

AMPCO PITTSBURGH CORP

Form 10-Q

May 09, 2014

Table of Contents

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2014**

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

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

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Large accelerated filer  Accelerated filer  x  
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No  x

On May 2, 2014, 10,398,080 common shares were outstanding.

Table of ContentsAMPCO-PITTSBURGH CORPORATIONINDEX

	Page No.
<u>Part I Financial Information:</u>	
Item 1 Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets March 31, 2014 and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Operations Three Months Ended March 31, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) Three Months Ended March 31, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2014 and 2013</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 4 <u>Controls and Procedures</u>	19
<u>Part II Other Information:</u>	
Item 1 <u>Legal Proceedings</u>	20
Item 1A <u>Risk Factors</u>	20
Item 6 <u>Exhibits</u>	20
<u>Signatures</u>	21
<u>Exhibit Index</u>	22
Exhibits	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	
Exhibit 101	

Table of Contents**PART I FINANCIAL INFORMATION****AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)***(in thousands, except par value)*

	March 31, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 92,594	\$ 97,910
Receivables, less allowance for doubtful accounts of \$570 in 2014 and \$551 in 2013	47,262	50,279
Inventories	69,175	64,129
Insurance receivables asbestos	20,000	24,500
Other current assets	11,900	9,968
Total current assets	240,931	246,786
Property, plant and equipment, net	151,251	151,288
Insurance receivables asbestos	85,546	86,241
Deferred income tax assets	6,404	6,832
Investments in joint ventures	4,676	5,010
Other noncurrent assets	6,591	6,516
	\$ 495,399	\$ 502,673
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 19,069	\$ 15,768
Accrued payrolls and employee benefits	7,900	8,875
Industrial Revenue Bond debt	13,311	13,311
Asbestos liability current portion	26,000	27,000
Other current liabilities	18,640	21,720
Total current liabilities	84,920	86,674
Employee benefit obligations	49,580	49,146
Asbestos liability	125,708	131,293
Other noncurrent liabilities	466	565
Total liabilities	260,674	267,678

Commitments and contingent liabilities (Note 6)

Shareholders' equity:

Common stock - par value \$1; authorized 20,000 shares; issued and outstanding 10,373 shares in 2014 and 2013	10,373	10,373
Additional paid-in capital	126,153	125,852
Retained earnings	142,844	144,635
Accumulated other comprehensive loss	(44,645)	(45,865)
Total shareholders' equity	234,725	234,995
	\$ 495,399	\$ 502,673

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**AMPCO-PITTSBURGH CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

*(in thousands, except per share amounts)*

	Three Months Ended March 31,	
	2014	2013
Net sales	\$ 62,913	\$ 69,624
Operating costs and expenses:		
Costs of products sold (excluding depreciation)	50,063	55,090
Selling and administrative	9,006	9,858
Depreciation	3,058	2,971
Loss (gain) on disposal of assets	9	(6)
Total operating expenses	62,136	67,913
Income from operations	777	1,711
Other income (expense):		
Investment-related income	44	12
Interest expense	(54)	(53)
Other net	128	(603)
	118	(644)
Income before income taxes and equity losses in Chinese joint venture	895	1,067
Income tax provision	(376)	(320)
Equity losses in Chinese joint venture	(441)	(621)
Net income	\$ 78	\$ 126
Net income per common share:		
Basic	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01
Cash dividends declared per share	\$ 0.18	\$ 0.18

Weighted average number of common shares outstanding:

Basic	10,373	10,346
Diluted	10,423	10,399

See Notes to Condensed Consolidated Financial Statements.



Table of Contents**AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(UNAUDITED)***(in thousands)*

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 78	\$ 126
Other comprehensive income (loss), net of tax where applicable:		
Adjustments for changes in:		
Foreign currency translation	548	(4,349)
Unrecognized employee benefit costs (including effects of foreign currency translation)	(126)	1,451
Unrealized holding gains on marketable securities	49	215
Fair value of cash flow hedges	(208)	(193)
Reclassification adjustments for items included in net income:		
Amortization of unrecognized employee benefit costs	957	1,426
Realized gains on sale of marketable securities	(18)	(5)
Realized losses from settlement of cash flow hedges	18	3
Other comprehensive income (loss)	1,220	(1,452)
Comprehensive income (loss)	\$ 1,298	\$ (1,326)

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsAMPCO-PITTSBURGH CORPORATIONCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS(UNAUDITED)*(in thousands)*

	Three Months Ended March 31,	
	2014	2013
Net cash flows (used in) provided by operating activities	\$ (707)	\$ 10,092
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,840)	(4,562)
Purchases of long-term marketable securities	(210)	(163)
Proceeds from the sale of long-term marketable securities	183	140
Proceeds from the disposition of property, plant and equipment	0	6
Net cash flows used in investing activities	(2,867)	(4,579)
Cash flows from financing activities:		
Dividends paid	(1,867)	(1,862)
Net cash flows used in financing activities	(1,867)	(1,862)
Effect of exchange rate changes on cash and cash equivalents	125	(375)
Net (decrease) increase in cash and cash equivalents	(5,316)	3,276
Cash and cash equivalents at beginning of period	97,910	78,889
Cash and cash equivalents at end of period	\$ 92,594	\$ 82,165
Supplemental information:		
Income tax payments	\$ 3,018	\$ 0
Interest payments	\$ 54	\$ 54
Non-cash investing activities:		
Purchases of property, plant and equipment included in accounts payable	\$ 997	\$ 812

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**AMPCO-PITTSBURGH CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)***(in thousands, except claim amounts)***1. Unaudited Condensed Consolidated Financial Statements**

The condensed consolidated balance sheet as of March 31, 2014 and the condensed consolidated statements of operations, comprehensive income (loss) and cash flows for the three months ended March 31, 2014 and 2013 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 three months ended March 31, 2014 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. Certain amounts for the preceding period have been reclassified for comparative purposes.

**Recently Implemented Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which requires, under certain circumstances, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance became effective January 1, 2014 but did not affect the balance sheet, operating results or liquidity of the Corporation.

**2. Inventories**

At March 31, 2014 and December 31, 2013, approximately 56% of the inventories were valued on the LIFO method with the remaining inventories valued on the FIFO method. Inventories were comprised of the following:

	March 31, 2014	December 31, 2013
Raw materials	\$ 18,586	\$ 17,411
Work-in-process	29,882	29,322
Finished goods	8,733	5,894
Supplies	11,974	11,502
	<b>\$ 69,175</b>	<b>\$ 64,129</b>

### 3. Property, Plant and Equipment

Property, plant and equipment were comprised of the following:

	March 31, 2014	December 31, 2013
Land and land improvements	\$ 5,136	\$ 5,122
Buildings	44,163	44,116
Machinery and equipment	251,945	250,936
Construction-in-progress	7,239	5,315
Other	8,744	8,711
	317,227	314,200
Accumulated depreciation	(165,976)	(162,912)
	\$ 151,251	\$ 151,288

Land and buildings of Union Electric Steel UK Limited ( UES-UK ) equal to approximately \$3,289 (£1,974) at March 31, 2014 are held as collateral by the trustees of the UES-UK defined benefit pension plan (see Note 5).

**Table of Contents****4. Other Current Liabilities**

Other current liabilities were comprised of the following:

	March 31, 2014	December 31, 2013
Customer-related liabilities	\$ 10,089	\$ 10,610
Accrued sales commissions	1,447	1,648
Income taxes payable	66	1,063
Other	7,038	8,399
	\$ 18,640	\$ 21,720

Included in customer-related liabilities are costs expected to be incurred with respect to product warranties. Changes in the liability for product warranty claims consisted of the following:

	Three Months Ended March 31,	
	2014	2013
Balance at beginning of the period	\$ 6,899	\$ 6,625
Satisfaction of warranty claims	(731)	(545)
Provision for warranty claims	605	575
Other, primarily impact from changes in foreign currency exchange rates	24	(246)
Balance at end of the period	\$ 6,797	\$ 6,409

**5. Pension and Other Postretirement Benefits**

Contributions were as follows:

	Three Months Ended March 31,	
	2014	2013
U.K. defined benefit pension plan	\$ 466	\$ 438
Other postretirement benefits (e.g. net payments)	\$ 137	\$ 122
U.K. defined contribution pension plan	\$ 92	\$ 74

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

Three Months Ended March 31,

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U.S. Defined Benefit Pension Plan	2014	2013
Service cost	\$ 1,000	\$ 1,169
Interest cost	2,230	2,020
Expected return on plan assets	(2,643)	(2,359)
Amortization of prior service cost	213	166
Amortization of actuarial loss	1,096	1,808
Net benefit costs	\$ 1,896	\$ 2,804

U.K. Defined Benefit Pension Plan	Three Months Ended March 31,	
	2014	2013
Interest cost	\$ 679	\$ 618
Expected return on plan assets	(796)	(595)
Amortization of actuarial loss	151	153
Net benefit costs	\$ 34	\$ 176

**Table of Contents**

Other Postretirement Benefit Plan	Three Months Ended March 31,	
	2014	2013
Service cost	\$ 264	\$ 201
Interest cost	227	208
Amortization of prior service cost	5	21
Amortization of actuarial loss	4	84
Net benefit costs	\$ 500	\$ 514

**6. Commitments and Contingent Liabilities**

Outstanding standby and commercial letters of credit as of March 31, 2014 approximated \$17,931, the majority of which serve as collateral for the Industrial Revenue Bond debt.

In 2010, UES-UK was awarded a government grant of up to \$1,325 (£850) toward the purchase and installation of certain machinery and equipment of which \$1,083 (£680) has been received to date. Under the agreement, the grant is repayable if certain conditions are not met including achieving and maintaining a targeted level of employment through 2017. UES-UK's level of employment currently exceeds and is expected to continue to exceed the targeted level of employment; accordingly, no liability has been recorded.

See Note 7 for derivative instruments, Note 12 for litigation and Note 13 for environmental matters.

**7. Derivative Instruments**

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, foreign currency sales contracts are entered into which are designated as cash flow or fair value hedges. As of March 31, 2014, approximately \$15,838 of anticipated foreign-denominated sales has been hedged which are covered by fair value contracts settling at various dates through January 2015. The fair value of assets held as collateral for the fair value contracts as of March 31, 2014 approximated \$833. As of March 31, 2014, there are no cash flow contracts outstanding for future sales.

Additionally, certain of the divisions of the Air and Liquid Processing segment are subject to risk from increases in the price of commodities (copper and aluminum) used in the production of inventory. To minimize this risk, futures contracts are entered into which are designated as cash flow hedges. At March 31, 2014, approximately 57% or \$2,907 of anticipated copper purchases over the next nine months and 38% or \$452 of anticipated aluminum purchases over the next six months are hedged. The fair value of assets held as collateral as of March 31, 2014 equaled \$400.

The Corporation previously entered into foreign currency purchase contracts to manage the volatility associated with Euro-denominated progress payments to be made for certain machinery and equipment. As of December 31, 2010, all contracts had been settled and the underlying fixed assets were placed in service.

No portion of the existing cash flow or fair value hedges is considered to be ineffective, including any ineffectiveness arising from the unlikelihood of an anticipated transaction to occur. Additionally, no amounts have been excluded from assessing the effectiveness of a hedge.



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At March 31, 2014, the Corporation has purchase commitments covering 50% or \$3,754 of anticipated natural gas usage through 2015 at one of its subsidiaries. The commitments qualify as normal purchases and, accordingly, are not reflected on the condensed consolidated balance sheet.

The Corporation does not enter into derivative transactions for speculative purposes and, therefore, holds no derivative instruments for trading purposes.

Gains (losses) on foreign exchange transactions included in other income (expense) approximated \$207 and \$(300) for the three months ended March 31, 2014 and 2013, respectively.

**Table of Contents**

The location and fair value of the foreign currency sales contracts recorded on the condensed consolidated balance sheets were as follows:

	Location	March 31, 2014	December 31, 2013
Fair value hedge contracts	Other current assets	\$ 308	\$ 426
	Other noncurrent assets	0	17
Fair value hedged items	Receivables	(59)	(36)
	Other current liabilities	288	488
	Other noncurrent liabilities	0	40

The change in the fair value of the cash flow contracts is recorded as a component of accumulated other comprehensive loss. The balances as of March 31, 2014 and 2013 and the amount recognized as and reclassified from accumulated other comprehensive loss for each of the periods is summarized below. All amounts are after-tax.

	Comprehensive Income (Loss) Beginning of the Year	Plus Recognize as Comprehensive Income (Loss)	Less Gain (Loss) from Accumulated Comprehensive Income (Loss)	Reclassified Other Comprehensive Income (Loss) End of the Period
Three Months Ended March 31, 2014				
Foreign currency purchase contracts	\$ 275	\$ 0	\$ 5	\$ 270
Futures contracts copper and aluminum	38	(208)	(23)	(147)
	\$ 313	\$ (208)	\$ (18)	\$ 123

## Three Months Ended March 31, 2013

Foreign currency purchase contracts	\$ 292	\$ 0	\$ 5	\$ 287
Futures contracts copper and aluminum	26	(193)	(8)	(159)
	\$ 318	\$ (193)	\$ (3)	\$ 128

The change in fair value reclassified or expected to be reclassified from accumulated other comprehensive loss to earnings is summarized below. All amounts are pre-tax.

Location of Estimated Three Months Ended March 31,

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	Gain (Loss) in Statements of Operations	to be Reclassified in the Next 12 Months	2014	2013
Foreign currency purchase contracts	Depreciation	\$ 28	\$ 7	\$ 7
Futures contracts copper and aluminum	Costs of products sold (excluding depreciation)	(239)	(36)	(14)

**Table of Contents****8. Accumulated Other Comprehensive Loss**

Net change and ending balances for the various components of accumulated other comprehensive loss as of and for the three months ended March 31, 2013 and 2012 is summarized below. All amounts are net of tax, where applicable.

	Foreign Currency Translation Adjustments	Unrecognized Employee Benefit Costs	Unrealized Holding Gains on Marketable Securities	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2014	\$ 277	\$ (47,462)	\$ 1,007	\$ 313	\$ (45,865)
Net Change	548	831	31	(190)	1,220
Balance at March 31, 2014	\$ 825	\$ (46,631)	\$ 1,038	\$ 123	\$ (44,645)
Balance at January 1, 2013	\$ (1,543)	\$ (81,783)	\$ 633	\$ 318	\$ (82,375)
Net Change	(4,349)	2,877	210	(190)	(1,452)
Balance at March 31, 2013	\$ (5,892)	\$ (78,906)	\$ 843	\$ 128	\$ (83,827)

The following summarizes the line items affected on the condensed consolidated statements of operations for components reclassified from accumulated other comprehensive loss. Amounts in parentheses represent credits to net income.

	Three Months Ended March 31,		Affected Line Item
	2014	2013	
Amortization of unrecognized employee benefit costs	\$ 1,013	\$ 1,440	Costs of products sold (excluding depreciation)
	399	573	Selling and administrative
	57	219	Other income (expense)
	1,469	2,232	Total before income tax
	(512)	(806)	Income tax provision
	\$ 957	\$ 1,426	Net of tax

	Three Months Ended March 31,		
	2014	2013	
Realized (gains) on sale of marketable securities	\$ (28)	\$ (7)	Selling and administrative
	10	2	Income tax provision

		Three Months Ended March 31,		
		2014	2013	
\$ (18) \$ (5) Net of tax				
Realized (gains) losses from settlement of cash flow hedges:				
Foreign currency purchase contracts		\$ (7)	\$ (7)	Depreciation
Futures contracts copper and aluminum		36	14	Costs of products sold (excluding depreciation)
		29	7	Total before income tax
		(11)	(4)	Income tax provision
		\$ 18	\$ 3	Net of tax

**Table of Contents**

The income tax expense (benefit) associated with the various components of other comprehensive income (loss) for the three months ended March 31, 2014 and 2013 is summarized below. Foreign currency translation adjustments exclude the effect of income taxes since earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

	Three Months Ended March 31,	
	2014	2013
Tax expense (benefit) associated with changes in:		
Unrealized holding gains/losses on marketable securities	\$ (26)	\$ (116)
Fair value of cash flow hedges	128	116
Tax expense (benefit) associated with reclassification adjustments:		
Amortization of unrecognized employee benefit costs	(512)	(806)
Realized gains/losses from sale of marketable securities	10	2
Realized gains/losses from settlement of cash flow hedges	(11)	(4)

#### 9. Stock-Based Compensation

In May 2011, the shareholders of the Corporation approved the adoption of the 2011 Omnibus Incentive Plan ( Incentive Plan ) which authorizes the issuance of up to 1,000,000 shares of the Corporation's common stock for grants of equity-based compensation. Awards under the Incentive Plan may include incentive non-qualified stock options, stock appreciation rights, restricted shares and restricted stock units, performance awards, other stock-based awards or short-term cash incentive awards. Unexercised portions of terminated or forfeited awards are available for new 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. In April 2014, the Compensation Committee granted 172,000 non-qualified stock options to select employees. The options have a ten-year life and vest over a three-year period.

The Incentive Plan also provides for annual grants of shares of the Corporation's common stock to non-employee directors following the Corporation's annual shareholder meeting. Each annual director award will be for a number of shares having a fair market value equal to \$25 and will be fully vested as of the grant date. In April 2014, 12,500 shares of the Corporation's common stock were granted to the non-employee directors.

Stock-based compensation expense for the three months ended March 31, 2014 and 2013 equaled \$351 and \$296, respectively. The related income tax benefit recognized in the condensed consolidated statements of operations for each of the periods was approximately \$123 and \$104, respectively.

**Table of Contents****10. Fair Value**

The Corporation's financial assets and liabilities that are reported at fair value in the condensed consolidated balance sheets as of March 31, 2014 and December 31, 2013 were as follows:

	Quoted Prices in Active Markets for Identical Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>As of March 31, 2014</b>				
Investments				
Other noncurrent assets	\$ 4,186	\$ 0	\$ 0	\$ 4,186
Foreign currency exchange contracts				
Other current assets	0	308	0	308
Other current liabilities	0	288	0	288
<b>As of December 31, 2013</b>				
Investments				
Other noncurrent assets	\$ 4,092	\$ 0	\$ 0	\$ 4,092
Foreign currency exchange contracts				
Other current assets	0	426	0	426
Other noncurrent assets	0	17	0	17
Other current liabilities	0	488	0	488
Other noncurrent liabilities	0	40	0	40

The investments held as other noncurrent assets represent assets held in a Rabbi trust for the purpose of providing benefits under a non-qualified defined benefit pension plan. The fair value of the investments is based on quoted prices of the investments in active markets. The fair value of foreign currency exchange contracts is determined based on the fair value of similar contracts with similar terms and remaining maturities. The fair value of futures contracts is based on market quotations. The fair value of the variable-rate IRB debt approximates its carrying value. Additionally, the fair value of trade receivables and trade payables approximates their carrying value.

**11. Business Segments**

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

	Three Months Ended March 31,	
	2014	2013
Net sales:		
Forged and Cast Rolls	\$ 39,566	\$ 45,113
Air and Liquid Processing	23,347	24,511
Total Reportable Segments	\$ 62,913	\$ 69,624

Income before income taxes:			
Forged and Cast Rolls	\$	1,013	\$ 2,063
Air and Liquid Processing		2,111	2,210
Total Reportable Segments		3,124	4,273
Other expense, including corporate costs		(2,229)	(3,206)
Total	\$	895	\$ 1,067

12. Litigation (*claims not in thousands*)

The Corporation and its subsidiaries are involved in various claims and lawsuits incidental to their businesses. In addition, it is also subject to asbestos litigation as described below.

Asbestos Litigation

Claims have been asserted alleging personal injury from exposure to asbestos-containing components historically used in some products of predecessors of the Corporation's Air & Liquid subsidiary (Asbestos Liability). Those subsidiaries, and in some cases the Corporation, are defendants (among a number of defendants, often in excess of 50) in cases filed in various state and federal courts.



**Table of Contents****Asbestos Claims**

The following table reflects approximate information about the claims for Asbestos Liability against the subsidiary and the Corporation. The information in the table presented for 2013 includes certain asbestos claims asserted against an inactive subsidiary in dissolution.

	Three Months Ended March 31,	
	2014	2013
Total claims pending at the beginning of the period	8,319	8,007
New claims served	393	381
Claims dismissed	(56)	(106)
Claims settled	(55)	(55)
<b>Total claims pending at the end of the period <sup>(1)</sup></b>	<b>8,601</b>	<b>8,227</b>
Gross settlement and defense costs (in 000 \$)	\$ 6,585	\$ 6,087
<b>Avg. gross settlement and defense costs per claim resolved (in 000 \$)</b>	<b>\$ 59.32</b>	<b>\$ 37.81</b>

*(1) Included as open claims are approximately 1,635 and 1,634 claims as of March 31, 2014 and 2013, respectively, 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.*

A substantial majority of the settlement and defense costs reflected in the above table was 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**

The Corporation and its Air & Liquid subsidiary are parties to a series of settlement agreements ( Settlement Agreements ) with insurers that have coverage obligations for Asbestos Liability (the Settling Insurers ). Under the Settlement Agreements, the Settling Insurers accept financial responsibility, subject to the terms and conditions of the respective agreements, including overall coverage limits, for pending and future claims for Asbestos Liability. The Settlement Agreements encompass the substantial majority of insurance policies that provide coverage for claims for Asbestos Liability.

The Settlement Agreements include acknowledgements that Howden North America, 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 Settlement Agreements do not provide for any prioritization on access to the applicable policies or any sublimits of liability as to Howden or the Corporation and Air & Liquid, and, accordingly, Howden may access the coverage afforded by the Settling Insurers for any covered claim arising out of a Product. In general, access by Howden to the coverage afforded by the Settling Insurers for the Products will erode coverage under the Settlement Agreements available to the Corporation and Air & Liquid for Asbestos Liability.

On February 24, 2011, the Corporation and Air & Liquid filed a lawsuit in the United States District Court for the Western District of Pennsylvania against thirteen domestic insurance companies, certain underwriters at Lloyd's, London and certain London market insurance companies, and Howden. The lawsuit seeks a declaratory judgment regarding the respective rights and obligations of the parties under excess insurance policies that were issued to the Corporation from 1981 through 1984 as respects claims against the Corporation and its subsidiary for Asbestos Liability and as respects asbestos bodily-injury claims against Howden arising from the Products. The Corporation and Air & Liquid have reached Settlement Agreements with all but two of the defendant insurers in the coverage action. Those Settlement Agreements specify the terms and conditions upon which the insurer parties are to contribute to defense and indemnity costs for claims for Asbestos Liability. One of the Settlement Agreements entered into by the Corporation and Air & Liquid also provided for the dismissal of claims, without prejudice, regarding two upper-level excess policies issued by one of the insurers. The Court has entered Orders dismissing all claims in the action filed against each other by the Corporation and Air & Liquid, on the one hand, and by the settling insurers, on the other. Howden also reached an agreement with eight domestic insurers addressing asbestos-related bodily injury claims arising from the Products, and claims as to those insurers and Howden have been dismissed. Various counterclaims, cross claims and third party claims have been filed in the litigation and remain pending although only two domestic insurers and Howden remain in the litigation as to the Corporation and Air & Liquid. On September 27, 2013, the Court issued a memorandum opinion and order granting in part and denying in part cross motions for summary judgment filed by the Corporation and Air & Liquid, Howden, and the insurer parties still in the litigation. The September 27, 2013 ruling is not a final ruling for appellate purposes, but when final it could be appealed by the parties to the litigation.

**Table of Contents**

**Asbestos Valuations**

In 2006, the Corporation retained 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. Based on this analysis, the Corporation recorded a reserve for Asbestos Liability claims pending or projected to be asserted through 2013 as at December 31, 2006. HR&A s analysis has been periodically updated since that time. Most recently, the HR&A analysis was updated in 2012, and additional reserves were established by the Corporation as at December 31, 2012 for Asbestos Liability claims pending or projected to be asserted through 2022. The methodology used by HR&A in its projection in 2012 of the operating subsidiaries liability for pending and unasserted potential future claims for Asbestos Liability, which is substantially the same as the methodology employed by HR&A in prior estimates, 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, 2010 to December 20, 2012;

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, 2010 to December 20, 2012 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 in 2012 the number of future claims for Asbestos Liability that would be filed through the year 2022, as well as the settlement or indemnity costs that would be incurred to resolve both pending and future unasserted claims through 2022. This methodology has been accepted by numerous courts.

In conjunction with developing the aggregate liability estimate referenced above, the Corporation also developed an estimate of probable insurance recoveries for its Asbestos Liabilities. In developing the estimate, the Corporation considered HR&A s projection for settlement or indemnity costs for Asbestos Liability and management s projection of associated defense costs (based on the current defense to indemnity cost ratio), as well as a number of additional factors. These additional factors included the Settlement Agreements then in effect, policy exclusions, policy limits, policy provisions regarding coverage for defense costs, attachment points, prior impairment of policies and gaps in the coverage, policy exhaustions, insolvencies among certain of the insurance carriers, and 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. In addition to consulting with the Corporation's outside legal counsel on these insurance matters, the Corporation consulted with a nationally-recognized insurance consulting firm it retained to assist the Corporation with certain policy allocation matters that also are among the several factors considered by the Corporation when analyzing potential recoveries from relevant historical insurance for Asbestos Liabilities. Based upon all of the factors considered by the Corporation, and taking into account the Corporation's analysis of publicly available information regarding the credit-worthiness of various insurers, the Corporation estimated the probable insurance recoveries for Asbestos Liability and defense costs through 2022. Although the Corporation believes that the assumptions employed in the insurance valuation were reasonable and previously consulted with its outside legal counsel and insurance consultant regarding those assumptions, 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's reserve at December 31, 2012 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2022 was \$181,022, of which approximately 73% was attributable to settlement costs for unasserted claims projected to be filed through 2022 and future defense costs. The reserve at March 31, 2014 was \$151,708. 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 2022. Accordingly, no reserve has been recorded for any costs that may be incurred after 2022.

The Corporation's receivable at December 31, 2012 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 Settlement Agreements in effect through December 31, 2012, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims, was \$118,115. The Corporation increased its receivable at September 30, 2013 by \$16,340 to take into account the effect of the Settlement Agreements reached in August 2013.

**Table of Contents**

The following table summarizes activity relating to insurance recoveries.

	Three Months Ended March 31,	
	2014	2013
Insurance receivable asbestos, beginning of the year	\$ 110,741	\$ 118,115
Settlement and defense costs paid by insurance carriers	(5,195)	(8,432)
Insurance receivable asbestos, end of the period	\$ 105,546	\$ 109,683

The insurance receivable recorded by the Corporation does not assume any recovery from insolvent carriers or carriers not party to a Settlement Agreement, and a substantial majority of the insurance recoveries deemed probable was 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 difference between insurance recoveries and projected costs is not due to exhaustion of all insurance coverage 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 that the subsidiaries and it may incur after 2022. 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 or HR&A'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, compliance by relevant parties with the terms of the Settlement Agreements, the resolution of remaining 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 regular basis to determine whether any adjustments to the estimates are required. Due to the uncertainties surrounding asbestos litigation and insurance, these regular 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. 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 \$242 at March 31, 2013 is considered adequate based on information known to date.

Table of Contents

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

*(in thousands, except share and per share amounts)*

Executive Overview

The Corporation operates in two business segments *Forged and Cast Rolls* and *Air and Liquid Processing*. The *Forged and Cast Rolls* segment produces and sells forged-hardened steel rolls and cast iron and steel rolls to manufacturers of steel and aluminum throughout the world. The *Air and Liquid Processing* segment manufactures centrifugal pumps for the marine defense, refrigeration and power generation industries; constructs large custom-designed air handling systems for commercial, institutional and industrial building market; and produces custom-engineered finned tube heat exchange coils and related heat transfer products for a variety of industries including fossil fuel and nuclear power generation, automotive, industrial process and HVAC. A significant portion of its products are distributed through a common independent group of sales offices located throughout the United States and Canada.

For the *Forged and Cast Rolls* segment, global manufacturing regions continue to operate at a reduced capacity with the United States at approximately 77% capacity and the European Union at approximately 65% capacity. This, coupled with excess roll supply in the industry, has, at times, necessitated price discounting to maintain market share. Furthermore, indigenous roll suppliers in China and Korea have established a significant presence in their home markets and have made inroads in export markets through extraordinarily low price offerings resulting in a reduction in roll sales internationally compared to a year ago. For the remainder of the year, demand for traditional roll products will likely be weak and at depressed margins. Although representing a smaller portion of the segment s business activity, sales of non-roll products and services, which utilize available production capacity, are expected to increase. Losses by the segment s Chinese forged roll joint venture company (for which it has a 49% interest and accounts for on the equity method of accounting) are anticipated to continue during the year. While an impairment charge to reduce the carrying amount of the investment in the joint venture company to its estimated fair value was recognized in the fourth quarter of 2013, the Corporation will continue to monitor the carrying value of the investment to determine if future charges are necessary.

For the *Air and Liquid Processing* segment, spending on new construction by the institutional markets remains slow while continued strength in spending in the fossil-fueled power generation market is encouraging. The focus for this segment is to continue to develop new product lines and to strengthen the sales distribution networks.

Consolidated Results of Operations for the Three Months Ended March 31, 2014 and 2013

Net sales for the three months ended March 31, 2014 and 2013 were \$62,913 and \$69,624, respectively. Backlog approximated \$180,492 at March 31, 2014 versus \$197,461 as of December 31, 2013 and \$194,448 as of March 31, 2013. A discussion of sales and backlog for the Corporation s two segments is included below.

Costs of products sold, excluding depreciation, as a percentage of net sales approximated 79.6% and 79.1% for the three months ended March 31, 2014 and 2013, respectively. The increase is primarily related to the mix of products shipped for the Air and Liquid Processing segment.

Selling and administrative expenses totaled \$9,006 (14.3% of net sales) and \$9,858 (14.2% of net sales) for the three months ended March 31, 2014 and 2013, respectively. The decrease is due to lower commission expense, as a result of

lower sales, and employee-related costs.

Income from operations for the three months ended March 31, 2014 and 2013 approximated \$777 and \$1,711, respectively. A discussion of operating results for the Corporation's two segments is included below.

*Forged and Cast Rolls.* Sales for the three months ended March 31, 2014 declined from a year ago due to lower selling prices and a decrease in the volume of shipments which impacted earnings by approximately \$1,200 and \$2,100, respectively. Lower freight and commissions costs, associated with the decrease in sales, and improved quality offset the impact to operating income by approximately \$1,700. Backlog approximated \$141,037 at March 31, 2014 against \$159,344 as of December 31, 2013 and \$152,642 as of March 31, 2013. The decline in backlog is due to shipments outpacing new orders and declining profitability. Approximately \$36,042 of the current backlog is expected to ship after 2014.



## Table of Contents

*Air and Liquid Processing.* Sales and operating income for the three months ended March 31, 2014 were comparable to a year ago. While sales and operating income improved for Buffalo Pumps, sales and operating results decreased for Buffalo Air Handling and Aerofin. Specifically, Buffalo Pumps benefited principally from a higher volume of shipments to U.S. Navy shipbuilders whereas Buffalo Air Handling sales decreased due to a large hospital order in the first quarter of 2013 which did not repeat and Aerofin was affected by a reduction in sales to the OEM market. Backlog approximated \$39,455 at March 31, 2014 against \$38,117 as of December 31, 2013 and \$41,806 as of March 31, 2013. The majority of backlog will ship in 2014.

Other income (expense) fluctuated primarily from changes in foreign exchange gains and losses and charges related to operations discontinued years ago.

Effective income tax rate increased for the three months ended March 31, 2014 in comparison to the three months ended March 31, 2013 principally due to a reduction in the state income tax rate at which certain net deferred income tax assets will be realized.

Net income and earnings per common share equaled \$78 or \$0.01 per common share for the three months ended March 31, 2014 in comparison to \$126 or \$0.01 per common share for the three months ended March 31, 2013.

## Liquidity and Capital Resources

Net cash flows (used in) provided by operating activities decreased for the three months ended March 31, 2014 when compared to the three months ended March 31, 2013. The decrease is due to changes in working capital, principally an increase in inventories, and less asbestos-related insurance recoveries as the first quarter of 2013 included a higher reimbursement from insurance carriers for past costs.

Net cash flows used in investing activities represent primarily capital expenditures for the Forged and Cast Rolls segment. As of March 31, 2014, future capital expenditures approximating \$6,600, to be spent over the next 12-18 months, have been approved.

Net cash flows used in financing activities were comparable for each of the quarters and represented primarily payment of dividends.

As a result of the above, cash and cash equivalents decreased \$5,316 in 2014 and ended the period at \$92,594 (of which approximately \$6,300 is held by foreign operations) in comparison to \$97,910 at December 31, 2013 (of which approximately \$8,100 was held by foreign operations). Repatriation of foreign funds may result in the Corporation accruing and paying additional income tax; however, the majority of such amounts are currently deemed to be permanently reinvested and no additional provision for income tax has been made.

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 March 31, 2014 was approximately \$9,500 (including £3,000 in the U.K. and 400 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, 2013, remain unchanged.

Recently Issued Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements.

**Table of Contents**

**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 predict accurately or control which may cause actual results to differ materially from expectations expressed or implied by forward-looking statements. Except as required by applicable law, 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, 2013.

**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. 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 March 31, 2014.

(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 March 31, 2014, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Table of Contents**

**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 the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013.

Items 2-5 None

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 Form 8-K dated December 21, 2010.
- (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
- (101) Interactive Data File (XBRL)

Table of Contents

**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: May 9, 2014

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

DATE: May 9, 2014

BY: /s/ Marliss D. Johnson  
Marliss D. Johnson  
Chief Financial Officer and Treasurer

**Table of Contents**

**AMPCO-PITTSBURGH CORPORATION**

**EXHIBIT INDEX**

- Exhibit (31.1) Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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- (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
- (101) Interactive Data File (XBRL)