earnings from continuing operations before income taxes and extraordinary item.....	54,513	84,134	609	(56,575)	82,681
Income taxes.....	19,309	(24,672)	(22,748)	--	(28,111)
Earnings from continuing operations before extraordinary item.....	73,822	59,462	(22,139)	(56,575)	54,570
Discontinued operations (net of tax).....	37,931	--	19,252	--	57,183
Extraordinary item (net of tax).....	(30,614)	--	--	--	(30,614)
Net earnings.....	\$ 81,139	\$ 59,462	\$ (2,887)	\$(56,575)	\$ 81,139

54

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED BALANCE SHEET

	DECEMBER 31, 1998				
	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Cash and cash equivalents.....	\$ 6,422	\$ 8,522	\$ 6,841		\$ 21,785
Accounts and notes receivable, net.....	--	20,943	127,242		148,185
Inventory, net.....	88,474	56,470	91,059		236,003
Deferred income taxes.....	9,388	8,532	2,544		20,464
Other current assets.....	6,030	5,123	4,459		15,612
Total current assets.....	110,314	99,590	232,145	--	442,049
Intercompany, net.....	(915,938)	324,944	590,994		--
Investments in affiliates.....	1,024,416	74,489	850	\$ (1,099,755)	--
Property, plant and equipment.....	113,069	109,991	83,582		306,642
Cost in excess of net assets acquired, net.....	58,924	134,861	20,862		214,647
Other assets.....	46,922	2,953	42,435		92,310
Total assets.....	\$ 437,707	\$746,828	\$ 970,868	\$ (1,099,755)	\$ 1,055,648
Total current liabilities.....	\$ 89,170	\$ 31,605	\$ 152,030		\$ 272,805
Long-term debt.....	484,107	2,096	91,275		577,478
Deferred income taxes.....	(19,731)	141,446	18,194		139,909
Other liabilities.....	49,488	12,018	28,750	\$ (4,766)	85,490
Liabilities of discontinued operations	134,995	--	--		134,995
Company-obligated, mandatorily redeemable convertible preferred securities.....	--	--	145,293		145,293
Shareholders' equity.....	(300,322)	559,663	535,326	(1,094,989)	(300,322)
Total liabilities and shareholders' equity.....	\$ 437,707	\$746,828	\$ 970,868	\$ (1,099,755)	\$ 1,055,648

55

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED BALANCE SHEET

DECEMBER 31, 1997

	PARENT	GUARANTOR	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Cash and cash equivalents.....	\$ 9,912	\$ 722	\$ 4,059		\$ 14,693
Accounts and notes receivable, net.....	--	24,130	96,181		120,311
Inventory, net.....	99,100	71,958	85,678		256,736
Deferred income taxes.....	4,535	10,689	(29)		15,195
Other current assets.....	4,540	10,406	5,562		20,508
Total current assets.....	118,087	117,905	191,451	--	427,443
Intercompany, net.....	(741,897)	47,684	694,213		--
Investments in affiliates.....	1,057,890	355,399	2,688	\$ (1,415,977)	--
Property, plant and equipment.....	89,488	118,405	79,726		287,619
Cost in excess of net assets acquired, net.....	21,820	133,441	2,490		157,751
Other assets.....	40,266	3,490	16,465		60,221
Total assets.....	\$ 585,654	\$776,324	\$ 987,033	\$ (1,415,977)	\$ 933,034
Total current liabilities.....	\$ 93,669	\$ 49,494	\$ 96,415		\$ 239,578
Long term debt.....	689,302	1,611	66,665		757,578
Deferred income taxes.....	(32,780)	101,871	10,138		79,229
Other liabilities.....	51,406	12,844	10,544	\$ (2,202)	72,592
Liabilities of discontinued operations...	143,218	--	--		143,218
Shareholders' equity.....	(359,161)	610,504	803,271	(1,413,775)	(359,161)
Total liabilities and shareholders' equity.....	\$ 585,654	\$776,324	\$ 987,033	\$ (1,415,977)	\$ 933,034

56

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 1998

	PARENT	GUARANTOR	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Cash from operating activities.....	\$ 131,737	\$ 7,800	\$ 2,782	--	\$ 142,319
Cash flows from investing activities:					
Proceeds from divestiture.....	100,000	--	--		100,000
Capital expenditures.....	(22,921)	(17,863)	(12,761)		(53,545)
Acquisition of businesses.....	(26,127)	(17,133)	(50,982)		(94,242)
Cash from (to) Parent.....	(98,739)	34,996	63,743		--
Cash used in investing activities.....	(47,787)	--	--	--	(47,787)
Cash flows from financing activities:					
Issuance of long-term debt.....	291,451	--	--		291,451
Issuance of convertible preferred securities.....			143,999		143,999
Repayment of long-term debt.....	(7,160)	(1,632)	(15,473)		(24,265)
Increase (decrease) in revolving facility, net.....	(498,000)	--	40,000		(458,000)
Purchase of treasury stock.....	(51,371)	--	--		(51,371)
Payments for unclaimed stock.....	(3,871)				(3,871)
Proceeds from sale of accounts receivable.....	--	--	12,500		12,500
Proceeds from exercise of stock options...	2,117	--	--		2,117
Cash from (to) Parent.....	179,394	1,632	(181,026)		--
Cash used in financing activities.....	(87,440)	--	--	--	(87,440)
Increase (decrease) in cash and cash equivalents.....	(3,490)	7,800	2,782		7,092
Cash and cash equivalents--beginning of period.....	9,912	722	4,059		14,693
Cash and cash equivalents--end of period.....	\$ 6,422	\$ 8,522	\$ 6,841	--	\$ 21,785

57

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 1997

	PARENT	GUARANTOR	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Cash from operating activities.....	\$ 66,192	\$ 152	\$ (4,925)	--	\$ 61,419
Cash flows from investing activities:					
Capital expenditures.....	(28,720)	(29,542)	(22,956)		(81,218)
Acquisition of businesses.....	(32,716)	(27,995)	--		(60,711)
Cash from (to) Parent.....	(80,493)	57,537	22,956		--
Cash used in investing activities.....	(141,929)	--	--	--	(141,929)
Cash flows from financing activities:					
Issuance of long-term debt.....	813	--	--		813
Repayment of long-term debt.....	(4,929)	(133)	(3,051)		(8,113)
Increase (decrease) in revolving facility, net.....	(500)	--	40,000		39,500
Purchase of treasury stock.....	(42,695)	--	--		(42,695)
Proceeds from sale of accounts receivable.....	--	--	82,500		82,500
Proceeds from exercise of stock options....	8,169	--	--		8,169
Cash from (to) Parent.....	119,316	133	(119,449)		--
Cash provided by financing activities...	80,174	--	--	--	80,174
Increase (decrease) in cash and cash equivalents.....	4,437	152	(4,925)		(336)
Cash and cash equivalents--beginning of period.....	5,475	570	8,984		15,029
Cash and cash equivalents--end of period....	\$ 9,912	\$ 722	\$ 4,059	--	\$ 14,693

58

COLTEC INDUSTRIES INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 1996

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
Cash from operating activities.....	\$ 43,920	\$ (179)	\$ 5,762	--	\$ 49,503
Cash flows from investing activities:					
Capital expenditures.....	(20,799)	(8,376)	(15,375)		(44,550)
Proceeds from divestitures.....	329,113	--	--		329,113
Cash from (to) Parent.....	(23,751)	8,376	15,375		--
Cash provided by investing activities.....	284,563	--	--	--	284,563
Cash flows from financing activities:					
Proceeds from debt refinancing.....	542,000	--	--		542,000
Repayment of long-term debt.....	(622,582)	--	--		(622,582)
Decrease in revolving facility, net.....	(196,000)	--	--		(196,000)
Purchase of treasury stock.....	(46,426)	--	--		(46,426)
Cash used in financing activities.....	(323,008)	--	--	--	(323,008)
Increase (decrease) in cash and cash equivalents.....	5,475	(179)	5,762		11,058
Cash and cash equivalents--beginning of period.....	--	749	3,222		3,971
Cash and cash equivalents--end of period...	\$ 5,475	\$ 570	\$ 8,984	--	\$ 15,029

59

COLTEC INDUSTRIES INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(DOLLARS IN THOUSANDS)

20. PENDING MERGER

On November 22, 1998, the Company and The B. F. Goodrich Company ("BFGoodrich"), entered into an Agreement and Plan of Merger ("Merger Agreement"). Under the terms of the Merger Agreement, upon consummation of the Merger, each share of Coltec common stock issued and outstanding immediately prior to the effective time of the Merger shall be converted into the right to receive 0.56 of a share of BFGoodrich common stock. The Merger will be accounted for as a pooling of interests. A special meeting of the shareholders of the Company has been scheduled for April 9, 1999 at which the Company shareholders will consider and vote upon a proposal to approve and adopt the Merger Agreement.

The unaudited pro forma combined financial data is presented for informational purposes only. They are not necessarily indicative of the results of operations or of the financial position which would have occurred had the Merger been completed during the periods or as of the date for which the pro forma data are presented. They are also not necessarily indicative of the combined Company's future results of operations or financial position. In particular, the combined company expects to realize significant operating cost savings as a result of the Merger. No adjustment has been included in the pro forma combined financial data for these anticipated operating cost savings nor for the one-time merger and consolidation costs expected to be incurred upon consummation of the Merger.

Pro forma per share amounts for the combined company are based on the Exchange Ratio of 0.56 of a share of BFGoodrich common stock for each share of Coltec common stock.

UNAUDITED SELECTED PRO FORMA COMBINED FINANCIAL DATA
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Pro Forma Combined Statement of Income Data:			
Sales.....	\$ 5,454.9	\$ 4,687.9	\$ 4,005.5
Income from continuing operations.....	350.4	208.1	170.1
Income from continuing operations per diluted common share.....	3.08	1.86	1.57
Weighted average number of common shares and assumed conversion (on a fully diluted basis) (millions).....	113.9	112.1	109.8

DECEMBER 31,
1998

Pro Forma Combined Balance Sheet Data:

Total assets.....	\$5,293.5
Total shareholders' equity.....	1299.3
Book value per common share.....	11.84

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

60
PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The directors and executive officers of Coltec are set forth below.

NAME	AGE	POSITION
John W. Guffey, Jr.....	61	Chairman of the Board, Chief Executive Officer and Director.
Nishan Teshoian.....	57	President, Chief Operating Officer and Director.
David D. Harrison.....	51	Executive Vice President, Chief Financial Officer and Director.
Laurence H. Polsky.....	55	Executive Vice President, Administration.
Robert J. Tubbs.....	51	Executive Vice President, General Counsel and Secretary.
Michael J. Burdulis.....	53	Senior Vice President, Group Operations.
Paul R. Kuhn.....	57	Senior Vice President, Group Operations.
Joseph F. Andolino.....	46	Vice President, Business Development and Taxes.
John N. Maier.....	47	Vice President and Controller.
Joseph R. Coppola.....	68	Director.
William H. Grigg.....	66	Director.
William R. Holland.....	60	Director.
David I. Margolis.....	69	Director.
Joel Moses.....	57	Director.
Richard A. Stuckey.....	67	Director.

Biographical information concerning the directors and executive officers of Coltec is as follows:

Mr. Guffey, Chairman of the Board and Chief Executive Officer of Coltec since January 1998. Chairman of the Board, Chief Executive Officer and President of Coltec from February 1995 to December 1997. Member of the Executive Committee and member of the Nominating Committee of Coltec. President and Chief Operating Officer of Coltec from prior to 1993 to January 1995. Director of Gleason Corp., a manufacturer of machine tools.

Mr. Teshoian, President and Chief Operating Officer since January 1998. Chairman of the Board and Chief Executive Officer of Keystone International, Inc., a diversified manufacturing company, from August 1995 to December 1997. Executive Vice President of Operations of the Tools and Hardware Division of Cooper Industries, Inc., a diversified manufacturing company ("Cooper Industries"), from June 1993 to July 1995. President of the Belden Division of Cooper Industries from prior to 1993 to August 1993.

Mr. Harrison, Executive Vice President and Chief Financial Officer since January 1997. Executive Vice President, Chief Financial Officer and Treasurer from October 1996 to January 1997. Executive Vice President and Chief Financial Officer of Pentair Inc. from February 1994 to August 1996. From prior to 1993 to February 1994, Vice President, Finance of General Electric Appliances Canada (CAMCO).

Mr. Polsky, Executive Vice President, Administration since January 1994. Senior Vice President, Administration from prior to 1993 to December 1993.

Mr. Tubbs, Executive Vice President, General Counsel and Secretary since January 1997. Senior Vice President, General Counsel and Secretary from November 1995 to January 1997. Senior Vice President and General Counsel from March 1995 to November 1995. General Counsel-Operations of Olin Corporation ("Olin"), a chemical and metals manufacturing company, from May 1993 to February 1995. Deputy General Counsel of Olin from prior to 1993 to May 1993.

61

Mr. Burdulis, Senior Vice President, Group Operations since June 1996. Group President from January 1995 to May 1996. President of the Garlock Sealing Technologies Division from February 1994 to December 1994. President of the Central Moloney Transformer Division from prior to 1993 to January 1994.

Mr. Kuhn, Senior Vice President, Group Operations since January 1998. Group President and President of Chandler Evans Control Systems Division from January 1993 to December 1997.

Mr. Andolino, Vice President, Business Development and Taxes, since April 1998. Group President and Vice President, Taxes from July 1997 to April 1998. Vice President, Taxes from March 1997 to June 1997. Staff Vice President, Taxes from June 1995 to March 1997. Senior Tax Counsel of AlliedSignal Inc., a diversified manufacturing company, from prior to 1993 to May 1995.

Mr. Maier, Vice President and Controller since March 1997. Staff Vice President and Controller from March 1995 to March 1997. Vice President and Controller of Lukens, Inc., a specialty steel and industrial products company, from prior to 1993 to February 1995.

Mr. Coppola, Member of the Audit Committee, member of the Stock Option and Compensation Committee (the "Compensation Committee") and Chairman of the Nominating and Corporate Governance Committee (the "Nominating Committee") of Coltec. Chairman, Chief Executive Officer and President of Giddings & Lewis, Inc. ("Giddings & Lewis"), a machine tool manufacturing company, from July 1993 to retirement from Giddings & Lewis in July 1997. From prior to 1993 to July 1993 he was Senior Vice President, Manufacturing Services of Cooper Industries.

Director of Belden Inc., a manufacturer of electrical wire and cable.

Mr. Grigg, Chairman of the Audit Committee and member of the Nominating Committee of Coltec. Chairman and Chief Executive Officer of Duke Power Company, now Duke Energy Corporation ("Duke"), a public utility company, from April 1994 to June 1997. Mr. Grigg retired from Duke in December 1997. Vice Chairman of Duke from prior to 1993 to April 1994. Director of Duke and the following mutual funds: Hatteras Income Securities Inc., Nations Fund Inc., Nations Fund Trust, Nations Fund Portfolios Inc., Nations LifeGoal Portfolios Inc., Nations Institutional Reserves Inc., Nations Government Income Term Trust 2003, Inc., Nations Government Income Term Trust 2004, Inc. and Nations Balanced Target Maturity Inc. Director of Shaw Group, Inc., a designer, manufacturer and service provider of complex piping systems.

Mr. Holland, Member of the Audit Committee and member of the Compensation Committee of Coltec. Chairman and Chief Executive Officer of United Dominion Industries ("United Dominion"), a diversified manufacturing company, from 1987 to present. From prior to 1987 Mr. Holland held various executive positions at United Dominion. Director of J. A. Jones Construction Co., a construction company. Director of Carolinas HealthCare System, a healthcare medical facility.

Mr. Margolis, Chairman of the Executive Committee of Coltec since October 1994. Chairman of the Board and Chief Executive Officer of Coltec from prior to 1993 to retirement from Coltec in January 1995. Director of Burlington Industries, Inc., a manufacturer of textiles.

Mr. Moses, Chairman of the Compensation Committee and member of the Executive Committee of Coltec. Formerly Provost, Massachusetts Institute of Technology ("MIT"), from June 1995 to July 1998. D.C. Jackson Professor of Computer Science and Engineering, MIT since prior to 1993. Dean, School of Engineering, MIT, from prior to 1993 to June 1995. Director of Analog Devices, Inc., a manufacturer of integrated circuits.

Mr. Stuckey, Member of the Audit Committee and member of the Compensation Committee of Coltec. Chief Economist, E.I. du Pont de Nemours and Company, Inc. ("du Pont"), a diversified chemical manufacturing company, from prior to 1993 to retirement from du Pont in December 1994. Economic consultant since January 1995.

All officers serve at the pleasure of the Board of Directors. None of the executive officers or directors of Coltec is related to any other executive officer or director by blood, marriage or adoption.

62

ITEM 11. EXECUTIVE COMPENSATION.

The following table provides certain summary information concerning the compensation of Coltec's Chief Executive Officer and each of the four other most highly compensated executive officers of Coltec (determined as of December 31, 1998) (hereinafter referred to as the "named executive officers") for the fiscal years ended December 31, 1998, 1997 and 1996:

SUMMARY COMPENSATION TABLE

(A)	ANNUAL COMPENSATION				LONG TERM COMPENSATION		
	(B)	(C)	(D)	(E)	AWARDS		PAYOUTS
		SALARY	BONUS	OTHER ANNUAL	RESTRICTED	SECURITIES	LTIP
NAME AND PRINCIPAL POSITION	YEAR	\$	\$	COMPENSATION (\$)	STOCK AWARDS (\$ (1))	UNDERLYING OPTIONS	PAYOUT (\$ (2))
John W. Guffey, Jr	1998	775,000	1,600,000	--	--	--	574,000
Chairman of the Board and	1997	727,680	2,200,000	--	--	700,000	525,350
Chief Executive Officer	1996	693,000	1,300,000	--	152,584	--	1,396,500
Nishan Teshoian	1998	550,000	600,000	--	--	200,000	136,667
President and Chief Operating Officer							
David D. Harrison	1998	396,360	600,000	--	--	--	155,321
Executive Vice President	1997	381,420	800,000	--	--	--	--
and Chief Financial Officer	1996	123,340	400,000	--	1,041,250	250,000	--
Laurence H. Polsky	1998	363,120	600,000	--	--	--	164,000
Executive Vice President,	1997	342,600	800,000	--	--	--	150,100
Administration	1996	326,280	475,000	--	26,708	--	441,000
Robert J. Tubbs	1998	294,240	550,000	--	--	--	142,133
Executive Vice President,	1997	283,000	650,000	--	--	55,000	105,207
General Counsel and Secretary	1996	231,060	350,000	--	--	--	--

(A)	(I)
NAME AND PRINCIPAL POSITION	ALL OTHER COMPENSATION (\$ (3))
John W. Guffey, Jr	359,900
Chairman of the Board and	210,650
Chief Executive Officer	328,205
Nishan Teshoian	235,353
President and Chief Operating Officer	
David D. Harrison	143,182
Executive Vice President	147,471
and Chief Financial Officer	166,762
Laurence H. Polsky	141,187
Executive Vice President,	401,213
Administration	141,708
Robert J. Tubbs	125,054
Executive Vice President,	145,978
General Counsel and Secretary	95,321

- (1) The restricted stock owned by each of the named executive officers at December 31, 1998 and the values thereof based on the closing price of the Common Stock on December 31, 1998 were as follows: Mr. Guffey, 24,136 shares, \$470,652; Mr. Teshoian, 25,000 shares, \$487,500; Mr. Harrison, 23,334 shares, \$455,013; Mr. Polsky, 10,626 shares, \$207,207; and Mr. Tubbs, 1,554 shares, \$30,303.

With respect to Mr. Guffey's shares, restrictions on 10,775 shares lapsed on January 2, 1999, restrictions on 10,774 shares are scheduled to lapse on January 2, 2000 and restrictions on 2,587 shares are scheduled to lapse on January 2, 2001. With respect to Mr. Teshoian's shares, restrictions on 8,333 shares lapsed on January 5, 1999, restrictions on 8,333 shares are scheduled to lapse on January 5, 2000 and restrictions on 8,334 shares are scheduled to lapse on January 5, 2001. With respect to Mr. Harrison's shares, restrictions on 23,334 shares are scheduled to lapse on August 20,

1999. With respect to Mr. Polsky's shares, restrictions on 6,563 shares lapsed on January 2, 1999, restrictions on 3,324 shares are scheduled to lapse on January 2, 2000 and restrictions on 739 shares are scheduled to lapse on January 2, 2001. With respect to Mr. Tubbs' shares, restrictions on 518 shares lapsed on January 2, 1999 and restrictions on 518 shares are scheduled to lapse on each of January 2, 2000 and 2001. Any dividends payable on the Common Stock would also be payable on such restricted stock.
- (2) The amounts for 1998 are payments in January 1999 of the value of the three-year 1996 Performance Cycle that ended on December 31, 1998 pursuant to the 1994 Long-Term Incentive Plan. One-third of such amounts were converted into restricted stock (33,319 shares for Mr. Guffey, 2,404 shares for Mr. Teshoian, 3,989 shares for Mr. Harrison, 2,885 shares for Mr. Polsky and 2,500 shares for Mr. Tubbs) with restrictions scheduled to lapse in three equal annual installments beginning January 2, 2000.
- (3) Pursuant to the Savings Plan, the amounts credited by Coltec for each of Messrs. Guffey, Polsky and Tubbs for 1998, 1997 and 1996 were \$10,000, \$9,500 and \$9,000, respectively. Such amounts for Mr. Teshoian for 1998 were \$10,000 and for Mr. Harrison were \$10,000 for 1998, \$9,500 for 1997 and \$3,500 for 1996. Such amounts are included in the amounts in column (i) above.

Pursuant to the defined contribution portion of the Benefits Equalization Plan, the amounts credited by Coltec for 1998, 1997, and 1996 for each of the named executive officers were as follows: Mr. Guffey, \$264,900 for 1998, \$112,161 for 1997 and \$89,220 for 1996; Mr. Teshoian, \$59,400 for 1998; Mr. Harrison, \$98,182 for 1998, \$85,367 for 1997 and \$2,050 for 1996; Mr. Polsky, \$96,187 for 1998, \$39,556 for 1997 and \$31,577 for 1996; and Mr. Tubbs, \$80,054 for 1998, \$28,481 for 1997 and \$15,664 for 1996. Such amounts are included in the amounts in column (i) above.

(Footnotes continued on next page)

63

(Footnotes continued from previous page)

The costs to Coltec for 1996 for whole life insurance, measured by the excess of premiums paid over the cash surrender value were as follows: Mr. Guffey, \$16,772; Mr. Harrison, \$26,033; and Mr. Tubbs, \$18,455. Such amounts are included in the amounts in column (i) above.

The whole life insurance program was changed in 1997 so that Coltec is reimbursed from the insurance proceeds paid upon the executive's death for the premiums it previously paid. The total premiums paid for the named executive officers in 1998 and 1997 were as follows: Mr. Guffey, \$85,000 for each of 1998 and 1997; Mr. Teshoian, \$50,000 for 1998; Mr. Harrison, \$35,000 for each of 1998 and 1997; Mr. Polsky, \$35,000 for each of 1998 and 1997; and Mr. Tubbs \$35,000 for each of 1998 and 1997. Such amounts are included in the amounts in column (i) above.

Relocation expenses in 1997 and 1996 in connection with the move of the corporate office to Charlotte, North Carolina, for each of the named executive officers were as follows: Mr. Guffey, \$3,989 for 1997 and \$213,213 (including \$93,778 as reimbursement for taxes) for 1996; Mr. Harrison, \$3,104 (including \$2,152 as reimbursement for taxes) for 1997 and \$135,179 (including \$57,306 as reimbursement for taxes) for 1996; Mr. Polsky, \$57,157 (including \$26,818 as reimbursement for taxes) for 1997 and \$101,131 (including \$36,846 as reimbursement for taxes) for 1996; and Mr. Tubbs, \$72,997 (including \$2,535 as reimbursement for taxes) for 1997 and \$52,202 (including \$19,219 as reimbursement for taxes) for 1996. Relocation expenses in 1998 for Mr. Teshoian were \$115,953 (including \$54,404 as reimbursement for taxes). Such amounts are included in column (i) above.

The amounts included in column (i) above for 1997 for Messrs. Polsky and Harrison include payments (\$260,000 to Mr. Polsky and \$62,500 to Mr. Harrison) which compensation was the difference between the price of the Common Stock at the time of the grant of the options pursuant to the 1992 Stock Option and Incentive Plan, and the agreed upon exercise price of said options which had been negotiated by each of them at the time of acceptance of employment. Most of the amount for Mr. Polsky, after withholding tax deductions, was used by Mr. Polsky in 1997 to purchase shares of Common Stock.

STOCK OPTIONS

The following table contains information concerning 1998 grants of stock options under Coltec's 1992 Stock Option and Incentive Plan to the named executive officers and the potential realizable value of these option grants based on assumed rates of stock appreciation of 5% and 10% per year over the 10-year term of the options.

OPTION GRANTS IN 1998

INDIVIDUAL GRANTS					POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATION FOR OPTION TERM (1)	
(A)	(B)	(C)	(D)	(E)	(F)	(G)
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) (2)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1998	EXERCISE OR BASE PRICE (\$/SH)	EXPIRATION DATE	5% (\$)	10% (\$)
Nishan Teshoian.....	200,000	39.5	\$22.56	January 4, 2008	2,837,572	7,190,965

- (1) These appreciation rates are arbitrary assumptions specified by the SEC and do not represent Coltec's predictions as to actual appreciation rates.
- (2) The options are nonqualified options exercisable to the extent of 20% of the total commencing January 5, 1999 with an additional 20% becoming exercisable annually thereafter until fully exercisable on January 5, 2003. Exercise of an option may be by cash, negotiable certificates representing whole shares of Common Stock (or, subject to the approval of the Compensation Committee, through the withholding of Common Stock which would otherwise have been received upon exercise of the option) or any combination thereof. The option agreement contains provisions protecting the option holder in the event of a change-in-control. See "Employment Contracts and Termination of Employment and Change-In-Control Arrangements" for additional information.

64

OPTION EXERCISES AND HOLDINGS

The following table contains information with respect to the named executive officers concerning the options exercised during 1998 and the options held as of December 31, 1998 (Messrs. Guffey and Polsky were the only named executive officers who exercised options during 1998):

AGGREGATED OPTION EXERCISES IN 1998 AND DECEMBER 31, 1998 OPTION VALUES

(A)	(B)	(C)	(D)	
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$) (1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998	
			EXERCISABLE	UNEXERCISABLE
John W. Guffey, Jr.....	60,000	705,000	820,333	709,667
Nishan Teshoian.....	--	--		200,000
David D. Harrison.....	--	--	100,000	150,000
Laurence H. Polsky.....	50,000	676,563	220,000	100,000
Robert J. Tubbs.....	--	--	143,000	132,000

(A)	(E)	
NAME	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998 (\$) (2)	
	EXERCISABLE	UNEXERCISABLE
John W. Guffey, Jr.....	\$ 3,674,000	\$ 1,999,750
Nishan Teshoian.....	\$	0
David D. Harrison.....	\$ 462,500	\$ 693,750
Laurence H. Polsky.....	\$ 1,005,000	\$ 875,000
Robert J. Tubbs.....	\$ 936,875	\$ 647,500

- (1) Value realized based on the closing price of Coltec's common stock on the exercise date minus the exercise price.
- (2) Total value of options based on the closing price of the Common Stock of \$19.50 on December 31, 1998 minus the exercise price. The actual gain, if any, an executive officer realizes will depend on the market price of the Common Stock at the time of exercise. "In-the-money" means the closing price of the Common Stock on December 31, 1998 is greater than the exercise price of the option.

LONG TERM INCENTIVE PLANS--AWARDS IN 1998

The following table contains information concerning 1998 awards under Coltec's Long Term Incentive Plan ("LTIP") to the named executive officers.

Amounts shown in column (e) below are based upon the cumulative operating profit of \$599.6 million for the 3 year performance cycle beginning January 1, 1996 and ending December 31, 1998, as determined by the Stock Option and Compensation Committee on January 14, 1999. This value is an arbitrary assumption specified by the SEC, and does not represent Coltec's prediction as to the cumulative operating profit for any other performance cycle.

NOTE:

NAME (A)	NUMBER OF SHARES, UNITS OR OTHER RIGHTS (#) (B)	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT (C)	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE-BASED PLANS		
			THRESHOLD (\$) (D)	TARGET (\$) (E)	MAXIMUM (\$) (F)
John W. Guffey, Jr.....	35,000 (1)	3 years	420,000	544,950	(1)
Nishan Teshoian.....	25,000 (2)	1 year	300,000	410,000	410,000 (2)
	25,000 (3)	2 years	300,000	399,500	(3)
	50,000 (1)	3 years	600,000	778,500	(1)
David D. Harrison.....	12,000 (1)	3 years	144,000	186,840	(1)
Laurence H. Polsky.....	10,000 (1)	3 years	120,000	155,700	(1)
Robert J. Tubbs.....	10,000 (1)	3 years	120,000	155,700	(1)

65

- (1) Performance units granted under the LTIP for the performance cycle beginning January 1, 1998 and ending December 31, 2000 (the "1998 performance cycle"). The threshold target and award value schedule applicable to performance units granted under the LTIP for the 1998 performance cycle is as follows:

PERFORMANCE TARGETS FOR CUMULATIVE OPERATING
PROFIT

AWARD VALUE

Less than \$492.3 million *	\$ 0.00
\$492.3 million	\$12.00
Over \$492.3 million	\$12.00 plus \$0.0333 for each \$1 million over \$492.3 million

* Threshold target.

- (2) Performance units granted under the LTIP for the performance cycle beginning January 1, 1996 and ending December 31, 1998 (the "1996 performance cycle"). The threshold target and award value schedule applicable to performance units granted under the LTIP for the 1996 performance cycle is as follows:

PERFORMANCE TARGETS FOR CUMULATIVE OPERATING
PROFIT

AWARD VALUE

Less than \$467.7 million *	\$ 0.00
\$467.7 million	\$12.00
Over \$467.7 million	\$12.00 plus \$0.0333 for each \$1 million over \$467.7 million

* Threshold target.

The amount shown in column (f) is based upon the cumulative operating profit for the 1996 performance cycle of \$599.6 million and the award value for the 1996 performance cycle of \$16.40 per performance unit, as determined by the Stock Option and Compensation Committee on January 14, 1999.

6 years of credited service as an employee of one of Coltec's subsidiary corporations); Mr. Teshoian, \$1,150,008 and 1 year; Mr. Harrison, \$1,157,494 and 2 years; Mr. Polsky, \$849,960 and 7 years; and Mr. Tubbs \$705,230 and 4 years. Compensation covered under the pension plans includes amounts reported in columns (c) and (d) of the Summary Compensation Table. Coltec has agreed to calculate the pension benefits of Mr. Guffey as if his prior service with a subsidiary was earned under the plan (which service is included in the figures set forth above).

67

COMPENSATION OF DIRECTORS

Directors who are not also employees of Coltec receive a retainer at the annual rate of \$25,000 (\$30,000 if Chairperson of a Committee) and receive \$1,250 per meeting for attendance at meetings of the Board of Directors and its committees with a maximum of \$2,000 for more than one meeting on the same day (\$2,500 if Chairperson of one of the meetings). A fee of \$750 is paid for each meeting of the Board of Directors held by unanimous written consent or where the attendance of the director at such meeting is by means of a telephone conference or similar communications equipment. The Board of Directors has established a retirement age policy which provides that a director shall not be eligible for nomination to the Board of Directors if such person has attained the age of 70.

The pension arrangement for directors who are not entitled to a pension from Coltec or any subsidiary thereof was terminated in July 1996 for all directors serving at that time. In accordance with the 1997 Restricted Stock Plan for Outside Directors (the "Restricted Stock Plan") approved by shareholders at the 1997 Annual Meeting of Shareholders, the present value of the accrued lifetime pension benefit for these directors was calculated and arrangements were made to convert these amounts to restricted stock based on market values on the dates the directors would otherwise have vested in pension benefits. In accordance with this arrangement, on June 11, 1998, Professor Moses was granted 189 shares of restricted stock. The restrictions on the shares granted under the Restricted Stock Plan will lapse upon termination of such director's membership on the Board of Directors. Directors elected after July 1996 will receive restricted stock at the time of first election by the shareholders in a number of shares based on one-half of the amount of the director annual retainer in effect at that time and the then market value of the Common Stock. The Restricted Stock Plan was amended in January 1998 to provide that in the event of a change-in-control (as defined in the plan), all restrictions on assignment, transfer or other disposition of the restricted stock lapse.

Payment of director retainer, committee or attendance fees may be deferred in whole or in part, at the option of a non-employee director, under Coltec's Deferred Compensation Plan for Non-Employee Directors (the "Deferred Compensation Plan") adopted by the Board of Directors in January 1996. The Deferred Compensation Plan provides that any fees deferred thereunder shall be credited at the end of each quarter to (i) a share account, which allows for the purchase of share units that represent shares of Common Stock, (ii) a cash account, which pays interest at a rate based on the ninety-day Treasury bill rate over the past twelve months, or (iii) a combination of both. The amount deferred under the Deferred Compensation Plan will be paid, at the non-employee director's option, in a lump sum or over a ten-year period commencing on the first business day of the calendar year following the year during which the non-employee director ceases to be a director of Coltec. Messrs. Coppola and Stuckey participate in the Deferred Compensation Plan. As of December 31, 1998, Messrs. Coppola and Stuckey have 10,614 and 927 units, respectively, credited to their share accounts.

Pursuant to the 1994 Stock Option Plan for Outside Directors of Coltec Industries Inc (the "1994 Stock Option Plan for Outside Directors"), non-employee directors receive option grants to purchase 3,000 shares of Common

Stock on each reelection date during their service on the Board of Directors. The 1994 Stock Option Plan for Outside Directors provides for the acceleration of the vesting of all options to acquire Common Stock theretofore or thereafter granted in the event of a change-in-control (as defined in the plan). Unless earlier terminated by the Board of Directors of Coltec, the 1994 Stock Option Plan for Outside Directors will terminate on July 1, 2004 and no further options will be awarded after that date.

In May 1995, the Board of Directors approved change-in-control arrangements for non-employee directors who do not continue to serve as a director of Coltec during any part of the two-year period following a change-in-control for reasons other than voluntary resignation or voluntary choice not to stand for reelection. Pursuant thereto each such director would receive a lump sum payment equal to five times the amount of the director's annual retainer at the time he or she ceases to be a director.

68

EMPLOYMENT CONTRACTS, SEVERANCE ARRANGEMENTS AND CHANGE-IN-CONTROL ARRANGEMENTS.

Outstanding Stock-Based Awards

All currently outstanding agreements granting restricted stock or stock options to the named executive officers in the Summary Compensation Table contain change-in-control provisions. In the case of the restricted stock, in the event of a change-in-control, all restrictions on assignment, transfer or other disposition of the restricted stock lapse. In the case of stock options, in the event of a change-in-control, the options become fully exercisable, or in the discretion of the Board of Directors, for options granted before October 9, 1997, the named executive officer may surrender all or part of his or her options to Coltec (or its successor) during a one-year period after the change-in-control in exchange for a cash payment for each option surrendered equal to the excess of the fair market value of the Common Stock on the date of surrender over the option price. Fair market value for this purpose equals the last sales price of the Common Stock on the surrender date on the NYSE Composite Tape (or, if no such sale occurred on such date, the last date preceding such date on which a sale was reported), except that, in the case of a change of ownership of more than 35% of the outstanding shares of Common Stock, fair market value means the amount of cash and fair market value of other consideration tendered for such outstanding shares.

Employment Agreements

As of July 15, 1998, Coltec entered into employment agreements with all of the named executive officers. The agreements expire, upon the terms and conditions contained in the agreements until terminated in accordance with the provisions set forth in Section 5 of the agreements. The July 15, 1998 agreements supersede all prior employment agreements. On November 1, 1998, Mr. Teshoian's agreement was modified to clarify Sections 6.6 and 6.7 of the agreement and in all other respects, Mr. Teshoian's employment agreement remains in full force and effect. Compensation payable under the employment agreements is at current salary rates, with participation in incentive and employee benefit plans at the discretion of the Board of Directors. Without the executive's consent, the executive cannot be assigned duties or responsibilities inconsistent with his position.

Each of the employment agreements contains covenants prohibiting the executive from competing with Coltec for a specified period of time following termination of employment. If during the term of any such agreement a change-in-control (as defined in the agreements) occurs, the executive may terminate the agreement upon the happening of certain defined events and the executive is (i) to be paid a lump sum cash payment equal to (x) the sum of salary and the highest annual bonus paid over the prior three years (y) multiplied by a factor, which is four for Mr. Guffey and three for Messrs.

Teshoian, Harrison, Polsky and Tubbs; (ii) to continue participation as an active participant in all Coltec perquisites and benefit plans and fringe benefit programs for a specified period of time from the date of termination which is four years for Mr. Guffey, and three years for Messrs. Teshoian, Harrison, Polsky and Tubbs; (iii) provided with a fully paid up life insurance policy pursuant to the terms of Coltec's family protection plan; and (iv) paid amounts under Coltec's long-term incentive plan and, at the executive's option, under Coltec's supplemental retirement plan. Amounts to be paid are to include an additional tax gross-up covering any excise tax on any payments made or benefits provided to the executives.

Effect of Proposed BFGoodrich/Coltec Merger on Employment Agreements and Benefit Plans.

As discussed in Item 1. "Business--Proposed Merger with The B.F. Goodrich Company", Coltec and BFGoodrich have entered into an agreement and plan of merger. Upon approval and adoption of the merger agreement by Coltec shareholders, or, in the case of the LTIP, upon completion of the merger, the change of control provisions of the Coltec employment agreements and benefit plans will be triggered.

Coltec anticipates that all of the named executive officers will be terminated within the meaning of the employment agreements and be given the payments and benefits provided for under their employment agreements immediately following the merger. Messrs. Guffey and Polsky will be offered employment by BFGoodrich following completion of the merger in positions and with responsibilities different than they held with Coltec.

The following table sets forth information about the estimated value of the payments and benefits the named executive officers will receive under the employment agreements solely as a result of the merger. The following

69

table also sets forth information about the unexercisable Coltec stock options and shares of Coltec restricted stock that the named executive officers hold that will become fully vested and/or exercisable solely as a result of the merger.

NAME	ESTIMATED VALUE OF PAYMENTS AND BENEFITS UNDER EMPLOYMENT AGREEMENTS	UNEXERCISABLE COLTEC STOCK OPTIONS		NUMBER OF SHARES OF RESTRICTED STOCK
		NUMBER OF COMMON SHARES UNDERLYING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (\$/SHARE)	
John W. Guffey, Jr.....	\$ 20,118,666	709,667	18.45	46,680
Nishan Teshoian.....	\$ 6,687,387	160,000	22.56	19,071
David D. Harrison.....	\$ 6,083,242	150,000	14.88	27,323
Laurence H. Polsky.....	\$ 6,026,732	100,000	10.75	6,948
Robert J. Tubbs.....	\$ 5,152,393	109,000	13.90	4,054

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Set forth below is certain information with respect to persons known to Coltec as of February 18, 1999 to be the beneficial owners of more than five percent of the Common Stock. This information is based solely on statements made in Schedule 13D or 13G filings of beneficial owners with the Securities and Exchange Commission. The beneficial ownership positions contained in such filings and set forth below may have changed since the date on which such filings were made.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS (A)
The B.F. Goodrich Company 4020 Kinross Lakes Parkway Richfield, Ohio 44286	12,550,638 (b)	16.6
J.P. Morgan & Co. Incorporated 60 Wall Street New York, NY 10260	9,759,117 (c)	15.5
GSB Investment Management, Inc. 301 Commerce Street, Suite 1501 Fort Worth, TX 76102	4,201,592 (d)	6.7
Franklin Mutual Advisers, Inc. 52 John F. Kennedy Parkway Short Hills, NJ 07078	3,440,763 (e)	5.5

- (a) The percentages are calculated on the basis of 63,056,735 shares of Common Stock outstanding on February 18, 1999 (excluding 25,000,000 shares of Common Stock held by a subsidiary of Coltec).
- (b) In its Schedule 13D filed December 2, 1998, BFGoodrich stated that the beneficial ownership of 12,550,638 shares of Common Stock was being reported by it solely as a result of the stock option agreement dated as of November 22, 1998 between BFGoodrich and Coltec. As more fully described in the Schedule 13D, Coltec has granted to BFGoodrich an irrevocable option pursuant to which BFGoodrich has the right, upon the occurrence of certain events (none of which has occurred), to purchase up to 12,550,638 shares of Common Stock (subject to customary anti-dilution adjustments) at a price per share of \$20.125. The option has not yet become exercisable. Because the option will not become exercisable unless and until certain specified events occur, BFGoodrich expressly disclaims beneficial ownership of all such shares.

(Footnotes continued on next page)

70

(Footnotes continued from previous page)

- (c) In its Amendment No. 8 to Schedule 13G filed February 22, 1999, J.P. Morgan & Co. Incorporated reported that it had sole voting power for 7,130,897 shares, shared voting power for 4,620 shares, sole power to dispose for 9,750,627 shares and shared power to dispose for 7,290 shares and that it had filed such Schedule 13G as a parent holding company.
- (d) In its Amendment No. 3 to Schedule 13G filed February 16, 1999, GSB Investment Management, Inc. reported that it had sole voting power for 1,127,294 shares, sole dispositive power for 4,038,867 shares and shared dispositive power for 162,725 shares and that it had filed such Schedule 13G as a registered investment adviser.
- (e) In its Schedule 13G filed January 29, 1999, Franklin Mutual Advisers, Inc., reported that it had sole voting power over 3,440,763 shares and sole dispositive power over 3,440,763 shares and that it had filed such Schedule 13G as a registered investment adviser.

SECURITY OWNERSHIP OF MANAGEMENT.

Set forth below is information as of February 18, 1999 (except as set forth

in footnote (c) below with regard to shares in the Coltec Retirement Savings Plan for Salaried Employees, the information with respect to which is as of December 31, 1998), concerning the ownership of Common Stock by each director, each of the executive officers named in the Summary Compensation Table and all current directors and executive officers of Coltec as a group:

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (A)	PERCENT OF CLASS (B)
Joseph R. Coppola.....	8,000	*
William H. Grigg.....	2,745	*
John W. Guffey, Jr. (c) (d).....	1,105,762	1.7
David D. Harrison(c).....	185,078	*
William R. Holland.....	2,500	*
David I. Margolis.....	52,844	*
Joel Moses.....	14,318	*
Laurence H. Polsky(c).....	270,575	*
Richard A. Stuckey.....	8,200	*
Nishan Teshoian(c).....	82,791	*
Robert J. Tubbs(c).....	177,203	*
All directors and executive officers as a group, consisting of 15 persons.....	2,340,920	3.7

* Less than 1%

- (a) Includes shares subject to options exercisable on or within 60 days of February 18, 1999 as follows: Mr. Coppola, 7,000 shares; Mr. Grigg, 2,000 shares; Mr. Guffey, 820,333 shares; Mr. Harrison, 100,000 shares; Mr. Moses, 10,000 shares; Mr. Polsky, 220,000 shares; Mr. Stuckey, 8,000 shares; Mr. Teshoian, 40,000 shares; Mr. Tubbs, 166,000 shares; and all directors and executive officers as a group, 1,759,333 shares.
- (b) The percentages are calculated on the basis of 63,056,735 shares of Common Stock outstanding on February 18, 1999, (excluding 25,000,000 shares of Common Stock held by a subsidiary of Coltec) plus, for any person, that number of shares with respect to which such person has the right to acquire beneficial ownership as specified in Rule 13d-3(d) (1) under the Securities Exchange Act of 1934.
- (c) As participants in the Coltec Retirement Savings Plan for Salaried Employees, Coltec's executive officers have the following shares of Common Stock credited to their individual accounts as of December 31, 1998

(Footnotes continued on next page)

71

(Footnotes continued from previous page)

and such shares as included in the table above: Mr. Guffey, 6,610 shares; Mr. Harrison, 1,089 shares; Mr. Polsky, 3,376 shares; Mr. Teshoian, 387 shares; Mr. Tubbs, 2,149 shares; and all executive officers as a group, 30,542 shares.

- (d) Includes 19,084 shares owned by The Guffey Family Foundation; 3,360 shares owned by The Guffey Family Trust for the benefit of Mr. Guffey's grandchildren and options for 225,000 shares of Coltec's common stock gifted to the Guffey Family Limited Partnership, a Georgia Limited Partnership for the benefit of Mr. Guffey's grandchildren. Mr. Guffey disclaims beneficial ownership of all of the above shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

72
PART IV**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

(a) The following documents are filed as part of this report:

(1) Consolidated Financial Statements: Consolidated Statements of Earnings for the Three Years ended December 31, 1998; Consolidated Balance Sheets at December 31, 1998 and 1997; Consolidated Statements of Cash Flows for the Three Years ended December 31, 1998; Consolidated Statements of Shareholders' Equity for the Three Years ended December 31, 1998; Consolidated Statements of Comprehensive Income for the Three Years ended December 31, 1998; Notes to Consolidated Financial Statements; Report of Management; and Report of Independent Public Accountants.

(2) Consolidated Financial Statement Schedules listed in the Index to Consolidated Financial Statement Schedules on page S-1 hereof.

(3) The exhibits required by Item 601 of Regulation S-K as listed in the accompanying exhibit index commencing on page I-1 hereof.

(b) During the quarter ended December 31, 1998, Coltec filed the following reports on Form 8-K:

Current Report on Form 8-K filed November 24, 1998 (Items 5 and 7);

Current Report on Form 8-K filed December 21, 1998 (Items 5 and 7);

and

Current Report on Form 8-K filed December 23, 1998 (Items 5 and 7)

(c) Except for exhibits 4.3(i), 4.8(a), 4.10(c), 4.11(a), 4.11(b), 4.11(c), 10.5(a), 12.1, 21.1, 23.1 and 27.1, the exhibits listed on the attached Index to Exhibits have been filed previously. Pursuant to paragraph (4)(iii) of Item 601(b) of Regulation S-K, there are omitted certain agreements, which Coltec hereby agrees to furnish to the Commission upon request.

For a listing of all management contracts and compensatory plan arrangements required to be filed as exhibits to this Form 10-K, see the Exhibits listed under Exhibit Nos. 10.1 through 10.17(c), on pages I-1 through I-6 of the Exhibit Index.

73
SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

COLTEC INDUSTRIES INC

Date: March 24, 1999

By: /s/ DAVID D. HARRISON

David D. Harrison
Executive Vice President and
Chief Financial Officer

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT IN THE CAPACITIES NOTED ON MARCH 24, 1999.

NAME AND TITLE

NAME AND TITLE

/s/ JOSEPH R. COPPOLA

/s/ DAVID I. MARGOLIS

Joseph R. Coppola
Director

David I. Margolis
Director

/s/ WILLIAM H. GRIGG

/s/ JOHN W. GUFFEY, JR.

William H. Grigg
Director

John W. Guffey, Jr.
Director, Chairman of the Board and
Chief Executive Officer

/s/ DAVID D. HARRISON

/s/ WILLIAM R. HOLLAND

David D. Harrison
Director, Executive Vice President
and Chief Financial Officer
(Principal Financial and Accounting
Officer)

William R. Holland
Director

/s/ JOEL MOSES

/s/ RICHARD A. STUCKEY

Joel Moses
Director

Richard A. Stuckey
Director

/s/ NISHAN TESHIOIAN

Nishan Teshoian
Director, President and Chief Operating
Officer

74

INDEX TO CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

CONSOLIDATED FINANCIAL STATEMENT SCHEDULES	PAGE NUMBER
II--Valuation and Qualifying Accounts for the three years ended December 31, 1998.....	S-3

S-1

COLTEC INDUSTRIES INC
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Coltec Industries Inc:

Company Name - COLTEC INDUSTRIES INC

We have audited the accompanying consolidated balance sheets of Coltec Industries Inc and subsidiaries (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of earnings, shareholders' equity, cash flows and comprehensive income for each of the three years in the period ended December 31, 1998. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Coltec Industries Inc and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to consolidated financial statement schedules is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is no part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

As discussed in Note 20, the Company entered into an Agreement and Plan of Merger with The B.F. Goodrich Company (BFGoodrich). Upon consummation of the merger, the Company shareholders will receive .56 shares of BFGoodrich common stock for each share of the Company's common stock.

ARTHUR ANDERSEN LLP

Charlotte, North Carolina
January 22, 1999

S-2

COLTEC INDUSTRIES INC AND SUBSIDIARIES
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED DECEMBER 31, 1998
(IN THOUSANDS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
		CHARGED TO COST AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD			DEDUCTIONS (1)	BALANCE OF END OF PERIOD

1998					
Valuation account deducted from assets--					
Allowance for doubtful accounts.....	\$2,894	\$1,049	\$ --	\$ 834	\$3,109
	-----	-----	-----	-----	-----
1997					
Valuation account deducted from assets--					
Allowance for doubtful accounts.....	\$2,007	\$1,222	\$ --	\$ 335	\$2,894
	-----	-----	-----	-----	-----
1996					
Valuation account deducted from assets--					
Allowance for doubtful accounts.....	\$4,174	\$1,517	\$ --	\$ 3,684	\$2,007
	-----	-----	-----	-----	-----

Note:

(1) Deductions are for the purposes for which the valuation accounts were created.