

AMPCO PITTSBURGH CORP  
Form 10-Q  
November 09, 2011  
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# 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 September 30, 2011

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

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**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.

Large accelerated filer  Accelerated filer

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

On November 4, 2011, 10,325,602 common shares were outstanding.

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**Table of Contents****PART I - FINANCIAL INFORMATION****AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

|  | September 30,<br>2011 | December 31,<br>2010  |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| <b>Current assets:</b>   |                       |                       |
| Cash and cash equivalents  | \$ 80,903,849         | \$ 70,020,838         |
| Receivables, less allowance for doubtful accounts of \$184,413 in 2011 and \$175,867 in 2010   | 46,675,210            | 46,734,307            |
| Inventories  | 75,719,606            | 68,822,361            |
| Insurance receivables - asbestos   | 18,000,000            | 18,000,000            |
| Other current assets   | 11,668,417            | 13,655,942            |
| <b>Total current assets</b>  | <b>232,967,082</b>    | <b>217,233,448</b>    |
| Property, plant and equipment, net   | 148,934,661           | 145,591,107           |
| Insurance receivables - asbestos   | 112,253,288           | 124,089,373           |
| Investments in joint ventures  | 13,753,710            | 14,159,807            |
| Deferred tax assets  | 18,439,127            | 20,147,716            |
| Other noncurrent assets  | 5,605,117             | 5,741,863             |
|  | <b>\$ 531,952,985</b> | <b>\$ 526,963,314</b> |
| <b>Liabilities and Shareholders' Equity</b>  |                       |                       |
| <b>Current liabilities:</b>  |                       |                       |
| Accounts payable   | \$ 20,070,257         | \$ 20,137,240         |
| Accrued payrolls and employee benefits   | 12,687,151            | 11,689,609            |
| Industrial Revenue Bond debt   | 13,311,000            | 13,311,000            |
| Asbestos liabilities - current portion   | 25,000,000            | 25,000,000            |
| Other current liabilities  | 22,290,326            | 19,582,113            |
| <b>Total current liabilities</b>   | <b>93,358,734</b>     | <b>89,719,962</b>     |
| Employee benefit obligations   | 45,615,027            | 44,113,720            |
| Asbestos liabilities   | 178,009,733           | 193,603,076           |
| Other noncurrent liabilities   | 1,690,581             | 2,749,630             |
| <b>Total liabilities</b>   | <b>318,674,075</b>    | <b>330,186,388</b>    |
| <b>Commitments and contingent liabilities (Note 6)</b>   |                       |                       |
| <b>Shareholders' equity:</b>   |                       |                       |
| Common stock - par value \$1; authorized 20,000,000 shares; issued and outstanding 10,325,602 shares in 2011 and 10,305,156 shares in 2010 | 10,325,602            | 10,305,156            |
| Additional paid-in capital   | 122,641,895           | 121,074,086           |
| Retained earnings  | 138,853,063           | 124,872,079           |
| Accumulated other comprehensive loss   | (58,541,650)          | (59,474,395)          |

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|                           |                |                |
|---------------------------|----------------|----------------|
| Total shareholders equity | 213,278,910    | 196,776,926    |
|                           | \$ 531,952,985 | \$ 526,963,314 |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

|   | Three Months Ended September 30, |               | Nine Months Ended September 30, |                |
|---|----------------------------------|---------------|---------------------------------|----------------|
|   | 2011                             | 2010          | 2011                            | 2010           |
| Net sales   | \$ 74,263,346                    | \$ 79,537,134 | \$ 258,302,588                  | \$ 244,720,952 |
| Operating costs and expenses:   |                                  |               |                                 |                |
| Costs of products sold (excluding depreciation)                       | 58,059,322                       | 56,501,918    | 189,043,470                     | 168,740,339    |
| Selling and administrative  | 9,885,364                        | 10,335,512    | 32,006,489                      | 32,354,403     |
| Depreciation  | 2,483,671                        | 2,003,471     | 7,771,428                       | 6,596,206      |
| (Gain) loss on disposal of assets                                     | (3)                              | (389)         | 1,759                           | (95,508)       |
| Total operating expenses  | 70,428,354                       | 68,840,512    | 228,823,146                     | 207,595,440    |
| Income from operations  | 3,834,992                        | 10,696,622    | 29,479,442                      | 37,125,512     |
| Other income (expense):   |                                  |               |                                 |                |
| Investment-related income   | 22,664                           | 1,113,274     | 129,133                         | 1,158,786      |
| Interest expense  | (81,892)                         | (81,045)      | (240,852)                       | (235,771)      |
| Other expense net   | (334,362)                        | (82,164)      | (650,878)                       | (49,977)       |
|   | (393,590)                        | 950,065       | (762,597)                       | 873,038        |
| Income before income taxes and equity losses in Chinese joint venture | 3,441,402                        | 11,646,687    | 28,716,845                      | 37,998,550     |
| Income tax provision  | (525,000)                        | (3,946,000)   | (8,764,000)                     | (12,594,000)   |
| Equity losses in Chinese joint venture                                | (160,347)                        | (177,026)     | (397,466)                       | (296,046)      |
| Net income  | \$ 2,756,055                     | \$ 7,523,661  | \$ 19,555,379                   | \$ 25,108,504  |
| Earnings per common share:  |                                  |               |                                 |                |
| Basic   | \$ 0.27                          | \$ 0.73       | \$ 1.90                         | \$ 2.45        |
| Diluted   | \$ 0.26                          | \$ 0.73       | \$ 1.88                         | \$ 2.44        |
| Cash dividends declared per share                                     | \$ 0.18                          | \$ 0.18       | \$ 0.54                         | \$ 0.54        |
| Weighted average number of common shares outstanding:                 |                                  |               |                                 |                |
| Basic   | 10,325,602                       | 10,246,827    | 10,316,258                      | 10,246,621     |
| Diluted   | 10,403,181                       | 10,290,669    | 10,392,592                      | 10,281,510     |

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****AMPCO-PITTSBURGH CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

|   | Nine Months Ended September 30, |               |
|---|---------------------------------|---------------|
|   | 2011                            | 2010          |
| Net cash flows provided by operating activities                                   | \$ 27,453,914                   | \$ 27,004,515 |
| Cash flows from investing activities:   |                                 |               |
| Purchases of property, plant and equipment  | (11,732,401)                    | (27,676,767)  |
| Return of collateral for outstanding foreign currency exchange contracts (Note 8) | 0                               | 764,950       |
| Purchases of long-term marketable securities                                      | (742,885)                       | (435,482)     |
| Proceeds from sale of long-term marketable securities                             | 693,366                         | 408,511       |
| Proceeds from U.K. governmental grant   | 484,499                         | 226,461       |
| Proceeds from sale of property, plant and equipment                               | 0                               | 96,756        |
| Net cash flows used in investing activities                                       | (11,297,421)                    | (26,615,571)  |
| Cash flows from financing activities:   |                                 |               |
| Dividends paid  | (5,570,715)                     | (5,533,124)   |
| Proceeds from the issuance of common stock  | 167,152                         | 9,731         |
| Excess tax benefits from the exercise of stock options                            | 46,914                          | 4,013         |
| Net cash flows used in financing activities                                       | (5,356,649)                     | (5,519,380)   |
| Effect of exchange rate changes on cash and cash equivalents                      | 83,167                          | (228,077)     |
| Net increase (decrease) in cash and cash equivalents                              | 10,883,011                      | (5,358,513)   |
| Cash and cash equivalents at beginning of period                                  | 70,020,838                      | 66,440,864    |
| Cash and cash equivalents at end of period  | \$ 80,903,849                   | \$ 61,082,351 |
| Supplemental information:   |                                 |               |
| Income tax payments   | \$ 4,386,835                    | \$ 8,092,569  |
| Interest payments   | \$ 241,984                      | \$ 235,907    |
| Non-cash investing activities:  |                                 |               |
| Purchases of property, plant and equipment included in accounts payable           | \$ 1,647,134                    | \$ 1,927,910  |

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, 2011, the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010 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 and nine months ended September 30, 2011 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 2009, the Financial Accounting Standards Board (FASB) issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, which addresses the accounting and revenue recognition of sales contracts with multiple products and/or services when such products and/or services are provided to the customer at different points in time or over different time periods. ASU 2009-13 requires the sales consideration to be allocated, at the inception of the arrangement, to each deliverable and/or service using the relative selling price method. ASU 2009-13 became effective prospectively for revenue arrangements entered into or materially modified on or after January 1, 2011 and did not have a significant impact on the operating results, financial position or liquidity of the Corporation.

**Recently Issued Accounting Pronouncements**

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 is to be applied prospectively and is effective for the Corporation for interim and annual periods beginning in 2012. The guidance primarily changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. It is not expected to result in a change in the application of existing accounting principles. The Corporation is currently evaluating the new guidance, but does not expect that it will have a material impact on its operating results, financial position or liquidity.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income*, which eliminates the option to present other comprehensive income and its components as part of the Statement of Shareholders' Equity. All non-owner changes in shareholders' equity will be presented either in a single continuous statement along with net income or in a separate statement immediately following. ASU 2011-05 is to be applied retrospectively and is effective for the Corporation for interim and annual periods beginning in 2012. The guidance does not change whether items are reported in net income or other comprehensive income or when items in other comprehensive income are reclassified to net income; accordingly, adoption of ASU 2011-05 will not impact the operating results, financial position or liquidity of the Corporation.

In September 2011, the FASB issued ASU 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan*. ASU 2011-09 provides for more detailed information about an employer's financial obligations to a multiemployer benefits plan including whether contributions to the plan represent more than five percent of the total contributions made to the plan by all contributing employers, the funded status of the plan, and the nature of the employer's commitment to the plan. The guidance is effective for the year ending December 31, 2011 and will not impact the operating results, financial position or liquidity of the Corporation.

**Table of Contents****2. Inventories**

At September 30, 2011 and December 31, 2010, approximately 57% and 60%, respectively, of the inventories were valued on the LIFO method with the remaining inventories valued on the FIFO method. Inventories were comprised of the following:

|                 | (in thousands)        |                      |
|-----------------|-----------------------|----------------------|
|                 | September 30,<br>2011 | December 31,<br>2010 |
| Raw materials   | \$ 21,425             | \$ 17,900            |
| Work-in-process | 35,857                | 32,169               |
| Finished goods  | 7,498                 | 7,619                |
| Supplies        | 10,940                | 11,134               |
|                 | <b>\$ 75,720</b>      | <b>\$ 68,822</b>     |

**3. Property, Plant and Equipment**

Property, plant and equipment were comprised of the following:

|                            | (in thousands)        |                      |
|----------------------------|-----------------------|----------------------|
|                            | September 30,<br>2011 | December 31,<br>2010 |
| Land and land improvements | \$ 4,910              | \$ 4,910             |
| Buildings                  | 41,478                | 41,341               |
| Machinery and equipment    | 218,917               | 211,439              |
| Construction-in-progress   | 15,090                | 11,938               |
| Other                      | 8,026                 | 7,782                |
|                            | 288,421               | 277,410              |
| Accumulated depreciation   | (139,486)             | (131,819)            |
|                            | <b>\$ 148,935</b>     | <b>\$ 145,591</b>    |

Land and buildings of Union Electric Steel UK Limited (UES-UK) equal to approximately \$1,300,000 (£836,000) at September 30, 2011 are held as collateral by the trustees of the UES-UK contributory defined benefit pension plan (see Note 5).

**4. Other Current Liabilities**

Other current liabilities were comprised of the following:

|                              | (in thousands)        |                      |
|------------------------------|-----------------------|----------------------|
|                              | September 30,<br>2011 | December 31,<br>2010 |
| Customer-related liabilities | \$ 10,219             | \$ 9,903             |
| Accrued sales commissions    | 1,960                 | 2,266                |
| Accrued income taxes payable | 1,966                 | 0                    |

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|                  |           |           |
|------------------|-----------|-----------|
| Dividend payable | 1,859     | 1,855     |
| Other            | 6,286     | 5,558     |
|                  | \$ 22,290 | \$ 19,582 |

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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:

|   | (in thousands)              |                 |                             |                 |
|---|-----------------------------|-----------------|-----------------------------|-----------------|
|   | Three Months                |                 | Nine Months                 |                 |
|   | Ended September 30,<br>2011 | 2010            | Ended September 30,<br>2011 | 2010            |
| Balance at beginning of the period                                      | \$ 4,942                    | \$ 5,289        | \$ 5,113                    | \$ 4,929        |
| Satisfaction of warranty claims   | (386)                       | (668)           | (1,926)                     | (1,330)         |
| Provision for warranty claims   | 872                         | 456             | 2,170                       | 1,654           |
| Other, primarily impact from changes in foreign currency exchange rates | (76)                        | 120             | (5)                         | (56)            |
| <b>Balance at end of the period</b>                                     | <b>\$ 5,352</b>             | <b>\$ 5,197</b> | <b>\$ 5,352</b>             | <b>\$ 5,197</b> |

5. **Pension and Other Postretirement Benefits**

Contributions for the nine months ended September 30, 2011 and 2010 were as follows:

|   | (in thousands) |          |
|---|----------------|----------|
|   | 2011           | 2010     |
| U.S. pension benefits plans                       | \$ 0           | \$ 5,000 |
| U.K. pension benefits plan                        | \$ 1,276       | \$ 1,060 |
| Other postretirement benefits (e.g. net payments) | \$ 487         | \$ 491   |
| U.K. defined contribution plan                    | \$ 307         | \$ 240   |

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

|                                     | (in thousands)              |                 |                             |                 |
|-------------------------------------|-----------------------------|-----------------|-----------------------------|-----------------|
|                                     | Three Months                |                 | Nine Months                 |                 |
|                                     | Ended September 30,<br>2011 | 2010            | Ended September 30,<br>2011 | 2010            |
| <b><u>U.S. Pension Benefits</u></b> |                             |                 |                             |                 |
| Service cost                        | \$ 779                      | \$ 717          | \$ 2,336                    | \$ 2,151        |
| Interest cost                       | 2,216                       | 2,132           | 6,650                       | 6,394           |
| Expected return on plan assets      | (2,415)                     | (2,393)         | (7,244)                     | (7,179)         |
| Amortization of prior service cost  | 164                         | 164             | 492                         | 492             |
| Amortization of actuarial loss      | 1,059                       | 871             | 3,177                       | 2,613           |
| <b>Net benefit cost</b>             | <b>\$ 1,803</b>             | <b>\$ 1,491</b> | <b>\$ 5,411</b>             | <b>\$ 4,471</b> |
| <b><u>U.K. Pension Benefits</u></b> |                             |                 |                             |                 |
| Interest cost                       | \$ 649                      | \$ 623          | \$ 1,952                    | \$ 1,852        |
| Expected return on plan assets      | (579)                       | (473)           | (1,742)                     | (1,407)         |
| Amortization of actuarial loss      | 124                         | 117             | 374                         | 347             |

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|                  |        |        |        |        |
|------------------|--------|--------|--------|--------|
| Net benefit cost | \$ 194 | \$ 267 | \$ 584 | \$ 792 |
|------------------|--------|--------|--------|--------|

Other Postretirement Benefits

|                                    |        |        |          |          |
|------------------------------------|--------|--------|----------|----------|
| Service cost                       | \$ 161 | \$ 135 | \$ 482   | \$ 361   |
| Interest cost                      | 255    | 242    | 765      | 693      |
| Amortization of prior service cost | 21     | 22     | 64       | 65       |
| Amortization of actuarial loss     | 64     | 105    | 192      | 105      |
| Net benefit cost                   | \$ 501 | \$ 504 | \$ 1,503 | \$ 1,224 |

**Table of Contents****6. Commitments and Contingent Liabilities**

Outstanding standby and commercial letters of credit as of September 30, 2011 approximated \$21,560,000, a major portion of which serves as collateral for the Industrial Revenue Bond debt.

In 2010, UES-UK was awarded a governmental grant of up to \$1,325,000 (£850,000) toward the purchase and installation of certain machinery and equipment of which \$484,000 (£300,000) was received in 2011 and \$226,000 (£145,000) in 2010. 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 also Note 12 regarding litigation and Note 13 for environmental matters.

**7. Comprehensive Income (Loss)**

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

|   | (in thousands)                      |                  |                                    |                  |
|---|-------------------------------------|------------------|------------------------------------|------------------|
|   | Three Months<br>Ended September 30, |                  | Nine Months<br>Ended September 30, |                  |
|   | 2011                                | 2010             | 2011                               | 2010             |
| Net income  | \$ 2,756                            | \$ 7,524         | \$ 19,555                          | \$ 25,109        |
| Foreign currency translation adjustments                      | (1,604)                             | 2,528            | (150)                              | (1,028)          |
| Unrecognized components of employee benefit plans             | 918                                 | 822              | 2,755                              | 2,127            |
| Unrealized holding (losses) gains on marketable securities    | (277)                               | 191              | (190)                              | 148              |
| Change in the fair value of derivatives<br>(cash flow hedges) | (599)                               | (450)            | (1,482)                            | 275              |
| <b>Comprehensive income</b>                                   | <b>\$ 1,194</b>                     | <b>\$ 10,615</b> | <b>\$ 20,488</b>                   | <b>\$ 26,631</b> |

**8. Foreign Currency 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, foreign currency sales contracts are entered into which are designated as cash flow or fair value hedges and are recorded in the condensed consolidated balance sheet as either an asset or a liability measured at their fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. To the extent that a derivative is designated and effective as a cash flow hedge of an exposure to future changes in value, the change in fair value of the derivative is deferred in accumulated other comprehensive income (loss). Any portion considered to be ineffective, including that arising from the unlikelihood of an anticipated transaction to occur, is reported as a component of earnings (other income/expense) immediately. Upon occurrence of the anticipated transaction, the derivative designated and effective as a cash flow hedge is de-designated as a fair value hedge and the change in fair value previously deferred in accumulated other comprehensive income (loss) is reclassified to earnings (net sales) with subsequent changes in fair value recorded as a component of earnings (other income/expense). To the extent that a derivative is designated and effective as a hedge of an exposure to changes in fair value, the change in the derivative's fair value will be offset in the condensed consolidated statement of operations by the change in the fair value of the item being hedged and is recorded as a component of earnings (other income/expense).

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 the hedge.

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As of September 30, 2011, approximately \$24,025,000 of anticipated foreign-denominated sales has been hedged of which \$3,877,000 is covered by cash flow contracts settling at various dates through March 2013 and the remaining \$20,148,000 is covered by fair value contracts settling at various dates through September 2013. As of September 30, 2011, the fair value of foreign currency sales contracts designated as cash flow hedges expecting to settle within the next 12 months approximated \$229,000 and is recorded as other current assets. The fair value of the remaining cash flow contracts equaled \$57,000 and is recorded as other noncurrent assets. The change in the fair value of the contracts is recorded as a component of accumulated other comprehensive income (loss) and approximated \$120,000 and \$281,000, net of income taxes, as of September 30, 2011 and December 31, 2010, respectively. During the nine months ended September 30, 2011, approximately \$(48,000), net of income taxes, was recognized as comprehensive income (loss) and \$113,000, net of income taxes, was released from accumulated other comprehensive income (loss). The change in the fair value will be reclassified to earnings when the projected sales occur with approximately \$156,000 expected to be released to pre-tax earnings within the next 12 months. During the three months ended September 30, 2011 and 2010, approximately \$(18,000) and \$193,000, respectively, was released to pre-tax earnings and during the nine months ended September 30, 2011 and 2010, approximately \$180,000 and \$580,000, respectively, was released to pre-tax earnings.

As of September 30, 2011, the fair value of foreign currency sales contracts designated as fair value hedges expecting to settle within the next 12 months approximated \$87,000 and is recorded as other current liabilities. (The fair value of the related hedged items, recorded as other current assets, approximated \$125,000.) The fair value of the remaining fair value hedges equaled \$145,000 and is recorded as other noncurrent assets. (The fair value of the related hedged items, recorded as other noncurrent liabilities, approximated \$138,000.) The fair value of assets held as collateral as of September 30, 2011 approximated \$780,000.

Gains (losses) on foreign exchange transactions included in other income (expense) approximated \$(103,000) and \$(41,000) for the three months ended September 30, 2011 and 2010, respectively, and \$27,000 and \$431,000 for the nine months ended September 30, 2011 and 2010, respectively.

In May 2009, the Corporation entered into foreign currency purchase contracts to manage the volatility associated with Euro-denominated progress payments to be made for certain machinery and equipment. All contracts were settled as of December 31, 2010; accordingly, no amounts were recognized as comprehensive income (loss) in 2011. Approximately \$15,000, net of income taxes, was released from accumulated other comprehensive income (loss) for the nine months ended September 30, 2011. The change in the fair value of the contracts is recorded as a component of accumulated other comprehensive income (loss) and approximated \$314,000 and \$329,000, net of income taxes, as of September 30, 2011 and December 31, 2010, respectively. The change in the fair value is being amortized to pre-tax earnings (as an offset to depreciation expense) over the life of the underlying assets. For the three and nine months ended September 30, 2011, approximately \$8,000 and \$24,000, respectively, was released to pre-tax earnings. No amounts were released for the comparable prior year periods. Approximately \$32,000 is expected to be released to pre-tax earnings within the next 12 months.

At September 30, 2011, the Corporation has purchase commitments covering 52% or \$12,617,000 of anticipated natural gas usage over approximately the next four to five years at one of its subsidiaries. The commitments qualify as normal purchases and, accordingly, are not reflected on the condensed consolidated balance sheet.



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One of the Corporation's subsidiaries is 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. The change in fair value of the derivative is deferred in accumulated other comprehensive income (loss). Any portion considered to be ineffective, including that arising from the unlikelihood of an anticipated transaction to occur, is reported as a component of earnings (other income/expense) immediately. Upon occurrence of the anticipated transaction, the futures contract is settled and the change in fair value previously deferred in accumulated other comprehensive income (loss) is reclassified to earnings (costs of products sold) when the projected sales occur. At September 30, 2011, approximately 66% or \$4,531,000 of anticipated copper purchases over the next ten months and 63% or \$943,000 of anticipated aluminum purchases over the next six months are hedged. The fair value of these contracts (both outstanding and settled) approximated \$(1,151,000) as of September 30, 2011. 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 \$(717,000) and \$589,000, net of income taxes, as of September 30, 2011 and December 31, 2010, respectively. During the nine months ended September 30, 2011, approximately \$(849,000), net of income taxes, was recognized as comprehensive income (loss) and \$457,000, net of income taxes, was released from accumulated other comprehensive income (loss). Additionally, \$(1,151,000) of the change in fair value is expected to be released to pre-tax earnings over the next 12 months. During the three months ended September 30, 2011 and 2010, approximately \$(46,000) and \$(132,000), respectively, was released to pre-tax earnings and during the nine months ended September 30, 2011 and 2010, approximately \$734,000 and \$68,000, respectively, was released to pre-tax earnings. The fair value of assets held as collateral as of September 30, 2011 approximated \$410,000.

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

9. Stock-Based Compensation

In May 2011, the shareholders of the Corporation approved the adoption of the 2011 Omnibus Incentive Plan (Incentive Plan). 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. 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 May 2011, the Compensation Committee granted 176,250 non-qualified stock options to selected employees. The options have a ten-year life and vest over a three-year period. The exercise price of \$25.18 was equal to the closing price of the Corporation's common stock on the New York Stock Exchange on the date of grant and the fair value of the options was \$10.53 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 2.30%, an expected dividend yield of 2.96% and an expected volatility of 56.25%. The resultant stock-based compensation expense of \$1,857,000 will be recognized over the requisite service period of three years.

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 \$25,000 and will be fully vested as of the grant date. In June 2011, 7,944 shares of common stock were issued to the non-management directors.

Stock-based compensation expense for the three months ended September 30, 2011 and 2010 equaled \$497,000 and \$574,000, respectively. The related income tax benefit recognized in the condensed consolidated statement of operations for the related periods was approximately \$174,000 and \$201,000, respectively. Stock-based compensation expense for the nine months ended September 30, 2011 and 2010 equaled \$1,458,000 and \$2,890,000, respectively. The related income tax benefit recognized in the condensed consolidated statement of operations for the related periods was approximately \$510,000 and \$1,012,000, respectively.

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

The Corporation's financial assets and liabilities that are reported at fair value in the accompanying condensed consolidated balance sheet as of September 30, 2011 and December 31, 2010 were as follows:

|   | (in thousands)   |   |   | Total   |
|---|--|---|---|---------|
|   | Quoted Prices in Active Markets for Identical Inputs (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |         |
| <b>As of September 30, 2011</b>           |  |   |   |         |
| Investments                               |  |   |   |         |
| Other noncurrent assets                   | \$2,834  | \$0   | \$0                                       | \$2,834 |
| Foreign currency exchange sales contracts |  |   |   |         |
| Other current assets                      | 0  | 354   | 0   | 354     |
| Other noncurrent assets                   | 0  | 202   | 0   | 202     |
| Other current liabilities                 | 0  | 87  | 0   | 87      |
| Other noncurrent liabilities              | 0  | 138   | 0   | 138     |
| <b>As of December 31, 2010</b>            |  |   |   |         |
| Investments                               |  |   |   |         |
| Other noncurrent assets                   | \$3,097  | \$0   | \$0                                       | \$3,097 |
| Foreign currency exchange sales contracts |  |   |   |         |
| Other current assets                      | 0  | 604   | 0   | 604     |
| Other noncurrent assets                   | 0  | 350   | 0   | 350     |
| Other current liabilities                 | 0  | 0   | 0   | 0       |
| Other noncurrent liabilities              | 0  | 266   | 0   | 266     |

**11. Business Segments**

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

|  | (in thousands)                   |           |                                 |            |
|--|----------------------------------|-----------|---------------------------------|------------|
|  | Three Months Ended September 30, |           | Nine Months Ended September 30, |            |
|  | 2011                             | 2010      | 2011                            | 2010       |
| <b>Net Sales:</b>                        |                                  |           |                                 |            |
| Forged and Cast Rolls                    | \$ 49,312                        | \$ 59,562 | \$ 182,114                      | \$ 181,273 |
| Air and Liquid Processing                | 24,951                           | 19,975    | 76,189                          | 63,448     |
| Total Reportable Segments                | \$ 74,263                        | \$ 79,537 | \$ 258,303                      | \$ 244,721 |
| <b>Income before Income Taxes:</b>       |                                  |           |                                 |            |
| Forged and Cast Rolls                    | \$ 4,604                         | \$ 11,765 | \$ 30,274                       | \$ 40,570  |
| Air and Liquid Processing                | 1,815                            | 1,366     | 7,097                           | 5,333      |
| Total Reportable Segments                | 6,419                            | 13,131    | 37,371                          | 45,903     |
| Other expense, including corporate costs | (2,978)                          | (1,484)   | (8,654)                         | (7,904)    |

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|       |          |           |           |           |
|-------|----------|-----------|-----------|-----------|
| Total | \$ 3,441 | \$ 11,647 | \$ 28,717 | \$ 37,999 |
|-------|----------|-----------|-----------|-----------|

**Table of Contents**12. Litigation (claims not in thousands)Litigation

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 Systems Corporation subsidiary (Asbestos Liability) and of an inactive subsidiary in dissolution. 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.

Asbestos Claims

The following table reflects approximate information about the claims for Asbestos Liability against the subsidiaries and the Corporation, along with certain asbestos claims asserted against the inactive subsidiary in dissolution, for the nine months ended September 30, 2011:

|   |                      |
|---|----------------------|
| Approximate open claims at end of period      | 8,156 <sup>(1)</sup> |
| Gross settlement and defense costs (in 000 s) | \$ 16,927            |
| Approximate claims settled or dismissed       | 1,359                |

(1) Included as open claims are approximately 1,688 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.

A substantial majority of the settlement and defense costs reflected in the above table were reported and paid by insurers. Because claims are often filed and can be settled or dismissed in large groups, the amount and timing of settlements, as well as the number of open claims, can fluctuate significantly from period to period. 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. Plaintiffs appealed that verdict and in 2008 the California Court of Appeals reversed the jury verdict and remanded the case back to the trial court.

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 first-layer excess 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 pending and future claims for Asbestos Liability. The claims against the Corporation's inactive subsidiary that is in dissolution proceedings, numbering approximately 430 as of September 30, 2011, are not included within the Coverage Arrangement. The Corporation believes that the claims against the inactive subsidiary in dissolution are immaterial.

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

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On February 24, 2011, the Corporation and its Air & Liquid Systems Corporation subsidiary 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 not included within the Coverage Arrangement 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. Various counterclaims, cross claims and third party claims have been filed in the litigation.

**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. HR&A was not requested to estimate asbestos claims against the inactive subsidiary in dissolution or the former division, which the Corporation believes are immaterial. 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 was updated in 2008, and additional reserves were established by the Corporation as at December 31, 2008 for Asbestos Liability claims pending or projected to be asserted through 2018. HR&A's analysis was most recently updated in 2010, and additional reserves were established by the Corporation as at December 31, 2010 for Asbestos Liability claims pending or projected to be asserted through 2020. The methodology used by HR&A in its projection in 2010 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 the 2006 and 2008 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, 2008 to August 30, 2010;

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, 2008 to August 30, 2010 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 2010 the number of future claims for Asbestos Liability that would be filed through the year 2020, as well as the settlement or indemnity costs that would be incurred to resolve both pending and future unasserted claims through 2020. This methodology has been accepted by numerous courts. For purposes of its condensed consolidated financial statements for the nine months ended September 30, 2011, the Corporation reviewed its current Asbestos Liability and ultimately utilized the estimate by HR&A completed in 2010, as updated by the Corporation to reflect its Asbestos Liability expenditures through September 30, 2011.

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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 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, policy exhaustions, 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. In addition to consulting with the Corporation's outside legal counsel on these insurance matters, the Corporation retained in 2010 a nationally-recognized insurance consulting firm 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 2020. 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, 2010 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2020 was \$218,303,000, of which approximately 85% was attributable to settlement costs for unasserted claims projected to be filed through 2020 and future defense costs. The reserve at September 30, 2011 was \$202,776,000. 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 2020. Accordingly, no reserve has been recorded for any costs that may be incurred after 2020.

The Corporation's receivable at December 31, 2010 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, was \$141,839,000 (\$130,003,000 as of September 30, 2011). The insurance receivable recorded by the Corporation does not assume any recovery from insolvent carriers, and substantially all of the insurance recoveries deemed probable were from insurance companies rated A (excellent) or better by A.M. Best Corporation. There can be no assurance, however, that there will not be further insolvencies among the relevant insurance carriers, or that the assumed percentage recoveries for certain carriers will prove correct. The \$76,464,000 difference between insurance recoveries and projected costs at December 31, 2010 (\$72,773,000 at September 30, 2011) 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 the subsidiaries and it may incur after 2020. 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, 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.

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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 and has been named a Potentially Responsible Party at two third-party landfill sites. In addition, as a result of the sale of a segment, the Corporation retained the liability to remediate certain environmental contamination and has agreed to indemnify the buyer against third-party claims arising from the discharge of certain contamination, the costs for which were accrued at the time of sale.

Environmental exposures are difficult to assess and estimate for numerous reasons including lack of reliable data, the multiplicity of possible solutions, the years of remedial and monitoring activity required, and identification of new sites. In the opinion of management and in consideration of advice from the Corporation's consultants, the potential liability for all environmental proceedings of approximately \$1,100,000 at September 30, 2011 is considered adequate based on information known to date.

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

**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. Business activity for the group has improved since the financial crisis period of 2009 with world-wide steel usage expected to increase in 2011 over 2010 levels. However, global production remains unbalanced. Pacific Rim countries, the Middle East and India are working near capacity while domestic producers operate well below capacity. The U.S. Dollar and British Pound Sterling remain relatively weak against most major currencies, particularly against the Euro, thereby aiding export of rolling mill rolls for both our U.S. and U.K. operations. However, excess roll inventory levels within the industry continue to exist and strong pricing pressures from customers remain.

For the Air and Liquid Processing group, new construction spending by the institutional markets has yet to exhibit any significant signs of a recovery. The focus for these companies is to continue to search for and develop new product lines and to strengthen their sales distribution networks.

**Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2011 and 2010**

**Net Sales.** Net sales for the three months ended September 30, 2011 and 2010 were \$74,263,000 and \$79,537,000, respectively, and \$258,303,000 and \$244,721,000, respectively, for the nine months then ended. Backlog approximated \$298,812,000 at September 30, 2011 versus \$397,030,000 as of December 31, 2010 and \$398,235,000 as of September 30, 2010. A discussion of sales and backlog for the Corporation's two segments is included below.

**Costs of Products Sold.** Costs of products sold, excluding depreciation, as a percentage of net sales approximated 78.2% and 71.0% for the three months ended September 30, 2011 and 2010, respectively, and 73.2% and 69.0% of net sales for the nine months ended September 30, 2011 and 2010, respectively. The increase is primarily attributable to higher direct material and fixed costs particularly for the Forged and Cast Rolls segment.

**Selling and Administrative.** Selling and administrative expenses for each of the periods approximated the comparable prior year periods. Lower commission expense and stock-based compensation costs were offset by higher-employee related costs.

**Depreciation.** The increase in depreciation expense is attributable to the Forged and Cast Rolls segment and the assets placed in service as a result of the major capital investment program that began in 2008.

**Income from Operations.** Income from operations for the three months ended September 30, 2011 and 2010 approximated \$3,835,000 and \$10,697,000, respectively, and \$29,479,000 and \$37,126,000 for the nine months ended September 30, 2011 and 2010, 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 September 30, 2011 decreased when compared to the three months ended September 30, 2010 due to a lower volume of shipments for the forged roll operation. Sales for the nine months then ended were comparable to that of a year ago. While the segment is being impacted by reduced demand from domestic steel and aluminum producers and excess roll inventories in the industry, the cast roll operation is benefitting from the weak British pound. Operating income for each of the periods was less than that for the three and nine months ended September 30, 2010 as a result of weaker margins attributable to higher direct material and fixed costs as well as a shift in product mix and lower pricing. Backlog approximated \$255,364,000 at September 30, 2011 against \$350,978,000 as of December 31, 2010 and \$357,139,000 as of September 30, 2010. The decline is due to shipments outpacing new orders as customers continue to reduce excess roll inventories which were created years ago. Approximately \$172,253,000 of the current backlog is expected to ship after 2011. Additionally, the segment has commitments of approximately \$27,000,000 from customers under long-term supply arrangements which will be included in backlog upon receipt of specific purchase orders closer to the requirement dates for delivery.



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*Air and Liquid Processing.* For the three and nine months ended September 30, 2011, sales and operating income for the segment improved when compared to the same periods of the prior year. A higher volume of coil shipments to the fossil fuel utility market has benefited Aerofin and an improved level of sales to the power generation market and U.S. Navy shipbuilders has helped Buffalo Pumps. Sales for the quarter and year-to-date for Buffalo Air Handling benefited from a large order for a customer in medical research. As of September 30, 2011, backlog approximated \$43,448,000 against \$46,052,000 as of December 31, 2010 and \$41,096,000 as of September 30, 2010. Backlog for Aerofin improved due to additional orders for replacement coils. Backlog for Buffalo Pumps remains relatively consistent between the periods. Backlog for Buffalo Air Handling was higher at year end due to one large order for a customer in medical research, a portion of which has shipped; accordingly, backlog at month end is comparable to that of a year ago. Approximately \$17,606,000 of the current backlog is expected to ship after 2011.

*Other Income (Expense).* Investment-related income for 2010 includes a dividend from the Corporation's Chinese cast-roll joint venture of approximately \$1,084,000, which was not received in 2011. The fluctuation in other expense is primarily attributable to fluctuations in foreign exchange gains and losses and higher charges related to operations discontinued years ago.

*Income Taxes.* The effective income tax rates are lower for each of the current year periods when compared to the prior year periods as a result of the reversal of unrecognized tax benefits and a reduction in the statutory income tax rate for the U.K. operations from 28% in the prior year to 26% in the current year.

*Net Income and Earnings per Common Share.* As a result of the above, the Corporation's net income for the three months ended September 30, 2011 and 2010 equaled \$2,756,000 or \$0.27 per common share and \$7,524,000 or \$0.73 per common share, respectively, and \$19,555,000 or \$1.90 per common share and \$25,109,000 or \$2.45 per common share, respectively, for the nine months ended September 30, 2011 and 2010.

## Liquidity and Capital Resources

Net cash flows provided by operating activities were comparable for each of the periods.

Net cash flows used in investing activities decreased for the nine months ended September 30, 2011 when compared to the nine months ended September 30, 2010 due to substantial completion of the capital investment program for the Forged and Cast Rolls segment in 2010. In the prior year, UES-UK was awarded a governmental grant of up to \$1,325,000 (£850,000) toward the purchase and installation of certain machinery and equipment of which \$484,000 (£300,000) was received in 2011 and \$226,000 (£145,000) in 2010. As of September 30, 2011, future capital expenditures approximating \$12,300,000, to be spent over the next 12-18 months, have been approved. In 2010, a portion of the monies held as collateral for outstanding foreign currency exchange contracts for the UES-UK operation was returned. As of September 30, 2011, approximately \$780,000 remained in escrow.

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

As a result of the above, cash and cash equivalents increased \$10,883,000 in 2011 and ended the period at \$80,904,000 in comparison to \$70,021,000 at December 31, 2010.

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, 2011 was approximately \$9,200,000 (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, 2010, remain unchanged.



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### **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. 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, 2010.

## **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 September 30, 2011.

(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, 2011, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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**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, 2010.

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)

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**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 9, 2011

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

DATE: November 9, 2011

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

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**AMPCO-PITTSBURGH CORPORATION**

**EXHIBIT INDEX**

|         |        |  |
|---------|--------|--|
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