

AMPCO PITTSBURGH CORP  
Form 10-Q  
November 10, 2008

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, 2008

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

Pennsylvania  
(State of Incorporation)

25-1117717  
(I.R.S. Employer Identification No.)

600 Grant Street, Suite 4600  
Pittsburgh, Pennsylvania 15219  
(Address of principal executive offices)

(412)456-4400  
(Registrant's telephone number)

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  No

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

Large accelerated filer \_\_\_ Accelerated filer  Non-accelerated filer \_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_ No

On November 7, 2008, 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, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 26,615,134	\$ 71,626,379
Short-term marketable securities	53,837,495	-
Receivables, less allowance for doubtful accounts of \$152,382 in 2008 and \$285,223 in 2007	70,732,120	59,932,808
Inventories	67,661,975	69,228,312
Insurance receivable – asbestos	11,000,000	10,000,000
Other current assets	15,053,627	17,263,397
<b>Total current assets</b>	<b>244,900,351</b>	<b>228,050,896</b>
Property, plant and equipment, net	84,956,855	75,101,225
Insurance receivable - asbestos	74,971,154	84,547,965
Investment in joint ventures	6,690,848	4,206,149
Deferred tax assets	-	2,195,953
Prepaid pensions	2,262,903	1,701,839
Goodwill	2,694,240	2,694,240
Other noncurrent assets	5,940,590	5,893,877
	\$ 422,416,941	\$ 404,392,144
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 21,682,866	\$ 19,418,106
Accrued payrolls and employee benefits	12,838,350	12,968,395
Industrial Revenue Bond debt	13,311,000	13,311,000
Asbestos liability – current portion	17,000,000	20,000,000
Other current liabilities	28,994,806	25,448,981
<b>Total current liabilities</b>	<b>93,827,022</b>	<b>91,146,482</b>
Employee benefit obligations	18,125,432	19,721,794
Asbestos liability	90,978,431	99,722,526
Deferred tax liabilities	1,573,425	-
Other noncurrent liabilities	3,184,248	6,070,852
<b>Total liabilities</b>	<b>207,688,558</b>	<b>216,661,654</b>
<b>Commitments and contingent liabilities</b> (Note 6)		
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		

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10,177,497 shares in 2008 and 2007	10,177,497	10,177,497
Additional paid-in capital	113,176,296	111,897,093
Retained earnings	119,462,981	91,232,890
Accumulated other comprehensive loss	(28,088,391)	(25,576,990)
Total shareholders' equity	214,728,383	187,730,490
	\$ 422,416,941	\$ 404,392,144

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,	
	2008	2007	2008	2007
Net sales	\$ 306,425,474	\$ 263,640,134	\$ 105,906,219	\$ 87,159,691
Operating costs and expenses:				
Costs of products sold (excluding depreciation)	218,592,931	185,257,745	76,160,867	61,309,784
Selling and administrative	32,364,008	29,843,338	11,432,512	10,063,857
Depreciation	5,427,038	5,097,501	1,758,635	1,580,417
Gain on disposition of assets	(92,559)	(33,342)	(8,291)	(348)
Total operating expenses	256,291,418	220,165,242	89,343,723	72,953,710
Income from operations	50,134,056	43,474,892	16,562,496	14,205,981
Other income (expense):				
Investment-related income	1,419,350	1,215,920	224,309	257,675
Interest expense	(369,770)	(551,462)	(121,911)	(190,024)
Other – net	(429,697)	(993,434)	765,754	(348,002)
	619,883	(328,976)	868,152	(280,351)
Income before income taxes	50,753,939	43,145,916	17,430,648	13,925,630
Income tax provision	17,028,000	14,105,000	5,457,000	4,527,000
Net income	\$ 33,725,939	\$ 29,040,916	\$ 11,973,648	\$ 9,398,630
Net income per common share:				
Basic	\$ 3.31	\$ 2.90	\$ 1.18	\$ 0.92
Diluted	\$ 3.31	\$ 2.88	\$ 1.18	\$ 0.92
Cash dividends declared				
per share	\$ 0.54	\$ 0.45	\$ 0.18	\$ 0.15
Weighted average number of common shares outstanding:				
Basic	10,177,497	10,002,292	10,177,497	10,177,497
Diluted	10,179,769	10,084,271	10,179,735	10,179,788

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,	
	2008	2007
Net cash flows provided by operating activities	\$ 34,403,823	\$ 28,356,849
Cash flows from investing activities:		
Purchases of property, plant and equipment	(16,703,433)	(6,400,030)
Purchases of short-term marketable securities	(68,168,522)	(54,006,962)
Sales of short-term marketable securities	15,000,000	-
Investment in Chinese joint venture	(2,940,000)	-
Purchases of long-term marketable securities	(785,209)	(1,805,618)
Sales of long-term marketable securities	667,325	1,722,500
Other	106,632	(156,582)
Net cash flows used in investing activities	(72,823,207)	(60,646,692)
Cash flows from financing activities:		
Dividends paid	(5,190,524)	(3,987,124)
Proceeds from the issuance of common stock	-	3,625,809
Excess tax benefits from the exercise of stock options	-	429,660
Net cash flows (used in) provided by financing activities	(5,190,524)	68,345
Effect of exchange rate changes on cash and cash equivalents	(1,401,337)	294,619
Net decrease in cash and cash equivalents	(45,011,245)	(31,926,879)
Cash and cash equivalents at beginning of period	71,626,379	56,083,870

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Cash and cash equivalents at end of period	\$ 26,615,134	\$ 24,156,991
Supplemental information:		
Income tax payments	\$ 9,978,896	\$ 9,535,693
Interest payments	\$ 373,221	\$ 556,052
Non-cash investing activities:		
Appreciation of short-term marketable securities	\$ 668,973	\$ 1,519,002
Purchases of property, plant and equipment included in accounts payable	\$ 1,377,432	\$ -

See Notes to Condensed Consolidated Financial Statements.

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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, 2008, the condensed consolidated statements of operations for the nine and three months ended September 30, 2008 and 2007 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007 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, 2008 are not necessarily indicative of the operating results expected for the full year.

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

Recently Implemented Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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. The 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 became effective for the Corporation on January 1, 2008; however, in February 2008, the FASB issued FASB Staff Position No. 157-2 providing for a one-year deferral of the provisions of SFAS No. 157 for non-financial assets and liabilities which are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. The Corporation is currently evaluating the impact of the provisions of SFAS No. 157 on its non-financial assets and liabilities.

The adoption of SFAS No. 157 did not impact the Corporation's financial position or results of operations. The additional disclosures required by the Statement are summarized in Note 10.

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 became effective for the Corporation on January 1, 2008 and did not impact the Corporation's financial position or results of operations.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivatives Instruments and Hedging Activities – an amendment of FASB Statement No. 133", which requires enhanced disclosures about an entity's derivative and hedging activities. SFAS No. 161 becomes effective for the Corporation on January 1, 2009. The Corporation is currently evaluating the effects that SFAS No. 161 may have on its financial statement disclosures.

## 2. Inventories

At September 30, 2008 and December 31, 2007, approximately 60% and 62%, 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:

	September 30, 2008	(in thousands) December 31, 2007
Raw materials	\$ 14,150	\$ 14,197
Work-in-process	34,911	35,924
Finished goods	9,078	10,486
Supplies	9,523	8,621
	\$ 67,662	\$ 69,228

## 3. Property, Plant and Equipment

Property, plant and equipment were comprised of the following:

	September 30, 2008	(in thousands) December 31, 2007
Land and land improvements	\$ 4,728	\$ 4,507
Buildings	30,862	27,371
Machinery and equipment	145,547	142,258
Construction-in-progress	13,820	6,459
Other	7,379	7,074
	202,336	187,669
Accumulated depreciation	(117,379)	(112,568)
	\$ 84,957	\$ 75,101

## 4. Other Current Liabilities

Other current liabilities were comprised of the following:

	September 30, 2008	(in thousands) December 31, 2007
Customer-related liabilities	\$ 8,234	\$ 9,248
Accrued income taxes	4,244	819
Foreign exchange contracts	4,044	4,832
Accrued sales commissions	3,762	3,161
Other	8,711	7,389
	\$ 28,995	\$ 25,449



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, 2008 and 2007 consisted of:

	(in thousands)			
	Nine Months		Three Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
Balance at beginning of the period	\$ 6,156	\$ 5,567	\$ 5,768	\$ 6,779
Satisfaction of warranty claims	(3,150)	(2,115)	(1,195)	(870)
Provision for warranty claims	2,490	2,913	919	548
Other, primarily impact from changes in foreign currency exchange rates	(333)	147	(329)	55
Balance at end of the period	\$ 5,163	\$ 6,512	\$ 5,163	\$ 6,512

#### 5. Pension and Other Postretirement Benefits

Contributions for the nine months ended September 30, 2008 and 2007 were as follows:

	(in thousands)	
	2008	2007
U.S. pension defined benefits plans	\$ -	\$ -
U.K. pension defined benefits plan	\$ 1,352	\$ 1,326
Other postretirement benefits (e.g. net payments)	\$ 439	\$ 499
U.K. defined contribution plan	\$ 382	\$ 362

Subsequent to the date of these financial statements, in October 2008, the Corporation made a voluntary contribution to the qualified U.S. pension defined benefits plan of \$8,000,000.

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

	(in thousands)			
	U.S. Pension Benefits			
	Nine Months		Three Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
Service cost	\$ 1,978	\$ 1,980	\$ 634	\$ 641
Interest cost	5,949	5,755	1,989	1,971

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Expected return on plan assets	(8,403)	(8,723)	(2,798)	(2,901)
Amortization of:				
Prior service cost	488	481	164	161
Actuarial gain	(98)	(86)	(33)	(18)
Net benefit income	\$ (86)	\$ (593)	\$ (44)	\$ (146)

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	(in thousands)			
	U.K. Pension Benefits			
	Nine Months		Three Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
Interest cost	\$ 1,944	\$ 2,023	\$ 624	\$ 685
Expected return on plan assets	(2,061)	(1,990)	(661)	(674)
Amortization of actuarial loss	230	351	73	119
Net benefit cost	\$ 113	\$ 384	\$ 36	\$ 130

	(in thousands)			
	Other Postretirement Benefits			
	Nine Months		Three Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
Service cost	\$ 304	\$ 300	\$ 101	\$ 103
Interest cost	589	568	196	151
Amortization of:				
Prior service cost	51	26	17	8
Actuarial loss (gain)	42	76	14	(1)
Net benefit cost	\$ 986	\$ 970	\$ 328	\$ 261

## 6. Commitments and Contingent Liabilities

Outstanding commercial letters of credit as of September 30, 2008 approximated \$21,152,000, a major portion of which serves as collateral for the Industrial Revenue Bond debt.

During 2007, a subsidiary of Union Electric Steel (UES) entered into an agreement with Maanshan Iron & Steel Company Limited to form a joint venture company in China. Each party will contribute cash for their respective interest. For its 49% interest, UES will contribute \$14,700,000 of which \$5,880,000 has been contributed to date with an additional \$2,940,000 expected to be contributed in 2008 and the balance by the end of 2009.

In connection with the sale of a segment 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 segment, 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 12 regarding litigation and Note 13 for environmental matters.

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## 7. Comprehensive Income (Loss)

The Corporation's comprehensive income (loss) consisted of:

	(in thousands)			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 33,726	\$ 29,041	\$ 11,974	\$ 9,399
Foreign currency translation adjustments	(5,143)	672	(5,398)	(508)
Unrecognized components of employee benefit plans	452	566	140	188
Unrealized holding gains (losses) on marketable securities	209	1,020	(63)	358
Change in the fair value of derivatives (cash flow hedges)	1,971	(1,108)	2,605	(791)
Comprehensive income	\$ 31,215	\$ 30,191	\$ 9,258	\$ 8,646

## 8. 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, 2008, approximately \$78,401,000 of anticipated foreign-denominated sales has been hedged with the underlying contracts settling at various dates through June 2012. As of September 30, 2008, the fair value of contracts expected to settle within the next 12 months, which is recorded in other current liabilities, approximated \$4,044,000 and the fair value of the remaining contracts, which is recorded in other noncurrent liabilities, approximated \$989,000.

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 \$(414,000), net of income taxes, as of September 30, 2008. The change in the fair value will be reclassified to earnings when the projected sales occur with approximately \$(930,000) expected to be charged to pre-tax earnings within the next 12 months. During the nine months ended September 30, 2008 and 2007, approximately \$(2,465,000) and \$(813,000), respectively, were released to pre-tax earnings and during the three months ended September 30, 2008 and 2007, approximately \$(735,000) and \$(320,000), respectively, were released to pre-tax earnings.

Losses on foreign exchange transactions approximated \$(1,162,000) and \$(752,000) for the nine months ended September 30, 2008 and 2007, respectively, and \$(118,000) and \$(270,000) for the three months ended September 30, 2008 and 2007, 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, 2008, approximately 85%



or \$2,058,000 of anticipated copper purchases over the next 4 months are hedged. The fair value of these contracts approximated \$(329,000) as of September 30, 2008. 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 \$(205,000), net of income taxes, as of September 30, 2008. The change in the fair value will be reclassified to earnings when the projected sales occur with approximately \$(329,000) expected to be released over the next 12 months.

During the nine months ended September 30, 2008 and 2007, approximately \$169,000 and \$(25,000), respectively, were released to pre-tax earnings and during the three months ended September 30, 2008 and 2007, approximately \$(21,000) and \$141,000, respectively, were released to pre-tax earnings. Additionally, during the nine months ended September 30, 2007, \$779,000 of the termination gain resulting from the cancellation of futures contracts in May 2006 was released to pre-tax earnings.

#### 9. Stock-Based Compensation

In April 2008, the shareholders of the Corporation approved the adoption of the 2008 Omnibus Incentive Plan (Incentive Plan). Awards under the Incentive Plan may include incentive stock options, non-qualified stock options, stock appreciation rights, restricted shares of common stock, restricted stock units, performance share or unit awards, other stock-based awards and cash-based incentive awards. The Incentive Plan is administered by the Compensation Committee of the Board of Directors who has the authority to determine, within the limits of the express provisions of the Incentive Plan, the individuals to whom the awards will be granted; the nature, amount and terms of such awards; and the objectives and conditions for earning such awards.

On September 4, 2008, the Compensation Committee granted 322,500 of non-qualified stock options to selected employees. The options have a ten-year life with one-third vesting at the date of grant, one-third vesting on the first anniversary date of the date of grant and one-third vesting on the second anniversary date of the date of grant. The exercise price of \$37.89 was equal to the closing market price on the date of grant and the fair value of the options was \$10.98 per share.

The fair value of the options as of the date of grant was calculated using the Black-Scholes option-pricing model based on an assumption for the expected life of the options of six years, a risk-free interest rate of 3.33%, an expected dividend yield of 2.51% and an expected volatility of 33.71%. The resultant stock-based compensation expense of \$3,542,000 will be recognized over the requisite service period with \$1,279,000 recognized in the nine and three month periods ended September 30, 2008. The related income tax benefit recognized in the statement of operations was \$448,000 for the nine and three months ended September 30, 2008.

The risk-free interest rate is equal to the yield that was available on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the expected life of the options. The expected life of the options was estimated by considering historical exercise experience of the employee group and the vesting period of the awards. The expected dividend yield was based on a dividend amount giving consideration to the Corporation's past pattern and future expectations of dividend increases over the expected life of the options. The expected volatility was based on the historical prices of the Corporation's stock and dividend amounts over the past six years, a period equal to the expected life of the stock options.

In addition to the Incentive Plan, the Corporation previously maintained the 1997 Stock Option Plan which expired, by its terms, on December 31, 2007. No further grants or awards will be made under this plan; however, the plan will continue in effect solely to administer previously-granted awards that remain outstanding. As of September 30, 2008, 5,000 previously granted awards were outstanding.

#### 10. Fair Value

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. SFAS No. 157 establishes a hierarchy of inputs used to determine fair value measurements with three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities and are considered the most reliable evidence of fair value. Level 2 inputs are observable prices that are not quoted on active exchanges. Level 3 inputs are unobservable inputs used for measuring the fair value of assets or liabilities.

The Corporation's financial assets and liabilities that are reported at fair value in the accompanying condensed consolidated balance sheet as of September 30, 2008 were as follows:

	(in thousands)			Total
	Level 1	Level 2	Level 3	
Investments				
Short-term marketable securities	\$ -	\$ 53,837	\$ -	\$ 53,837
Other noncurrent assets	2,566	-	-	2,566
Foreign currency contracts				
Other current assets	-	2,280	-	2,280
Other noncurrent assets	-	1,071	-	1,071
Other current liabilities	-	4,044	-	4,044
Other noncurrent liabilities	-	989	-	989

#### 11. Business Segments

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

	(in thousands)			
	Nine Months Ended September 30,		Three Months Ended September 30,	
	2008	2007	2008	2007
Net Sales:				
Forged and Cast Rolls	\$ 223,053	\$ 185,010	\$ 80,059	\$ 61,251
Air and Liquid Processing	83,372	78,630	25,847	25,909
Total Reportable Segments	\$ 306,425	\$ 263,640	\$ 105,906	\$ 87,160
Income before income taxes:				
Forged and Cast Rolls	\$ 49,426	\$ 41,345	\$ 17,834	\$ 13,222
Air and Liquid Processing	7,286	6,925	1,910	2,629
Total Reportable Segments	56,712	48,270	19,744	15,851
Other expense, including corporate costs – net	(5,958)	(5,124)	(2,313)	(1,925)

Total	\$	50,754	\$	43,146	\$	17,431	\$	13,926
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## 12.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 and another former division 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 the asbestos claims asserted against the inactive subsidiary and the former division, for the nine months ended September 30, 2008:

Approximate open claims at end of period	9,372(1)
Gross settlement and defense costs (in 000's)	\$12,659
Approximate claims settled or dismissed	728

(1) Included as "open claims" are approximately 3,255 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.

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. In 2006, for the first time, a claim for Asbestos Liability against one of the Corporation's subsidiaries was tried to a jury. The trial resulted in a defense verdict. The plaintiff has appealed that verdict.

## 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 claims against the inactive subsidiary of the Corporation, approximately 300 as of September 30, 2008, are not included within the Coverage Arrangement. Insurance coverage for those claims was the subject of a declaratory judgment action against the subsidiary, the Corporation and two other primary insurers filed by the subsidiary's primary insurer, Utica Mutual Insurance Company, on June 19, 2008 in Utica, New York. On July 30, 2008, the action was removed to the United States District Court for the Northern District of New York. By agreement dated October 17, 2008, Utica Mutual agreed to dismiss without prejudice its claims against all parties. The parties intend to enter negotiations to resolve the disputes underlying the declaratory judgment action. The one claim filed against the former division also is not included within the Coverage Arrangement. The Corporation believes that the claims against the inactive subsidiary and the former division are immaterial.

In the fourth quarter of 2007, one Paying Insurer responsible for two years of primary coverage informed the Corporation that its policies had exhausted. In the first quarter of 2008, another Paying Insurer responsible for approximately two and a half years of primary coverage informed the Corporation that two of its policies exhausted. In addition, the Paying Insurer responsible for some umbrella insurance coverage also informed the Corporation that approximately one half of its umbrella insurance coverage had exhausted at the end of 2007. As a result, and as contemplated by the valuation discussed below, the Corporation will bear a portion of the defense and indemnity costs 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 in part 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., now known as Hamilton, Rabinovitz & Associates, 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 or former division. 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;
- 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.

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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”) in 2006, 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 recorded reserves at December 31, 2006 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2013 of \$140,015,000, of which approximately 60% was attributable to settlement and defense costs for unasserted claims projected to be filed through 2013. The reserve at September 30, 2008 was \$107,978,000. While it is reasonably possible that the Corporation will incur additional charges for Asbestos Liability and defense costs in excess of 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 2013. Accordingly, no reserve has been recorded for any costs that may be incurred after 2013.

The Corporation recorded a receivable as at December 31, 2006 of \$114,548,000 (\$85,971,000 as of September 30, 2008) 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.

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The \$25,467,000 difference between insurance recoveries and projected costs which was recorded in 2006 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. In 2007, the Corporation undertook another review of its Asbestos Liability claims, defense costs and likelihood for insurance recoveries and determined no change to the provision should be made at that time.

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

### 13. 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 a sale of a segment, the Corporation retained the liability to remediate certain environmental contamination at two of the sold locations, one of which has been completed, 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. In the third quarter of 2008, based on data obtained to date and meetings with regulators which indicated that the original level of remediation would not be necessary, the Corporation reduced the accrual for the remediation of the remaining sold location.

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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 and in consideration of advice from the Corporation's consultants, the potential liability for all environmental proceedings of approximately \$775,000 at September 30, 2008 is considered adequate based on information known to date.





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.

In the quarter and year-to-date, the Forged and Cast Rolls segment benefited from record-level demand from steel and aluminum producers throughout the world aided by the weak U.S. dollar. However, with the considerable uncertainty in the economy resulting from the current unprecedented global financial turmoil, the outlook has suddenly become unpredictable and changing almost daily. Steel companies around the world have announced cutbacks in production output levels and new mill projects across the globe are being delayed as a result of anticipated reduction in the demand for steel and the lack of financial resources. The result will be a lower level of roll consumption and, for the Corporation, lower production levels in the fourth quarter and in 2009. While order backlogs are at record-high levels, many customers are requesting deferral of roll shipments and the Corporation is working with each of them by agreeing to the extent possible to reschedule deliveries into future periods.

The Air and Liquid Processing segment is also being affected by current market conditions. In particular, the lack of demand from the beleaguered construction industry has begun and expected to continue in 2009 to negatively impact orders for air handling systems and heating and cooling coils.

The focus is to work closely with customers to minimize the impact on the Corporation from the severe economic downturn. The Corporation remains financially sound with over \$80 million in cash and short-term investments (shares in a mutual fund which invests primarily in short-term U.S. Treasury Notes) as of September 30, 2008.

Operations for the Nine and Three Months Ended September 30, 2008 and 2007

**Net Sales.** Net sales for the nine months ended September 30, 2008 and 2007 were \$306,425,000 and \$263,640,000, respectively, and \$105,906,000 and \$87,160,000, respectively, for the three months then ended. A discussion of sales for the Corporation's two segments is included below. Backlog approximated \$831,116,000 and \$730,805,000 at September 30, 2008 and 2007, respectively, and \$728,718,000 at December 31, 2007. The increase is principally attributable to the Forged and Cast Rolls segment. While the Corporation believes that orders in the backlog are firm, the sudden uncertainty surrounding the global economy and the steel industry, in particular, may result in some cancellations.

**Cost of Products Sold.** Costs of products sold, excluding depreciation, as a percentage of net sales were 71.3% and 70.3%, for the nine months ended September 30, 2008 and 2007, respectively, and 71.9% and 70.3% of net sales for the three months ended September 30, 2008 and 2007, respectively. The increase is primarily attributable to higher costs for steel scrap and alloys used by the Forged and Cast Rolls group. Although an existing surcharge mechanism enables the majority of such increases to be passed on to the customer, there is a lag in timing between when the increase in costs is incurred and when the surcharge is applied to the selling price of rolls.



**Selling and Administrative.** Selling and administrative expenses increased as a result of a greater volume of sales, higher commission expense, recognition of stock-based compensation costs associated with the granting of stock options of \$1,279,000, and general inflationary increases.

**Income from Operations.** Income from operations for the nine months ended September 30, 2008 and 2007 approximated \$50,134,000 and \$43,475,000, respectively, and \$16,562,000 and \$14,206,000 for the three months ended September 30, 2008 and 2007, respectively. A discussion of operating results for the Corporation's two segments is included below.

**Forged and Cast Rolls.** Sales and operating income for the nine and three months ended September 30, 2008 improved when compared to the same periods of the prior year. Higher volumes resulting from increased demand particularly from overseas customers and, for the third quarter of 2008, resolution of certain logistical issues occurring earlier in the year account for the improvement. Additionally, included in operating income for the nine and three months ended September 30, 2008, is approximately \$850,000 for the settlement of business interruption insurance claims relating to equipment breakdown at the end of 2007 at the Corporation's U.K. operations which impacted income in 2008. Higher material costs and the lag in timing between increases in the cost of steel scrap and alloys and the recovery of such increases from customers adversely impacted earnings. Backlog approximated \$775,880,000 at September 30, 2008 versus \$686,571,000 as of September 30, 2007 and \$684,769,000 at December 31, 2007 and is reflective of conversion of commitments under long-term supply agreements to purchase orders. Due to cutbacks in production by customers throughout the world, the timing of manufacture and delivery of the order backlog is currently under review.

**Air and Liquid Processing.** Sales and operating income for Buffalo Pumps for the nine and three months ended September 30, 2008 increased primarily as a result of higher volumes for commercial lube oil and Navy pumps. Year-to-date, sales and operating income for Aerofin exceeded the comparable prior year period due to increased shipments to OEM and utility customers but, on a quarterly basis, was affected by a shift in product mix and from the general decline in new construction projects. Sales and earnings for Buffalo Air Handling for each of the periods were less than those for the same periods in the prior year due to lower demand from a weak construction industry. Backlog was \$55,236,000 and \$44,234,000 as of September 30, 2008 and 2007, respectively, and \$43,949,000 as of December 31, 2007. The increase reflects an improved level of orders for the supply of pumps to the US Navy by Buffalo Pumps and several large, long lead-time utility orders for Aerofin. Although backlog for Buffalo Air Handling is comparable to each of the periods, margins are lower. Of the September 30, 2008 backlog for the Air and Liquid Processing group, \$24,557,000 is scheduled for shipment after December 31, 2008.

**Other Income (Expense).**

- Investment-related income increased for the nine months ended September 30, 2008 primarily due to receipt of a larger dividend from the Corporation's Chinese cast-roll joint venture in each of the second quarters. The dividend approximated \$800,000 in 2008 versus \$540,000 in 2007. The reduction in investment-related income for the three months ended September 30, 2008 is attributable to the general decline in interest rates.
- Interest expense decreased for each of the periods due to lower average interest rates incurred on the outstanding Industrial Revenue Bonds.
- Other-net includes approximately \$960,000 of income resulting the reduction in the accrual for environmental remediation of a previously sold location offset by higher foreign exchange losses in 2008 when compared to 2007.



Income Taxes. The increase in the effective rate for the nine months ended September 30, 2008 against the comparable prior year period is primarily attributable to a change in the composition of projected income before income taxes between the two years. A decline in current and expected earnings on short-term marketable securities for 2008, which would have otherwise enabled the reversal of existing capital loss carryforwards, resulted in a larger portion of income being taxable in the current year.

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 and Earnings per Common Share. As a result of the above, the Corporation's net income equaled \$33,726,000 or \$3.31 per basic common share and \$29,041,000 or \$2.90 per basic common share for the nine months ended September 30, 2008 and 2007, respectively, and \$11,974,000 or \$1.18 per basic common share and \$9,399,000 or \$0.92 per basic common share for the three months ended September 30, 2008 and 2007, respectively. The increase in the weighted average number of common shares outstanding between the nine-month periods reduced basic earnings per common share by \$0.06 per share.

#### Liquidity and Capital Resources

Net cash flows provided by operating activities increased for the nine months ended September 30, 2008 when compared to the nine months ended September 30, 2007. The improvement is principally due to higher net income and the add-back of non-cash stock compensation expense of \$1,279,000.

The increase in net cash flows used in investing activities is attributable to higher capital expenditures and an additional contribution toward its 49% interest in the Chinese joint venture. As of September 30, 2008, future capital expenditures totaling approximately \$51,305,000, to be spent over the next two to three years, have been approved. In addition, it is expected that Union Electric Steel will contribute an additional \$2,940,000 in 2008 and the remaining \$5,880,000 by the end of 2009 to the Chinese joint venture.

Net cash flows (used in) provided by financing activities for each of the years includes the payment of dividends which increased in the current year due to additional shares outstanding and a higher dividend rate. In 2007, proceeds from the issuance of stock under the Corporation's stock option plan and the resulting excess tax benefits reduced the impact of the dividend payments.

The effect of exchange rate changes on cash and cash equivalents for the nine months ended September 30, 2008 is related to the strengthening of the U.S. dollar in the third quarter of 2008 against most currencies, principally the U.K. pound sterling.

As a result of the above, cash and cash equivalents decreased \$45,011,000 in 2008 and ended the period at \$26,615,000 in comparison to \$71,626,000 at December 31, 2007. Additionally, the Corporation has investments in short-term marketable securities (shares in a mutual fund which invests primarily in short-term U.S. Treasury Notes) of approximately \$53,837,000 at September 30, 2008.



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, 2008 was approximately \$10,000,000 (including £3,000,000 in the U.K. and €400,000 in Belgium).

#### Litigation and Environmental Matters

See Notes 12 and 13 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, 2007, remain unchanged. With the issuance of stock options during the third quarter of 2008, the Corporation has also identified the accounting for stock-based compensation as an accounting policy critical to the presentation of the Corporation's financial condition, changes in financial condition and results of operations and involve the most complex or subjective assessments. Specifically, the determination of the fair value of the stock options on the date of grant is affected by the Corporation's stock price and various assumptions including the expected term of the options, volatility, dividends and the risk-free interest rate. The basis for the assumptions is summarized in Note 9 to the condensed consolidated financial statements.

#### Recently Issued Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements.

#### Forward-Looking Statements

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 "believes," "expects," "anticipates," "estimates," "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.

#### 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, 2007.





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 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 the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the required time periods.

(b) Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, the Corporation's management, including the principal executive officer and principal financial officer, has concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2008.

(c) Changes in internal control over financial reporting. There were no changes in the Corporation's internal control over financial reporting during the quarter ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.



PART II - OTHER INFORMATION  
AMPCO-PITTSBURGH CORPORATION

Item 1 Legal Proceedings

The information contained in Note 12 to the condensed consolidated financial statements (Litigation) is incorporated herein by reference.

Item 1A Risk Factors

There are no material changes to the Risk Factors contained in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2007.

Items 2-4 None

Item 5 Other Information

On November 1, 2008, Ampco-Pittsburgh Corporation's shareholder rights plan, commonly referred to as a "poison pill", expired in accordance with its terms. Accordingly, the rights issued pursuant to the Rights Agreement, dated as of September 28, 1998, by and between Ampco-Pittsburgh Corporation and Mellon Investor Services LLC (formerly known as ChaseMellon Shareholder Services, LLC) expired pursuant to the terms of the Rights Agreement. The Board of Directors reserves the right, in its sole discretion, to take any actions in the future that it determines to be necessary or advisable, including the adoption of a new shareholder rights plan if circumstances warrant such action.

Item 6 Exhibits

(3) Articles of Incorporation and By-laws

(a) Articles of Incorporation

Incorporated by reference to the Quarterly Reports on Form 10-Q for the quarters ended March 31, 1983, March 31, 1984, March 31, 1985, March 31, 1987 and September 30, 1998.

(b) By-laws

Incorporated by reference to the Quarterly Reports on Form 10-Q for the quarters ended September 30, 1994, March 31, 1996, June 30, 2001 and June 30, 2004.

(10) Material Contracts

(a) 2008 Omnibus Incentive Plan

Incorporated by reference to the Proxy Statement dated March 6, 2008.

(31.1) Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(31.2) Certification of the principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(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



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, 2008

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

DATE: November 7, 2008

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

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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
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- (32.2) Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002





