

AMPCO PITTSBURGH CORP
Form 10-Q
November 07, 2007

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended September 30, 2007

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 1-898.

AMPCO-PITTSBURGH CORPORATION

Incorporated in Pennsylvania.
I.R.S. Employer Identification No. 25-1117717.
600 Grant Street, Pittsburgh, Pennsylvania 15219
Telephone Number 412/456-4400

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 periods that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES X NO

On November 7, 2007, 10,177,497 common shares were outstanding.

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AMPCO-PITTSBURGH CORPORATION

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PART I - FINANCIAL INFORMATION
AMPCO-PITTSBURGH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | September 30, 2007 | December 31, 2006 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,156,991 | \$ 56,083,870 |
| Short-term marketable securities | 55,525,964 | - |
| Receivables, less allowance for doubtful accounts of \$275,222 in 2007 and \$281,585 in 2006 | 58,753,338 | 54,870,372 |
| Inventories | 65,159,162 | 55,912,261 |
| Insurance receivable – asbestos | 11,700,000 | 11,700,000 |
| Other | 9,610,980 | 8,414,152 |
| Total current assets | 224,906,435 | 186,980,655 |
| Property, plant and equipment, net | 70,232,607 | 68,593,334 |
| Insurance receivable - asbestos | 102,847,965 | 102,847,965 |
| Deferred tax assets | 8,813,523 | 10,848,455 |
| Prepaid pensions | 4,139,408 | 3,049,627 |
| Goodwill | 2,694,240 | 2,694,240 |
| Other noncurrent assets | 6,960,394 | 6,198,495 |
| | \$ 420,594,572 | \$ 381,212,771 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 17,049,032 | \$ 15,930,260 |
| Accrued payrolls and employee benefits | 14,118,218 | 11,008,413 |
| Industrial Revenue Bond debt | 13,311,000 | 13,311,000 |
| Asbestos liability – current portion | 12,000,000 | 12,000,000 |
| Other | 27,902,876 | 22,713,174 |
| Total current liabilities | 84,381,126 | 74,962,847 |
| Employee benefit obligations | 32,296,796 | 34,170,743 |
| Asbestos liability | 127,799,276 | 128,014,944 |
| Other noncurrent liabilities | 5,472,871 | 3,859,225 |
| Total liabilities | 249,950,069 | 241,007,759 |
| Commitments and contingent liabilities (Note 7) | | |
| Shareholders' equity: | | |
| Preference stock - no par value; authorized 3,000,000 shares; none issued | - | - |
| Common stock - par value \$1; authorized 20,000,000 shares; issued and outstanding 10,177,497 shares in 2007 and 9,837,497 shares in 2006 | 10,177,497 | 9,837,497 |
| Additional paid-in capital | 109,802,261 | 105,427,926 |
| Retained earnings | 82,569,776 | 57,994,215 |

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| | | |
|--------------------------------------|----------------|----------------|
| Accumulated other comprehensive loss | (31,905,031) | (33,054,626) |
| Total shareholders' equity | 170,644,503 | 140,205,012 |
| | \$ 420,594,572 | \$ 381,212,771 |

See Notes to Condensed Consolidated Financial Statements.

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AMPCO-PITTSBURGH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|--|------------------------------------|----------------|-------------------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 263,640,134 | \$ 223,412,730 | \$ 87,159,691 | \$ 79,068,503 |
| Operating costs and expenses: | | | | |
| Costs of products sold | | | | |
| (excluding depreciation) | 185,257,745 | 164,778,720 | 61,309,784 | 58,357,507 |
| Selling and administrative | 29,843,338 | 26,892,827 | 10,063,857 | 9,292,468 |
| Depreciation | 5,097,501 | 5,067,342 | 1,580,417 | 1,618,251 |
| (Gain) loss on disposition of assets | (33,342) | 4,120 | (348) | (8,027) |
| Total operating expenses | 220,165,242 | 196,743,009 | 72,953,710 | 69,260,199 |
| Income from operations | 43,474,892 | 26,669,721 | 14,205,981 | 9,808,304 |
| Other income (expense): | | | | |
| Interest and dividend income | 1,215,920 | 1,406,043 | 257,675 | 419,179 |
| Interest expense | (551,462) | (514,964) | (190,024) | (186,291) |
| Other – net | (993,434) | 99,343 | (348,002) | (323,845) |
| | (328,976) | 990,422 | (280,351) | (90,957) |
| Income before income taxes | 43,145,916 | 27,660,143 | 13,925,630 | 9,717,347 |
| Income tax provision | 14,105,000 | 8,887,000 | 4,527,000 | 3,073,000 |
| Net income | \$ 29,040,916 | \$ 18,773,143 | \$ 9,398,630 | \$ 6,644,347 |
| Net income per common share: | | | | |
| Basic | \$ 2.90 | \$ 1.91 | \$ 0.92 | \$ 0.68 |
| Diluted | \$ 2.88 | \$ 1.88 | \$ 0.92 | \$ 0.67 |
| Cash dividends declared per share | \$ 0.45 | \$ 0.30 | \$ 0.15 | \$ 0.10 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 10,002,292 | 9,824,789 | 10,177,497 | 9,837,497 |
| Diluted | 10,084,271 | 9,960,206 | 10,179,788 | 9,981,833 |

See Notes to Condensed Consolidated Financial Statements.

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AMPCO-PITTSBURGH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2007 | 2006 |
| Net cash flows provided by operating activities | \$ 28,356,849 | \$ 15,248,948 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (6,400,030) | (4,962,086) |
| Purchases of short-term marketable securities | (54,006,962) | (50,850,000) |
| Proceeds from the sale of short-term marketable securities | - | 45,100,000 |
| Other | (239,700) | 850 |
| Net cash flows used in investing activities | (60,646,692) | (10,711,236) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of common stock | 3,625,809 | 806,950 |
| Excess tax benefits from the exercise of stock options | 429,660 | - |
| Dividends paid | (3,987,124) | (2,943,449) |
| Net cash flows provided by (used in) financing activities | 68,345 | (2,136,499) |
| Effect of exchange rate changes on cash and cash equivalents | 294,619 | 245,001 |
| Net (decrease) increase in cash and cash equivalents | (31,926,879) | 2,646,214 |

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| | | |
|--|---------------|---------------|
| Cash and cash equivalents at beginning of period | 56,083,870 | 7,913,504 |
| Cash and cash equivalents at end of period | \$ 24,156,991 | \$ 10,559,718 |
| Supplemental information: | | |
| Income tax payments | \$ 9,535,693 | \$ 5,491,763 |
| Interest payments | \$ 556,052 | \$ 509,960 |
| Non-cash investing activities: | | |
| Appreciation of short-term marketable securities | \$ 1,519,002 | \$ 81,741 |

See Notes to Condensed Consolidated Financial Statements.

AMPCO-PITTSBURGH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Unaudited Condensed Consolidated Financial Statements

The condensed consolidated balance sheet as of September 30, 2007, the condensed consolidated statements of operations for the nine and three months ended September 30, 2007 and 2006 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2007 and 2006 have been prepared by Ampco-Pittsburgh Corporation (the Corporation) without audit. In the opinion of management, all adjustments, consisting of only normal and recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented have been made. The results of operations for the nine and three months ended September 30, 2007 are not necessarily indicative of the operating results expected for the full year.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted.

Recently Adopted Accounting Pronouncement

Effective January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which provides guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return as well as subsequent changes in a tax position, calculation of penalties and interest, accounting in interim periods, disclosure, and transition. As a result, at January 1, 2007, the Corporation recognized a decrease in the liability for unrecognized tax benefits of approximately \$65,000, which was recorded as an adjustment to the opening balance of retained earnings, resulting in a balance of approximately \$929,000, including penalties and interest. If the unrecognized tax benefits were recognized, the full amount would reduce the Corporation's effective tax rate. Penalties and interest related to the potential disallowance of a tax position taken are recognized as a component of the income tax provision. Accrued penalties and interest approximated \$64,000 as of January 1, 2007. It is expected that the amount of unrecognized tax benefits will change within the next 12 months; however, the impact is not expected to be significant. The Corporation is subject to taxation in the U.S., various states and foreign jurisdictions, and remains subject to examination by taxing authorities for tax years 2004-2006.

2. Investment in Joint Venture

In May 2007, a newly-formed subsidiary of Union Electric Steel (UES), a wholly-owned subsidiary of the Corporation, entered into an agreement with Maanshan Iron & Steel Company Limited (Maanshan) to form a joint venture which will principally manufacture and sell forged backup rolling-mill rolls of a size and weight currently not able to be

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produced by UES. It is anticipated that the joint venture will begin production at the end of 2009 and will have an initial annual capacity of approximately 10,000 metric tons. UES will contribute \$14,700,000 cash over a number of years, with the initial contribution of approximately \$3,000,000 made before the end of 2007, for a 49% interest in the newly-created joint venture and Maanshan will contribute \$15.3 million cash for a 51% interest. UES will account for its interest in the joint venture under the equity method of accounting.

3. Inventories

At September 30, 2007 and December 31, 2006, approximately 58% and 60%, respectively, of the inventories were valued on the LIFO method, with the remaining inventories being valued on the FIFO method. Inventories were comprised of the following:

| | (in thousands) | |
|-----------------|-----------------------|----------------------|
| | September 30, 2007 | December 31, 2006 |
| Raw materials | \$ 15,806 | \$ 12,624 |
| Work-in-process | 32,004 | 28,490 |
| Finished goods | 8,931 | 7,425 |
| Supplies | 8,418 | 7,373 |
| | \$ 65,159 | \$ 55,912 |

4. Property, Plant and Equipment

Property, plant and equipment were comprised of the following:

| | (in thousands) | |
|----------------------------|-----------------------|----------------------|
| | September 30, 2007 | December 31, 2006 |
| Land and land improvements | \$ 4,440 | \$ 4,438 |
| Buildings | 27,194 | 27,162 |
| Machinery and equipment | 149,803 | 143,067 |
| | 181,437 | 174,667 |
| Accumulated depreciation | (111,204) | (106,074) |
| | \$ 70,233 | \$ 68,593 |

5. Other Current Liabilities

Other current liabilities were comprised of the following:

| | (in thousands) | |
|------------------------------|-----------------------|----------------------|
| | September 30, 2007 | December 31, 2006 |
| Customer-related liabilities | \$ 10,498 | \$ 9,867 |
| Accrued sales commissions | 3,048 | 2,837 |
| Accrued income taxes payable | 3,683 | 1,043 |
| Other | 10,674 | 8,966 |
| | \$ 27,903 | \$ 22,713 |

Included in customer-related liabilities are costs expected to be incurred with respect to product warranties. Changes in the liability for product warranty claims for the nine and three months ended September 30, 2007 and 2006 consisted of:

| | (in thousands) | | | |
|---|------------------------------------|----------|-------------------------------------|----------|
| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Balance at beginning of the period | \$ 5,567 | \$ 3,786 | \$ 6,779 | \$ 4,290 |
| Satisfaction of warranty claims | (2,115) | (2,101) | (870) | (757) |
| Provision for warranty claims | 2,913 | 2,769 | 548 | 1,112 |
| Other, primarily impact from changes in foreign currency exchange rates | 147 | 224 | 55 | 33 |
| Balance at end of the period | \$ 6,512 | \$ 4,678 | \$ 6,512 | \$ 4,678 |

6. Pension and Other Postretirement Benefits

Contributions for the nine months ended September 30, 2007 and 2006 were as follows:

| | (in thousands) | |
|--|----------------|--------|
| | 2007 | 2006 |
| U.S. pension benefits plans | \$ - | \$ - |
| U.K. pension benefits plan | \$ 1,326 | \$ 425 |
| Other postretirement benefits (e.g. net payments) | \$ 499 | \$ 518 |
| U.K. defined contribution plan | \$ 362 | \$ 299 |

As a result of the unfunded status of the U.K. pension benefits plan, the Corporation has committed to contribute an additional \$400,000 (£200,000) in 2007 bringing total contributions for 2007 to the plan to approximately \$1,900,000.

Net periodic pension and other postretirement costs include the following components:

| | (in thousands) | | | |
|--------------------------------|------------------------------------|------------|-------------------------------------|----------|
| | U.S. Pension Benefits | | | |
| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 1,980 | \$ 1,771 | \$ 641 | \$ 590 |
| Interest cost | 5,755 | 5,254 | 1,971 | 1,752 |
| Expected return on plan assets | (8,723) | (9,372) | (2,901) | (3,124) |
| Amortization of: | | | | |
| Prior service cost | 481 | 463 | 161 | 154 |
| Actuarial gain | (86) | (89) | (18) | (30) |
| Net benefit income | \$ (593) | \$ (1,973) | \$ (146) | \$ (658) |

| | (in thousands) | | | |
|--------------------------------|-----------------------------|----------|-----------------------------|--------|
| | U.K. Pension Benefits | | | |
| | Nine Months | | Three Months | |
| | Ended September 30, 2007 | 2006 | Ended September 30, 2007 | 2006 |
| Interest cost | \$ 2,023 | \$ 1,666 | \$ 685 | \$ 573 |
| Expected return on plan assets | (1,990) | (1,620) | (674) | (557) |
| Amortization of actuarial loss | 351 | 288 | 119 | 99 |
| Net benefit cost | \$ 384 | \$ 334 | \$ 130 | \$ 115 |

| | (in thousands) | | | |
|------------------------------|-------------------------------|--------|-----------------------------|--------|
| | Other Postretirement Benefits | | | |
| | Nine Months | | Three Months | |
| | Ended September 30, 2007 | 2006 | Ended September 30, 2007 | 2006 |
| Service cost | \$ 300 | \$ 302 | \$ 103 | \$ 131 |
| Interest cost | 568 | 611 | 151 | 214 |
| Amortization of: | | | | |
| Prior service cost (benefit) | 26 | (335) | 8 | (112) |
| Actuarial loss | 76 | 207 | (1) | 101 |
| Net benefit cost | \$ 970 | \$ 785 | \$ 261 | \$ 334 |

7. Commitments and Contingent Liabilities

Outstanding commercial letters of credit as of September 30, 2007 approximated \$21,025,000, a major portion of which serves as collateral for the Industrial Revenue Bond debt.

In connection with the sale of certain subsidiaries in 2003, the Corporation provided typical warranties to the buyer (such as those relating to income taxes, intellectual property, legal proceedings, product liabilities and title to property, plant and equipment) which primarily expire with the statutes of limitations. Losses suffered by the buyer as a result of the Corporation's breach of warranties are reimbursable by the Corporation up to approximately \$2,000,000. No amount has been paid to date and based on experience while owning the subsidiaries, the Corporation expects that no amounts will become due.

Through 2006, Davy Roll received U.K. governmental grants totaling \$1,880,000 (£1,000,000) toward the purchase and installation of certain machinery and equipment. Under the agreement, the grants are repayable if certain conditions are not met including achieving and maintaining a targeted level of employment through March 2009. At this date, Davy's level of employment exceeds and is expected to continue to exceed the targeted level of employment; accordingly, no liability has been recorded.

See also Note 2 for contributions to a joint venture, Note 11 regarding litigation and Note 12 for environmental matters.

8. Comprehensive Income (Loss)

The Corporation's comprehensive income (loss) for the nine and three months ended September 30, 2007 and 2006 consisted of:

| | (in thousands) | | | |
|---|--|-----------|---|----------|
| | Nine Months Ended September 30, 2007 | | Three Months Ended September 30, 2006 | |
| Net income | \$ 29,041 | \$ 18,773 | \$ 9,399 | \$ 6,644 |
| Foreign currency translation adjustments | 672 | 2,705 | (508) | 391 |
| Unrecognized components of employee benefit plans | 566 | - | 188 | - |
| Adjustment to minimum pension liability | - | (1,919) | - | (283) |
| Unrealized holding gains (losses) on marketable securities | 1,020 | (17) | 358 | 80 |
| Change in the fair value of derivatives (cash flow hedges) | (1,108) | (582) | (791) | 20 |
| Comprehensive income | \$ 30,191 | \$ 18,960 | \$ 8,646 | \$ 6,852 |

9. Foreign Exchange and Futures Contracts

Certain of the Corporation's operations are subject to risk from exchange rate fluctuations in connection with sales in foreign currencies. To minimize this risk, forward foreign exchange contracts are purchased which are designated as fair value or cash flow hedges. As of September 30, 2007, approximately \$96,082,000 of anticipated foreign-denominated sales has been hedged with the underlying contracts settling at various dates through March 2011. As of September 30, 2007, the fair value of contracts expected to settle within the next 12 months, which is recorded in other current liabilities, approximated \$2,404,000 and the fair value of the remaining contracts, which is recorded in other noncurrent liabilities, approximated \$2,721,000. The change in the fair value of the contracts designated as cash flow hedges is recorded as a component of accumulated other comprehensive income (loss) and approximated \$(2,435,000), net of income taxes, as of September 30, 2007. The change in fair value will be reclassified into earnings when the projected sales occur with approximately \$(1,929,000) expected to be released to pre-tax earnings within the next 12 months. During the nine months ended September 30, 2007 and 2006, approximately \$(813,000) and \$(591,000), respectively, were released to pre-tax earnings, and during the three months ended September 30, 2007 and 2006, approximately \$(320,000) and \$(221,000), respectively, were released to pre-tax earnings.

(Losses) gains on foreign exchange transactions approximated \$(752,000) and \$665,000 for the nine months ended September 30, 2007 and 2006, respectively, and \$(270,000) and \$21,000 for the three months ended September 30, 2007 and 2006, respectively.

In addition, one of the Corporation's subsidiaries is subject to risk from increases in the price of a commodity (copper) used in the production of inventory. To minimize this risk, futures contracts are

entered into which are designated as cash flow hedges. At September 30, 2007, approximately 87% or \$1,562,000 of anticipated copper purchases over the next 3 months are hedged. The fair value of these contracts was insignificant as of September 30, 2007. During the nine months ended September 30, 2007 and 2006, approximately \$(25,000) and \$1,490,000, respectively, were released to pre-tax earnings and during the three months ended September 30, 2007 and 2006, approximately \$141,000 and \$26,000, respectively, were released to pre-tax earnings.

Additionally, during the nine months ended September 30, 2007, the remaining termination gain of \$779,000 resulting from the cancellation of futures contracts in May 2006 was released to pre-tax earnings.

By comparison, approximately \$618,000 was released to pre-tax earnings during the nine and three months ended September 30, 2006.

10. Business Segments

Presented below are the net sales and income before income taxes for the Corporation's two business segments.

| | (in thousands) | | | |
|---|-----------------------------|------------------|-----------------------------|-----------------|
| | Nine Months | | Three Months | |
| | Ended September 30, 2007 | 2006 | Ended September 30, 2007 | 2006 |
| Net Sales: | | | | |
| Forged and Cast Rolls | \$ 185,010 | \$ 154,897 | \$ 61,251 | \$ 54,468 |
| Air and Liquid Processing | 78,630 | 68,516 | 25,909 | 24,601 |
| Total Reportable Segments | \$ 263,640 | \$ 223,413 | \$ 87,160 | \$ 79,069 |
| Income before income taxes: | | | | |
| Forged and Cast Rolls | \$ 41,345 | \$ 26,088 | \$ 13,222 | \$ 9,681 |
| Air and Liquid Processing | 6,925 | 4,693 | 2,629 | 1,613 |
| Total Reportable Segments | 48,270 | 30,781 | 15,851 | 11,294 |
| Other expense, including corporate costs – net | (5,124) | (3,121) | (1,925) | (1,577) |
| Total | \$ 43,146 | \$ 27,660 | \$ 13,926 | \$ 9,717 |

11. Litigation (claims not in thousands)

The Corporation and its subsidiaries are involved in various claims and lawsuits incidental to their businesses. In addition, claims have been asserted alleging personal injury from exposure to asbestos-containing components historically used in some products of certain of the Corporation's operating subsidiaries ("Asbestos Liability") and of an inactive subsidiary of the Corporation. Those subsidiaries, and in some cases the Corporation, are defendants (among a number of defendants, typically over 50) in cases filed in various state and federal courts. The following table reflects approximate information about the claims for Asbestos Liability against the subsidiaries and the Corporation, along with certain asbestos claims asserted against the inactive subsidiary, for the nine months ended September 30, 2007:

| | | |
|---|----------|-----|
| Approximate open claims at end of period | 8,274 | (1) |
| Gross settlement and defense costs (in 000's) | \$12,124 | |
| Approximate claims settled or dismissed | 2,352 | |

⁽¹⁾Included as "open claims" are approximately 2,447 claims classified in various jurisdictions as "inactive" or transferred to a state or federal judicial panel on multi-district litigation, commonly referred to as the MDL.

Substantially all settlement and defense costs reflected in the above table were reported and paid by insurers. Because claims are often filed and can be settled or dismissed in large groups, the amount and timing of settlements, as well as the number of open claims, can fluctuate significantly from period to period.

Asbestos Insurance

Certain of the Corporation's subsidiaries and the Corporation have an arrangement (the "Coverage Arrangement") with insurers responsible for historical primary and some umbrella insurance coverage for Asbestos Liability (the "Paying Insurers"). Under the Coverage Arrangement, the Paying Insurers accept financial responsibility, subject to the limits of the policies and based on fixed defense percentages and specified indemnity allocation formulas, for a substantial majority of the pending claims for Asbestos Liability.

The Coverage Arrangement includes an acknowledgement that Howden Buffalo, Inc. ("Howden") is entitled to coverage under policies covering Asbestos Liability for claims arising out of the historical products manufactured or distributed by Buffalo Forge, a former subsidiary of the Corporation (the "Products"). The Coverage Arrangement does not provide for any prioritization on access to the applicable policies or monetary cap other than the limits of the policies, and, accordingly, Howden may access the policies at any time for any covered claim arising out of a Product. In general, access by Howden to the policies covering the Products will erode the coverage under the policies available to the Corporation and the relevant subsidiaries for Asbestos Liability alleged to arise out of not only the Products but also other historical products of the Corporation and its subsidiaries covered by the applicable policies.

Asbestos Valuations

The Corporation retained Hamilton, Rabinovitz & Alschuler, Inc. ("HR&A"), a nationally recognized expert in the valuation of asbestos liabilities, to assist the Corporation in estimating the potential liability for pending and unasserted future claims for Asbestos Liability. HR&A was not requested to estimate asbestos claims against the inactive subsidiary, which the Corporation believes are immaterial. The methodology used by HR&A to project the operating subsidiaries' liability for pending and unasserted potential future claims for Asbestos Liability relied upon and included the following factors:

- HR&A's interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos;
- epidemiological studies estimating the number of people likely to develop asbestos-related diseases;

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HR&A's analysis of the number of people likely to file an asbestos-related injury claim against the subsidiaries and the Corporation based on such epidemiological data and relevant claims history from January 1, 2004 through August 31, 2006;

- an analysis of pending cases, by type of injury claimed and jurisdiction where the claim is filed;

an analysis of claims resolution history from January 1, 2004 through August 31, 2006 to determine the average settlement value of claims, by type of injury claimed and jurisdiction of filing; and

an adjustment for inflation in the future average settlement value of claims, at an annual inflation rate based on the Congressional Budget Office's ten year forecast of inflation.

Using this information, HR&A estimated the number of future claims for Asbestos Liability that would be filed through the year 2013, as well as the settlement or indemnity costs that would be incurred to resolve both pending and future unasserted claims through 2013. This methodology has been accepted by numerous courts.

The Corporation also retained The Claro Group LLC ("Claro"), a nationally-recognized insurance consulting firm, to assist, in combination with advice to the Corporation from outside counsel, in analyzing potential recoveries from relevant historical insurance for Asbestos Liability. Using HR&A's projection for settlement or indemnity costs for Asbestos Liability and management's projections of associated defense costs (based on current defense cost levels with an annual 5% inflation factor), Claro allocated the Asbestos Liability to the insurance policies. The allocations took into account the Coverage Arrangement, self-insured retentions, policy exclusions, policy limits, policy provisions regarding coverage for defense costs, attachment points, prior impairment of policies and gaps in the coverage, insolvencies among certain of the insurance carriers, the nature of the underlying claims for Asbestos Liability asserted against the subsidiaries and the Corporation as reflected in the Corporation's asbestos claims database, as well as estimated erosion of insurance limits on account of claims against Howden arising out of the Products. Based upon Claro's allocations, and taking into account the Corporation's analysis of publicly available information on the credit-worthiness of various insurers, the Corporation estimated the probable insurance recoveries for Asbestos Liability and defense costs through 2013. Although the Corporation, after consulting with its counsel and Claro, believes that the assumptions employed in the insurance valuation were appropriate, there are other assumptions that could have been employed that would have resulted in materially lower insurance recovery projections.

Based on the analyses described above, the Corporation has recorded reserves for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2013 of \$140 million, of which approximately 60% is attributable to settlement and defense costs for unasserted claims projected to be filed through 2013. While it is reasonably possible that the Corporation will incur additional charges for Asbestos Liability and defense costs in excess of

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the amounts currently reserved, the Corporation believes that there is too much uncertainty to provide for reasonable estimation of the number of future claims, the nature of such claims and the cost to resolve them beyond the next seven years. Accordingly, no reserve has been recorded for any costs that may be incurred after 2013.

The Corporation has also recorded a receivable of \$114.5 million for insurance recoveries attributable to the claims for which the Corporation's Asbestos Liability reserve has been established, including the portion of incurred defense costs covered by the Coverage Arrangement, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims. The insurance receivable recorded by the Corporation does not assume any recovery from insolvent carriers, and substantially all of the

insurance recoveries deemed probable were from insurance companies rated A – (excellent) or better by A.M. Best Corporation. There can be no assurance, however, that there will not be further insolvencies among the relevant insurance carriers, or that the assumed percentage recoveries for certain carriers will prove correct. The \$25.5 million difference between insurance recoveries and projected costs is not due to exhaustion of the total product liability insurance for Asbestos Liability. The Corporation and the subsidiaries have substantial additional insurance coverage which the Corporation expects to be available for Asbestos Liability claims and defense costs the subsidiaries and it may incur after 2013. However, this insurance coverage also can be expected to have gaps creating significant shortfalls of insurance recoveries as against claims expense, which could be material in future years.

The amounts recorded by the Corporation for Asbestos Liabilities and insurance receivables rely on assumptions that are based on currently known facts and strategy. The Corporation's actual expenses or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Corporation's, HR&A's or The Claro Group's calculations vary significantly from actual results. Key variables in these assumptions are identified above and include the number and type of new claims to be filed each year, the average cost of disposing of each such new claim, average annual defense costs, the resolution of coverage issues with insurance carriers, and the solvency risk with respect to the relevant insurance carriers. Other factors that may affect the Corporation's Asbestos Liability and ability to recover under its insurance policies include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms that may be made by state and federal courts, and the passage of state or federal tort reform legislation.

The Corporation intends to evaluate its estimated Asbestos Liability and related insurance receivables as well as the underlying assumptions on a periodic basis to determine whether any adjustments to the estimates are required. Due to the uncertainties surrounding asbestos litigation and insurance, these periodic reviews may result in the Corporation incurring future charges; however, the Corporation is currently unable to estimate such future charges. Adjustments, if any, to the Corporation's estimate of its recorded Asbestos Liability and/or

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insurance receivables could be material to operating results for the periods in which the adjustments to the liability or receivable is recorded, and to the Corporation's liquidity and consolidated financial position.

12. Environmental Matters

The Corporation is currently performing certain remedial actions in connection with the sale of real estate previously owned and has been named a Potentially Responsible Party at three third-party landfill sites. In addition, as a result of the 2003 sale of certain subsidiaries, the Corporation retained the liability to remediate certain environmental contamination at two of the sold locations and has agreed to indemnify the buyer against third-party claims arising from the discharge of certain contamination from one of these locations, the cost for which was accrued at the time of sale. Environmental exposures are difficult to assess and estimate for numerous reasons including lack of reliable data, the multiplicity of possible solutions, the years of remedial and monitoring activity required, and identification of new sites. In the opinion of management, the potential liability for all environmental proceedings of approximately \$2,073,000 at September 30, 2007 is considered adequate based on information known to date.

13. Recently Issued Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments”, which provides relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract. SFAS No. 155 became effective on January 1, 2007 and did not have a significant impact on the Corporation’s financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measures”, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measures. This statement applies under other accounting pronouncements that require or permit fair value measurements; it does not require any new fair value measures. SFAS No. 157 becomes effective for the Corporation on January 1, 2008 and is not expected to have a significant impact on the Corporation’s financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, which permits entities to choose to measure certain financial instruments and other items at fair value. SFAS No. 159 becomes effective for the Corporation on January 1, 2008 and is not expected to have a significant impact on the Corporation’s financial position or results of operations.

**ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Executive Overview

The Corporation currently operates in two business segments – the Forged and Cast Rolls segment and the Air and Liquid Processing segment.

Forged and Cast Rolls. The Forged and Cast Rolls segment continues to benefit from the global increase in the level of steel and aluminum production and unprecedented demand for its products resulting from the worldwide shortage of roll capacity. Purchase orders have been received or long-term agreements entered into with numerous customers for the supply of forged and cast rolls for delivery into 2011. The segment has virtually sold out its capacity for 2008 and a substantial portion for 2009 and 2010. In large part, selling prices are protected from volatility in the cost of materials by means of a variable surcharge.

Emphasis for this segment will be to maximize capacity and the most favorable product mix while maintaining the reliability of equipment, superior quality and on-time delivery. Additionally, in May 2007, a newly-formed subsidiary of Union Electric Steel (UES) entered into an agreement with Maanshan Iron & Steel Company Limited (Maanshan) to form a joint venture which will principally manufacture and sell forged backup rolling-mill rolls of a size and weight currently not able to be produced by UES. It is anticipated that the joint venture will begin production at the end of 2009 and will have an initial annual capacity of approximately 10,000 metric tons.

Expectations are favorable for the Forged and Cast Rolls segment with sales and income from operations remaining strong for the balance of the year and in 2008. Current backlog (unfilled orders on hand) and demand provide confidence that these operations, particularly UES, will operate at near capacity for the next several years.

Air and Liquid Processing. Management's focus on improving productivity and sales volume has resulted in improved sales and operating results in 2007 against 2006 (excluding the \$25.5 million charge for asbestos litigation).

Operations for the Nine and Three Months Ended September 30, 2007 and 2006

Net Sales. Net sales for the nine months ended September 30, 2007 and 2006 were \$263,640,000 and \$223,413,000, respectively, and \$87,160,000 and \$79,069,000, respectively, for the three months then ended. A discussion of sales for the Corporation's two segments is included below. Backlog approximated \$730,805,000 and \$541,606,000 at September 30, 2007 and 2006, respectively, and \$589,824,000 at December 31, 2006. The increase is principally attributable to the Forged and Cast Rolls segment. The September 30, 2007 backlog includes approximately \$356,013,000 of orders scheduled for shipment after December 31, 2008.

Costs of Products Sold. Costs of products sold, excluding depreciation, were 70.3% of net sales for the nine and three months ended September 30, 2007 in comparison to 73.8% of net sales for the same periods of the prior year. The improvement is due primarily to better pricing and additional volume for the Forged and Cast Rolls segment.

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Selling and Administrative. The increase in selling and administrative expenses for the nine and three months ended September 30, 2007 over the comparable prior year periods is primarily attributable to the higher level of sales and price increases.

Income from Operations. Income from operations for the nine months ended September 30, 2007 and 2006 approximated \$43,475,000 and \$26,670,000, respectively, and \$14,206,000 and \$9,808,000 for the three months ended September 30, 2007 and 2006, respectively. A discussion of operating results for the Corporation's two segments is included below. Additionally, pension income from the Corporation's U.S. defined benefit plan is approximately \$1,380,000 and \$512,000 lower for the nine and three months ended September 30, 2007, respectively, against the comparable prior year periods due primarily to changes in salary and mortality assumptions and a decrease in the market-related value of plan assets.

Forged and Cast Rolls. Sales and operating income for the nine and three months ended September 30, 2007 increased over the comparable prior year periods due to better sales pricing, higher volumes, and changes in product mix. Backlog approximated \$686,571,000 at September 30, 2007 against \$498,234,000 as of September 30, 2006 and \$548,522,000 at December 31, 2006. The increase is reflective of the international demand for both forged and cast roll product. Of the September 30, 2007 backlog, and indicative of the long-term supply agreements with and advanced purchase orders from customers, \$355,612,000 is scheduled for shipment after December 31, 2008.

Air and Liquid Processing. Each of the businesses within the segment achieved higher sales and operating income for the nine and three months ended September 30, 2007 against the comparable prior year periods. Buffalo Air Handling benefited from increased volume and improved productivity; additional OEM work due to an increase in market share added to Aerofin's operating results; and Buffalo Pumps, although to a lesser extent, benefited from a slight increase in volume and a change in product mix. Backlog equaled \$44,234,000 and \$43,372,000 as of September 30, 2007 and 2006, respectively, and \$41,302,000 as of December 31, 2006. The majority of the backlog as of September 30, 2007 will ship during the remainder of 2007 and in 2008.

Other (Expense) Income. For the nine and three months ended September 30, 2007 in comparison to the same periods of the prior year:

- Interest and dividend income decreased due to a change in investment strategy. A majority of the current investments are generating appreciation which will be realized upon disposition whereas the investments in the prior year were primarily income generating with earnings realized on a month-to-month basis. Interest and dividend income for each of the nine months ended includes dividends received from the Chinese joint venture which increased to \$540,000 in 2007 from \$170,000 in 2006 on higher earnings for the joint venture.
- Interest expense increased due to an increase in the average borrowing rates in 2007 (underlying debt is variable-rate debt).
- Other – net for the nine months ended September 30, 2007 represents a higher level of expense primarily attributable to foreign exchange

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losses versus foreign exchange gains in 2006. Other – net for the three-month periods are comparable. While foreign exchange losses were incurred in 2007 versus foreign exchange gains in 2006, the 2006 period includes an additional provision of \$335,000 for environmental costs estimated to be incurred relating to the remediation of real estate previously owned by a discontinued operation.

Income Taxes. The effective tax rate for the nine months ended September 30, 2007 was comparable to that for the nine months ended September 30, 2006. The tax provision for an interim period is computed as the difference between the estimated tax provision for the year and the amounts reported for previous interim periods. Accordingly, the effective tax rate from quarter-to-quarter or between a quarter and the comparable prior year quarter includes the

adjustment necessary to record the year-to-date tax provision at the estimated annual effective tax rate for that year.

Net Income. As a result of the above, the Corporation's net income for the nine months ended September 30, 2007 and 2006 equaled \$29,041,000 and \$18,773,000, respectively, and \$9,399,000 and \$6,644,000, respectively, for the three months ended September 30, 2007 and 2006.

Dividend. Due to continued strong earnings, the Corporation increased its dividend rate for the each of the 2007 quarters to date to \$0.15 per common share from \$0.10 per common share.

Liquidity and Capital Resources

Net cash flows provided by operating activities approximated \$28,357,000 and \$15,249,000 for the nine months ended September 30, 2007 and 2006, respectively. The increase is due principally to higher earnings. As of September 30, 2007 in comparison to September 30, 2006, and similarly as of September 30, 2007 against December 31, 2006, accounts receivable grew as a result of improved sales; and inventories, accounts payable, and other current liabilities increased due to the growth in the level of business.

Net cash flows used in investing activities were \$60,647,000 and \$10,711,000 for the nine months ended September 30, 2007 and 2006, respectively. The increase is primarily attributable to a net increase in short-term investments of approximately \$48,257,000 for the nine months ended September 30, 2007 over the same period of the prior year. Capital expenditures for each of the periods were comparable. As of September 30, 2007, future capital expenditures totaling approximately \$49,976,000 have been approved, which includes approximately \$38,800,000 for the purchase of a forge press, manipulator, and ancillary equipment for the Corporation's domestic forged-roll facility to be spent over the next three years. Additionally, UES will contribute \$14,700,000 cash for its 49% interest in the newly-created joint venture with Maanshan. The initial contribution of approximately \$3,000,000 will be made before the end of 2007 with the balance to be contributed over the next two years.

Net cash flows provided by financing activities for the nine months ended September 30, 2007 were substantially break-even with proceeds from the issuance of stock under the Corporation's stock option plan and the resulting excess tax benefits offsetting dividends paid. For 2006, dividends paid exceeded the proceeds from the issuance of stock under the Corporation's stock option plan resulting in net cash flows being used by

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financing activities. For 2007 to date, the Corporation increased the quarterly dividend rate to \$0.15 per share from \$0.10 per share in 2006.

The change in the value of local currencies against the dollar did not have a significant impact on cash and cash equivalents for the nine months ended September 30, 2007 and 2006.

As a result of the above, cash and cash equivalents decreased \$31,927,000 in 2007 and ended the period at \$24,157,000 in comparison to \$56,084,000 at December 31, 2006. Additionally, the Corporation has investments in short-term marketable securities of approximately \$55,500,000 at September 30, 2007.

Funds on hand and funds generated from future operations are expected to be sufficient to finance the operational and capital expenditure requirements of the Corporation. The Corporation also maintains short-term lines of credit and an overdraft facility in excess of the cash needs of its businesses. The total available at September 30, 2007 was approximately \$10,700,000 (including £3,000,000 in the U.K. and €400,000 in Belgium).

Litigation and Environmental Matters

See Notes 11 and 12 to the condensed consolidated financial statements.

Critical Accounting Pronouncements

The Corporation's critical accounting policies, as summarized in its Annual Report on Form 10-K for the year ended December 31, 2006, remain unchanged.

Recently Issued Accounting Pronouncements

See Note 13 to the condensed consolidated financial statements.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Corporation. Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Form 10-Q contain forward-looking statements that reflect the Corporation's current views with respect to future events and financial performance.

Forward-looking statements are identified by the use of the words "believe," "expect," "anticipate," "estimate," "projects," "forecasts" and other expressions that indicate future events and trends. Forward-looking statements speak only as of the date on which such statements are made, are not guarantees of future performance or expectations, and involve risks and uncertainties. For the Corporation, these risks and uncertainties include, but are not limited to, those described under Item 1A, Risk Factors, of Part II of this Form 10-Q. In addition, there may be events in the future that the Corporation is not able to accurately predict or control which may cause actual results to differ materially from expectations expressed or implied by forward-looking statements. The Corporation undertakes no obligation to update any forward-looking statement, whether as a result of new information, events or otherwise.

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ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Corporation's exposure to market risk from December 31, 2006.

ITEM 4 – CONTROLS AND PROCEDURES

- (a) Disclosure controls and procedures. An evaluation of the effectiveness of the Corporation's disclosure controls and procedures as of the end of the period covered by this report was carried out under the supervision, and with the participation, of the management, including the principal executive officer and principal financial officer. Disclosure controls and procedures are defined under Securities and Exchange Commission ("SEC") rules as controls and other procedures that are designed to ensure that information required to be disclosed by a company in reports that it files under the Exchange Act are recorded, processed, summarized and reported within the required time periods. Based on that evaluation, the Corporation's management, including the principal executive officer and principal financial officer, have concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2007.

(c) Changes in internal control over financial reporting. During the quarter ended September 30, 2007, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMPCO-PITTSBURGH CORPORATION

DATE: November 7, 2007

BY: s/Robert A. Paul
Robert A. Paul
Chairman and
Chief Executive Officer

DATE: November 7, 2007

BY: s/Marliss D. Johnson
Marliss D. Johnson
Vice President
Controller and Treasurer

AMPCO-PITTSBURGH CORPORATION

EXHIBIT INDEX

| | | |
|---------|--------|--|
| Exhibit | (31.1) | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| | (31.2) | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit | (32.1) | Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| | (32.2) | Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

