

AMPCO PITTSBURGH CORP
Form 10-Q
August 10, 2015
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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 June 30, 2015

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.

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 August 1, 2015, 10,439,974 common shares were outstanding.

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

| | June 30, 2015 | December 31, 2014 |
|--|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 93,098 | \$ 97,098 |
| Receivables, less allowance for doubtful accounts of \$690 in 2015 and \$1,374 in 2014 | 45,601 | 54,863 |
| Inventories | 64,869 | 54,713 |
| Insurance receivables asbestos | 17,000 | 17,000 |
| Other current assets | 11,165 | 8,582 |
| Total current assets | 231,733 | 232,256 |
| Property, plant and equipment, net | 148,799 | 149,839 |
| Insurance receivables asbestos | 116,908 | 123,651 |
| Deferred income tax assets | 16,150 | 20,055 |
| Investments in joint ventures | 3,690 | 3,914 |
| Other noncurrent assets | 6,558 | 6,694 |
| | \$ 523,838 | \$ 536,409 |
| Liabilities and Shareholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 16,481 | \$ 16,721 |
| Accrued payrolls and employee benefits | 10,066 | 8,250 |
| Industrial Revenue Bond debt | 13,311 | 13,311 |
| Asbestos liability current portion | 21,000 | 21,000 |
| Other current liabilities | 20,577 | 22,208 |
| Total current liabilities | 81,435 | 81,490 |
| Employee benefit obligations | 74,091 | 81,216 |
| Asbestos liability | 159,337 | 168,048 |
| Other noncurrent liabilities | 466 | 507 |
| Total liabilities | 315,329 | 331,261 |
| Commitments and contingent liabilities (Note 6) | | |

Shareholders' equity:

| | | |
|--|------------|------------|
| Common stock — par value \$1; authorized 20,000 shares; issued and outstanding 10,440 shares in 2015 and 10,426 shares in 2014 | 10,440 | 10,426 |
| Additional paid-in capital | 128,149 | 127,526 |
| Retained earnings | 131,744 | 135,949 |
| Accumulated other comprehensive loss | (61,824) | (68,753) |
| Total shareholders' equity | 208,509 | 205,148 |
| | \$ 523,838 | \$ 536,409 |

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 June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$ 59,973 | \$ 69,949 | \$ 125,060 | \$ 132,862 |
| Operating costs and expenses: | | | | |
| Costs of products sold (excluding depreciation) | 48,197 | 55,408 | 100,241 | 105,471 |
| Selling and administrative | 9,175 | 9,469 | 18,571 | 18,475 |
| Depreciation | 3,089 | 3,008 | 6,231 | 6,066 |
| Loss on disposal of assets | 318 | 46 | 321 | 55 |
| Total operating expenses | 60,779 | 67,931 | 125,364 | 130,067 |
| (Loss) income from operations | (806) | 2,018 | (304) | 2,795 |
| Other income (expense): | | | | |
| Investment-related income | 42 | 43 | 87 | 87 |
| Interest expense | (52) | (54) | (111) | (108) |
| Other net | 181 | (77) | (185) | 51 |
| | 171 | (88) | (209) | 30 |
| (Loss) income before income taxes and equity losses in Chinese joint venture | (635) | 1,930 | (513) | 2,825 |
| Income tax benefit (provision) | 233 | (575) | 193 | (951) |
| Equity losses in Chinese joint venture | (118) | (234) | (128) | (675) |
| Net (loss) income | \$ (520) | \$ 1,121 | \$ (448) | \$ 1,199 |
| Net (loss) income per common share: | | | | |
| Basic | \$ (0.05) | \$ 0.11 | \$ (0.04) | \$ 0.12 |
| Diluted | \$ (0.05) | \$ 0.11 | \$ (0.04) | \$ 0.12 |
| Cash dividends declared per share | \$ 0.18 | \$ 0.18 | \$ 0.36 | \$ 0.36 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 10,434 | 10,395 | 10,430 | 10,384 |

| | | | | |
|---------|--------|--------|--------|--------|
| Diluted | 10,434 | 10,448 | 10,430 | 10,436 |
|---------|--------|--------|--------|--------|

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net (loss) income | \$ (520) | \$ 1,121 | \$ (448) | \$ 1,199 |
| Other comprehensive income (loss), net of tax where applicable: | | | | |
| Adjustments for changes in: | | | | |
| Foreign currency translation | 3,893 | 1,573 | 152 | 2,121 |
| Unrecognized employee benefit costs (including effects of foreign currency translation) | (1,510) | 4,207 | 3,943 | 4,081 |
| Unrealized holding (losses) gains on marketable securities | (68) | 130 | (64) | 179 |
| Fair value of cash flow hedges | (67) | 100 | (152) | (108) |
| Reclassification adjustments for items included in net (loss) income: | | | | |
| Amortization of unrecognized employee benefit costs | 962 | 828 | 2,836 | 1,785 |
| Realized gains from sale of marketable securities | (1) | (17) | (1) | (35) |
| Realized losses from settlement of cash flow hedges | 100 | 50 | 215 | 68 |
| Other comprehensive income | 3,309 | 6,871 | 6,929 | 8,091 |
| Comprehensive income | \$ 2,789 | \$ 7,992 | \$ 6,481 | \$ 9,290 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2015 | 2014 |
| Net cash flows provided by operating activities | \$ 5,352 | \$ 1,597 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (5,290) | (6,131) |
| Purchases of long-term marketable securities | (154) | (408) |
| Proceeds from sale of long-term marketable securities | 62 | 348 |
| Other | 0 | 12 |
| Net cash flows used in investing activities | (5,382) | (6,179) |
| Cash flows from financing activities: | | |
| Dividends paid | (3,753) | (3,737) |
| Proceeds from the issuance of common stock | 0 | 361 |
| Excess tax benefits from the exercise of stock options | 0 | 25 |
| Net cash flows used in financing activities | (3,753) | (3,351) |
| Effect of exchange rate changes on cash and cash equivalents | (217) | 154 |
| Net decrease in cash and cash equivalents | (4,000) | (7,779) |
| Cash and cash equivalents at beginning of period | 97,098 | 97,910 |
| Cash and cash equivalents at end of period | \$ 93,098 | \$ 90,131 |
| Supplemental information: | | |
| Income tax payments | \$ 3,082 | \$ 3,161 |
| Interest payments | \$ 110 | \$ 109 |
| Non-cash investing activities: | | |
| Purchases of property, plant and equipment included in accounts payable | \$ 424 | \$ 542 |

See Notes to Condensed Consolidated Financial Statements.

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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 June 30, 2015 and the condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2015 and 2014 and condensed consolidated statements of cash flows for the six months ended June 30, 2015 and 2014 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 six months ended June 30, 2015 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 Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides a common revenue standard for U.S. GAAP and IFRS. The guidance establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. It requires companies to apply a five-step model when recognizing revenue relating to the transfer of goods or services to customers in an amount that reflects the consideration that the company expects to be entitled to receive for those goods and services. It also requires comprehensive disclosures regarding revenue recognition. The guidance becomes effective January 1, 2018. The Corporation is currently evaluating the impact that the guidance will have on its financial position, operating results and liquidity.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*, which revises the measurement of inventory at the lower of cost or market. Currently, market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. In accordance with ASU 2015-11, an entity will measure inventory at the lower of cost and net realizable value which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The amendment does not apply to inventory that is measured using last-in, first out (LIFO) or the retail inventory method. The guidance becomes effective January 1, 2017 with earlier application permitted. The Corporation is currently evaluating the impact that the guidance will have on its financial position, operating results and liquidity.

2. Inventories

At June 30, 2015 and December 31, 2014, approximately 59% and 52%, 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:

| | June 30, 2015 | December 31, 2014 |
|-----------------|------------------|----------------------|
| Raw materials | \$ 18,337 | \$ 15,076 |
| Work-in-process | 25,331 | 20,544 |
| Finished goods | 10,452 | 8,201 |
| Supplies | 10,749 | 10,892 |
| | \$ 64,869 | \$ 54,713 |

Table of Contents**3. Property, Plant and Equipment**

Property, plant and equipment were comprised of the following:

| | June 30, 2015 | December 31, 2014 |
|----------------------------|------------------|----------------------|
| Land and land improvements | \$ 5,223 | \$ 5,209 |
| Buildings | 44,665 | 44,610 |
| Machinery and equipment | 262,316 | 259,406 |
| Construction-in-progress | 4,177 | 2,374 |
| Other | 8,827 | 8,716 |
| | 325,208 | 320,315 |
| Accumulated depreciation | (176,409) | (170,476) |
| | \$ 148,799 | \$ 149,839 |

Land and buildings of Union Electric Steel UK Limited (UES-UK) equal to approximately \$3,176 (£2,022) at June 30, 2015 are held as collateral by the trustees of the UES-UK defined benefit pension plan (see Note 5).

4. Other Current Liabilities

Other current liabilities were comprised of the following:

| | June 30, 2015 | December 31, 2014 |
|------------------------------|------------------|----------------------|
| Customer-related liabilities | \$ 12,029 | \$ 11,539 |
| Accrued sales commissions | 1,324 | 1,623 |
| Income taxes payable | 41 | 1,717 |
| Other | 7,183 | 7,329 |
| | \$ 20,577 | \$ 22,208 |

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 | | Six Months | |
|------------------------------------|------------------------|----------|------------------------|----------|
| | Ended June 30, 2015 | 2014 | Ended June 30, 2015 | 2014 |
| Balance at beginning of the period | \$ 6,936 | \$ 6,797 | \$ 6,672 | \$ 6,899 |
| Satisfaction of warranty claims | (674) | (658) | (1,005) | (1,389) |

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| | | | | |
|---|----------|----------|----------|----------|
| Provision for warranty claims | 825 | 674 | 1,573 | 1,279 |
| Other, primarily impact from changes in foreign currency exchange rates | 183 | 99 | 30 | 123 |
| Balance at end of the period | \$ 7,270 | \$ 6,912 | \$ 7,270 | \$ 6,912 |

5. Pension and Other Postretirement Benefits

Contributions were as follows:

| | Six Months Ended June 30, | |
|---|---------------------------|--------|
| | 2015 | 2014 |
| U.K. defined benefit pension plan | \$ 860 | \$ 940 |
| Other postretirement benefits (e.g. net payments) | \$ 305 | \$ 278 |
| U.K. defined contribution pension plan | \$ 201 | \$ 202 |

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During the first quarter of 2015, the Board of Directors of the Corporation elected to freeze a portion of the U.S. defined benefit pension plan effective July 1, 2015 and replace it with employer contributions to the defined contribution plan of a 3% base contribution and matching contribution of up to 4%. The plan change resulted in a remeasurement of the plan liability as of March 31, 2015, reducing the liability by approximately \$9,300 and resulting in a curtailment charge of \$1,217. Additionally, as a result of the remeasurement, the discount rate was changed from 4.10% to 4.00% increasing the liability by approximately \$2,800.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| <u>U.S. Defined Benefit Pension Plan</u> | | | | |
| Service cost | \$ 540 | \$ 841 | \$ 1,670 | \$ 1,841 |
| Interest cost | 1,978 | 2,151 | 4,048 | 4,381 |
| Expected return on plan assets | (2,751) | (2,731) | (5,492) | (5,374) |
| Amortization of prior service cost | 77 | 214 | 215 | 427 |
| Amortization of actuarial loss | 1,346 | 996 | 2,809 | 2,092 |
| Curtailment charge | 0 | 0 | 1,217 | 0 |
| Net benefit cost | \$ 1,190 | \$ 1,471 | \$ 4,467 | \$ 3,367 |
| <u>U.K. Defined Benefit Pension Plan</u> | | | | |
| Interest cost | \$ 604 | \$ 690 | \$ 1,201 | \$ 1,369 |
| Expected return on plan assets | (677) | (808) | (1,345) | (1,604) |
| Amortization of actuarial loss | 214 | 153 | 424 | 304 |
| Net benefit cost | \$ 141 | \$ 35 | \$ 280 | \$ 69 |
| <u>Other Postretirement Benefit Plan</u> | | | | |
| Service cost | \$ 117 | \$ 61 | \$ 192 | \$ 325 |
| Interest cost | 125 | 185 | 237 | 412 |
| Amortization of prior service cost | (168) | (111) | (336) | (106) |
| Amortization of actuarial (gain) loss | (45) | 6 | 13 | 10 |
| Net benefit cost | \$ 29 | \$ 141 | \$ 106 | \$ 641 |

6. Commitments and Contingent Liabilities

Outstanding standby and commercial letters of credit as of June 30, 2015 approximated \$18,771, the majority of which serve as collateral for the Industrial Revenue Bond debt.

In 2010, UES-UK was awarded a government grant of approximately \$1,083 (£680) toward the purchase and installation of certain machinery and equipment. 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 June 30, 2015, approximately \$10,847 of anticipated foreign-denominated sales has been hedged which is covered by cash flow and fair value contracts settling at various dates through May 2016. The fair value of assets held as collateral for the fair value contracts as of June 30, 2015 approximated \$785.

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 June 30, 2015, approximately 57% or \$2,448 of anticipated copper purchases over the next nine months and 38% or \$452 of anticipated aluminum purchases over the next six months are hedged.

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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.

At June 30, 2015, the Corporation has purchase commitments covering 31% or \$2,000 of anticipated natural gas usage through March 2017 at one of its subsidiaries. The commitments qualify as normal purchases and, accordingly, are not reflected on the condensed consolidated balance sheet. Purchases of natural gas under previously existing commitments approximated \$542 and \$528 for the three months ended June 30, 2015 and 2014 and \$1,323 and \$1,102 for the six months then ended, respectively.

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 \$174 and \$(26) for the three months ended June 30, 2015 and 2014 and \$(206) and \$181 for the six months ended June 30, 2015 and 2014, respectively.

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

| | Location | June 30, 2015 | December 31, 2014 |
|----------------------------|------------------------------|------------------|----------------------|
| Cash flow hedge contracts | Other current assets | \$ 8 | \$ 0 |
| | Other current liabilities | 0 | 6 |
| Fair value hedge contracts | Other current assets | 476 | 217 |
| | Other noncurrent assets | 0 | 15 |
| | Other current liabilities | 11 | 399 |
| | Other noncurrent liabilities | 0 | 5 |
| Fair value hedged items | Receivables | (105) | 69 |
| | Other current assets | 11 | 327 |
| | Other noncurrent assets | 0 | 4 |
| | Other current liabilities | 413 | 218 |
| | Other noncurrent liabilities | 0 | 35 |

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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 June 30, 2015 and 2014 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 Recognized as Comprehensive Income (Loss) | Less Gain (Loss) Reclassified from Accumulated Comprehensive Loss | Other Reclassified Income (Loss) | Comprehensive Income (Loss) End of the Period |
|---|--|---|--|--|--|
| Three Months Ended June 30, 2015 | | | | | |
| Foreign currency sales contracts | \$ (2) | \$ 10 | \$ 4 | \$ 4 | \$ 4 |
| Foreign currency purchase contracts | 253 | 0 | 4 | 4 | 249 |
| Futures contracts copper and aluminum | (136) | (77) | (108) | (108) | (105) |
| | \$ 115 | \$ (67) | \$ (100) | \$ (100) | \$ 148 |
| Three Months Ended June 30, 2014 | | | | | |
| Foreign currency sales contracts | \$ 0 | \$ (21) | \$ 0 | \$ 0 | \$ (21) |
| Foreign currency purchase contracts | 270 | 0 | 5 | 5 | 265 |
| Futures contracts copper and aluminum | (147) | 121 | (55) | (55) | 29 |
| | \$ 123 | \$ 100 | \$ (50) | \$ (50) | \$ 273 |
| Six Months Ended June 30, 2015 | | | | | |
| Foreign currency sales contracts | \$ 0 | \$ 8 | \$ 4 | \$ 4 | \$ 4 |
| Foreign currency purchase contracts | 258 | 0 | 9 | 9 | 249 |
| Futures contracts copper and aluminum | (173) | (160) | (228) | (228) | (105) |
| | \$ 85 | \$ (152) | \$ (215) | \$ (215) | \$ 148 |
| Six Months Ended June 30, 2014 | | | | | |
| Foreign currency sales contracts | \$ 0 | \$ (21) | \$ 0 | \$ 0 | \$ (21) |
| Foreign currency purchase contracts | 275 | 0 | 10 | 10 | 265 |
| Futures contracts copper and aluminum | 38 | (87) | (78) | (78) | 29 |
| | \$ 313 | \$ (108) | \$ (68) | \$ (68) | \$ 273 |

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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 Gain (Loss) in Statements of Operations | Estimated to be Reclassified in the | | | | |
|---------------------------------------|---|-------------------------------------|----------------------------------|---------------------|------------------------------------|---------------------|
| | | Next 12 Months | Three Months Ended June 30, 2015 | Ended June 30, 2014 | Next 12 Months Ended June 30, 2015 | Ended June 30, 2014 |
| Foreign currency sales contracts | Sales | \$ 7 | \$ 7 | \$ 0 | \$ 7 | \$ 0 |
| Foreign currency purchase contracts | Depreciation | 26 | 6 | 7 | 13 | 14 |
| Futures contracts copper and aluminum | Costs of products sold (excluding depreciation) | (176) | (176) | (87) | (370) | (123) |

8. Accumulated Other Comprehensive Loss

Net change and ending balances for the various components of accumulated other comprehensive loss as of and for the six months ended June 30, 2015 and 2014 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, 2015 | \$ (4,426) | \$ (65,396) | \$ 984 | \$ 85 | \$ (68,753) |
| Net Change | 152 | 6,779 | (65) | 63 | 6,929 |
| Balance at June 30, 2015 | \$ (4,274) | \$ (58,617) | \$ 919 | \$ 148 | \$ (61,824) |
| Balance at January 1, 2014 | \$ 277 | \$ (47,462) | \$ 1,007 | \$ 313 | \$ (45,865) |
| Net Change | 2,121 | 5,866 | 144 | (40) | 8,091 |
| Balance at June 30, 2014 | \$ 2,398 | \$ (41,596) | \$ 1,151 | \$ 273 | \$ (37,774) |

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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 June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------------|------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Amortization of unrecognized employee benefit costs: | | | | |
| Costs of products sold (excluding depreciation) | \$ 498 | \$ 895 | \$ 1,779 | \$ 1,908 |
| Selling and administrative | 798 | 336 | 2,393 | 735 |
| Other income (expense) | 128 | 27 | 170 | 84 |
| Total before income tax | 1,424 | 1,258 | 4,342 | 2,727 |
| Income tax provision | (462) | (430) | (1,506) | (942) |
| Net of tax | \$ 962 | \$ 828 | \$ 2,836 | \$ 1,785 |
| Realized gains on sale of marketable securities: | | | | |
| Selling and administrative | \$ (2) | \$ (26) | \$ (2) | \$ (54) |
| Income tax provision | 1 | 9 | 1 | 19 |
| Net of tax | \$ (1) | \$ (17) | \$ (1) | \$ (35) |
| Realized losses (gains) from settlement of cash flow hedges: | | | | |
| Net sales (foreign currency sales contracts) | \$ (7) | \$ 0 | \$ (7) | \$ 0 |
| Depreciation (foreign currency purchase contracts) | (6) | (7) | (13) | (14) |
| Costs of products sold (excluding depreciation) (futures contracts copper and aluminum) | 176 | 87 | 370 | 123 |
| Total before income tax | 163 | 80 | 350 | 109 |
| Income tax provision | (63) | (30) | (135) | (41) |
| Net of tax | \$ 100 | \$ 50 | \$ 215 | \$ 68 |

The income tax expense (benefit) associated with the various components of other comprehensive income for the three and six months ended June 30, 2015 and 2014 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 June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Tax expense (benefit) associated with changes in: | | | | |
| Unrecognized employee benefit costs | \$ 0 | \$ (2,739) | \$ (2,429) | \$ (2,739) |
| Unrealized holding losses/gains on marketable securities | 36 | (71) | 34 | (97) |

| | | | | |
|---|-------|-------|---------|-------|
| Fair value of cash flow hedges | 43 | (61) | 93 | 67 |
| Tax expense (benefit) associated with reclassification adjustments: | | | | |
| Amortization of unrecognized employee benefit costs | (462) | (430) | (1,506) | (942) |
| Realized gains from sale of marketable securities | 1 | 9 | 1 | 19 |
| Realized losses from settlement of cash flow hedges | (63) | (30) | (135) | (41) |

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.

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 May 2015, 14,310 shares of the Corporation's common stock were granted to the non-employee directors.

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In May 2015, the Compensation Committee granted 92,744 restricted stock units (RSUs) to select individuals. Each RSU had a fair value of \$15.72 and represents the right to receive one share of common stock of the Corporation at a future date after the RSU has become earned and vested, subject to the terms and conditions of the RSU award agreement. The RSUs vest over a three-year period. Additionally, in May 2015, the Compensation Committee granted performance-based restricted stock units (PSUs) to select individuals. The PSUs can be earned depending upon the achievement of a performance condition, a market condition and a time-vesting condition as follows: (1) achievement of a targeted basic earnings per share during the performance period of 2015, 2016 and 2017, (2) achievement of a three-year cumulative relative total shareholder return as ranked against other companies included in the Corporation's peer group and (3) remaining continuously employed with the Corporation through December 31, 2017. Earlier vesting is permitted under certain conditions, such as upon a change of control of the Corporation. The determination of the fair value of these awards takes into consideration the likelihood of achievement of the market condition. The compensation expense for the PSUs is also based on the probability of achieving the targeted basic earnings per share and will be adjusted for subsequent changes in the estimated or actual outcome of the performance condition. The weighted-average grant date fair value of the PSUs was \$15.89 per share.

Stock-based compensation expense for the three months ended June 30, 2015 and 2014 equaled \$353 and \$247, respectively. The related income tax benefit recognized in the condensed consolidated statements of operations for each of the periods was approximately \$123 and \$86, respectively. Stock-based compensation expense for the six months ended June 30, 2015 and 2014 equaled \$578 and \$598, respectively. The related income tax benefit recognized in the condensed consolidated statements of operations for each of the periods was approximately \$202 and \$209, respectively.

10. Fair Value

The Corporation's financial assets and liabilities that are reported at fair value in the condensed consolidated balance sheets as of June 30, 2015 and December 31, 2014 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 |
|-------------------------------------|--|--|--|----------|
| <u>As of June 30, 2015</u> | | | | |
| Investments | | | | |
| Other noncurrent assets | \$ 4,206 | \$ 0 | \$ 0 | \$ 4,206 |
| Foreign currency exchange contracts | | | | |
| Other current assets | 0 | 495 | 0 | 495 |
| Other noncurrent assets | 0 | 0 | 0 | 0 |
| Other current liabilities | 0 | 424 | 0 | 424 |
| Other noncurrent liabilities | 0 | 0 | 0 | 0 |
| <u>As of December 31, 2014</u> | | | | |
| Investments | | | | |
| Other noncurrent assets | \$ 4,280 | \$ 0 | \$ 0 | \$ 4,280 |
| Foreign currency exchange contracts | | | | |

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| | | | | |
|------------------------------|---|-----|---|-----|
| Other current assets | 0 | 544 | 0 | 544 |
| Other noncurrent assets | 0 | 19 | 0 | 19 |
| Other current liabilities | 0 | 623 | 0 | 623 |
| 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.

Table of Contents**11. Business Segments**

Presented below are the net sales and (loss) income before income taxes for the Corporation's two business segments. Effective May 1, 2015, the Corporation completed an internal reorganization of its back office functions which resulted in certain employees of the segments becoming employees of the Corporation and associated costs (approximately \$600 for the three and six months ended June 30, 2015) being recorded as other expense, including corporate costs in the following table. Other expense, including corporate costs for the six months ended June 30, 2015 also includes corporate's portion of the curtailment charge incurred in connection with freezing a portion of the U.S. defined benefit pension plan.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|------------------|---------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Sales: | | | | |
| Forged and Cast Engineered Products | \$ 37,533 | \$ 45,466 | \$ 80,306 | \$ 85,032 |
| Air and Liquid Processing | 22,440 | 24,483 | 44,754 | 47,830 |
| Total Reportable Segments | \$ 59,973 | \$ 69,949 | \$ 125,060 | \$ 132,862 |
| (Loss) Income before Income Taxes: | | | | |
| Forged and Cast Engineered Products | \$ (613) | \$ 1,889 | \$ 1,014 | \$ 2,902 |
| Air and Liquid Processing | 2,889 | 2,698 | 4,962 | 4,809 |
| Total Reportable Segments | 2,276 | 4,587 | 5,976 | 7,711 |
| Other expense, including corporate costs net | (2,911) | (2,657) | (6,489) | (4,886) |
| Total | \$ (635) | \$ 1,930 | \$ (513) | \$ 2,825 |

12. Litigation (claims not in thousands)

The Corporation and its subsidiaries are involved in various claims and lawsuits incidental to their businesses and are 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.

Asbestos Claims

The following table reflects approximate information about the claims for Asbestos Liability against the subsidiaries and the Corporation for the six months ended June 30, 2015 and 2014:

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| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2015 | 2014 |
| Total claims pending at the beginning of the period | 8,457 | 8,319 |
| New claims served | 739 | 675 |
| Claims dismissed | (462) | (271) |
| Claims settled | (169) | (149) |
| Total claims pending at the end of the period ⁽¹⁾ | 8,565 | 8,574 |
| Gross settlement and defense costs (in 000 s) | \$ 8,711 | \$ 11,648 |
| Avg. gross settlement and defense costs per claim resolved (in 000 s) | \$ 13.81 | \$ 27.73 |

(1) *Included as open claims are approximately 1,645 and 1,633 claims as of June 30, 2015 and 2014, 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.*

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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. On February 26, 2015, the Court issued final judgment. One insurer filed a notice of appeal from the judgment to the U.S. Court of Appeals for the Third Circuit; as a result, several other insurers, Howden, the Corporation, and Air & Liquid filed notices of cross appeal. The appeals are presently pending.

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 of December 31, 2006. HR&A's analysis has been periodically updated since that time. Most recently, the HR&A analysis was updated in 2014, and additional reserves were established by the Corporation as of December 31, 2014 for Asbestos Liability claims pending or projected to be asserted through 2024. The methodology used by HR&A in its projection in 2014 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, 2012 to December 8, 2014;

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, 2012 to December 8, 2014 to determine the average settlement value of claims, by type of injury claimed and jurisdiction of filing; and

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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 2014 the number of future claims for Asbestos Liability that would be filed through the year 2024, as well as the settlement or indemnity costs that would be incurred to resolve both pending and future unasserted claims through 2024. 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 2024. 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, 2014 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2024 was \$189,048 of which approximately 64% was attributable to settlement costs for unasserted claims projected to be filed through 2024 and future defense costs. 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 2024. Accordingly, no reserve has been recorded for any costs that may be incurred after 2024.

The Corporation's receivable at December 31, 2014 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, 2014, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims, was \$140,651.

The following table summarizes activity relating to insurance recoveries.

| | |
|------|-----------------------|
| | Six Months Ended June |
| | 30, |
| 2015 | 2014 |

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| | | |
|---|------------|------------|
| Insurance receivable asbestos, beginning of the year | \$ 140,651 | \$ 110,741 |
| Settlement and defense costs paid by insurance carriers | (6,743) | (9,695) |
| Insurance receivable asbestos, end of the period | \$ 133,908 | \$ 101,046 |

The insurance receivable recorded by the Corporation does not assume any recovery from insolvent carriers 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 2024. 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

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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 \$250 at June 30, 2015 is considered adequate based on information known to date.

14. **Subsequent Event**

On July 29, 2015, the Corporation acquired the business and assets of Alloys Unlimited & Processing, Inc. (AUP) for approximately \$5,000. AUP is a supplier of specialty tool, alloy, and carbon steel round bar.

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

(in thousands, except share and per share amounts)

Executive Overview

Ampco-Pittsburgh Corporation operates in two business segments – the Forged and Cast Engineered Products segment and the Air and Liquid Processing segment. The Forged and Cast Engineered Products segment consists of Union Electric Steel Corporation (Union Electric Steel or UES) and Union Electric Steel UK Limited (UES-UK). Union Electric Steel produces ingot and forged products that service a wide variety of industries globally. It specializes in the production of forged hardened steel rolls used in cold rolling by producers of steel, aluminum and other metals throughout the world. In addition, it produces ingot and open die forged products (other forging products) which are used in the gas and oil industry and the aluminum and plastic extrusion industries. Headquartered in Carnegie, Pennsylvania with three manufacturing facilities in Pennsylvania and one in Indiana, UES is one of the largest producers of forged hardened steel rolls in the world. In addition to a few domestic competitors, several major European, South American and Asian manufacturers also compete in both the domestic and foreign markets. UES-UK produces cast rolls for hot and cold strip mills, medium/heavy section mills and plate mills in a variety of iron and steel qualities. It is located in Gateshead, England and is a major supplier of cast rolls to the metalworking industry worldwide. It primarily competes with European, Asian and North and South American companies in both the domestic and foreign markets. In July 2015, Union Electric Steel acquired the business and assets of Alloys Unlimited & Processing, Inc., a supplier of specialty tool, alloy, and carbon steel round bar. The acquisition provides diversification and growth opportunities for our Forged and Cast Engineered Products group.

The Air and Liquid Processing segment includes Aerofin, Buffalo Air Handling and Buffalo Pumps, all divisions of Air & Liquid Systems Corporation (Air and Liquid), a wholly-owned subsidiary of the Corporation. Aerofin 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. Buffalo Air Handling produces large custom-designed air handling systems for commercial, institutional and industrial building markets. Buffalo Pumps manufactures centrifugal pumps for the marine defense, refrigeration and power generation industries. The segment has operations in Virginia and New York with headquarters in Pennsylvania. The segment distributes a significant portion of its products through a common independent group of sales offices located throughout the United States and Canada.

The Forged and Cast Engineered Products segment has been operating at levels below capacity due to the worldwide reduction in demand for roll product. Market conditions in the United States and the EU28 countries continue to be difficult. Business opportunities in Asia (particularly China), India and other world regions also remain difficult as a result of indigenous supply enabling purchases to be made domestically at lower pricing than offered by traditional western suppliers. In addition, the strengthening of the U.S. dollar and British pound against most major world currencies has further hampered opportunity. With the global steelmaking industry also operating below capacity and the resulting supply demand imbalance in the market place, pricing has suffered and profit margins have decreased. Asian, Indian and Eastern European roll producers have been offering aggressive pricing to gain market share in Western and Middle Eastern markets. Additionally, cost reduction requirements at most steel and aluminum producers throughout our customer base have led them to mandate severe discounts from suppliers. For 2015, we expect demand for rolls to continue to be weak and pricing pressures to remain. Although currently representing a minor portion of the segment's business activity, ongoing efforts to diversify our customer base have resulted in expansion of our other forging products. Although sales of other forging products are being affected by weak demand as a result of crude oil

pricing, they are offsetting some of the effects of constraints currently affecting the roll market and utilizing available production capacity.

Union Electric Steel MG Roll Co., Ltd (UES-MG), the Chinese joint venture company in which a subsidiary of UES holds a 49% interest, principally manufactures and sells forged backup rolling mill rolls of a size and weight currently not able to be produced by UES. The joint venture has been adversely impacted by the global economy, with significantly depressed pricing, reduced demand and excess roll inventories of its potential customer base in China, all hindering profitability. Losses have been incurred since 2009, in which we have recognized our share (49%) in our condensed consolidated statements of operations, and are expected to continue in 2015. Additionally, the overall financial strength of the joint venture remains weak with a significant reliance on the 51% partner or entities controlled by the 51% partner to provide financing and working capital. We will continue to monitor the carrying value of this investment (\$2,350 at June 30, 2015) to determine if future charges are necessary.

For the Air and Liquid Processing segment, business activity in the centrifugal pump industry continues to be strong while softness in the fossil-fueled and nuclear utility markets is negatively affecting our heat exchange business. The focus for this segment is to develop new products while strengthening its sales distribution networks.

During the first quarter of 2015, the Board of Directors of the Corporation elected to freeze a portion of the U.S. defined benefit pension plan effective July 1, 2015 and replace it with employer contributions to the defined contribution plan. The plan change resulted in a remeasurement of the plan liability as of March 31, 2015 and resulted in a net reduction in the plan liability of approximately \$6,500 and a curtailment charge of \$1,217.

Table of Contents**Consolidated Results of Operations for the Three and Six Months Ended June 30, 2015 and 2014**

Net sales were \$59,973 and \$69,949 for the three months ended June 30, 2015 and 2014 and \$125,060 and 132,862 for the six months ended June 30, 2015 and 2014, respectively. Backlog approximated \$150,729 at June 30, 2015 versus \$167,948 as of December 31, 2014 and \$170,322 as of June 30, 2014. 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 80.4% and 79.2% for the three months ended June 30, 2015 and 2014 and 80.2% and 79.4% for the six months ended June 30, 2015 and 2014, respectively. The increase is due to lower production levels resulting in an underabsorption of fixed costs and lower margins.

Selling and administrative expenses totaled \$9,175 (15.3% of net sales) and \$9,469 (13.5% of net sales) for the three months ended June 30, 2015 and 2014 and \$18,571 (14.8% of net sales) and \$18,475 (13.9% of net sales) for the six months ended June 30, 2015 and 2014, respectively. The decrease in selling and administrative expenses for the three months ended June 30, 2015 against June 30, 2014 is primarily attributable to lower commission expense as a result of the lower level of sales. Selling and administrative expenses for the six months ended June 30, 2015 includes \$949 of the \$1,217 curtailment charge but benefited from collection of accounts receivable previously written off of approximately \$750.

(Loss) income from operations approximated \$(806) and \$2,018 for the three months ended June 30, 2015 and 2014 and \$(304) and \$2,795 for the six months ended June 30, 2015 and 2014, respectively. A discussion of operating results for the Corporation's two segments is included below.

Forged and Cast Engineered Products. Net sales for the three and six months ended June 30, 2015 decreased from the comparable prior year periods by \$7,900 or 17% and \$4,700 or 6%, respectively, principally due to a lower volume of traditional roll shipments (of approximately \$9,000 and \$13,400, respectively) offset by a slight increase of other forging products (of approximately \$2,500 and \$11,400, respectively). Net sales were also impacted by a lower weighted-average exchange rate used to translate sales of our UK operations from the British pound sterling to the U.S. dollar which reduced sales by approximately \$1,400 and \$2,700 for the current quarter and year-to-date period, respectively. Operating results for the three and six months ended June 30, 2015 were less than the same periods of the prior year. The lower volume of shipments impacted earnings by approximately \$2,000 and \$2,300 for the three and six months ended June 30, 2015, respectively. Additionally, weaker margins and an under-recovery of costs resulting from lower production levels further affected operating results for the current quarter by approximately \$500. Collection of accounts receivable previously written off of approximately \$750 minimized the impact from the reduced volume of shipments for the six month period ended June 30, 2015. The change in the weighted-average exchange rates did not have a significant impact on operating results for the current quarter or year-to-date period. Backlog approximated \$108,682 at June 30, 2015 against \$131,118 as of December 31, 2014 and \$130,023 as of June 30, 2014. The decline in backlog is a result of lower demand from roll customers who continue to operate below capacity causing shipments to outpace new orders. Also, the strong U.S. dollar and British pound against major international currencies, especially the euro, is further impacting roll business. Approximately \$29,000 of the current backlog is expected to ship after 2015.

Air and Liquid Processing. Net sales for the three and six months ended June 30, 2015 decreased approximately \$2,000 or 8% and \$3,000 or 6%, respectively, when compared to the same periods of the prior year. Net sales of heat exchange coils fell for each of the periods by approximately 15% due to a lower volume of shipments to the fossil-fueled utility and industrial markets. Net sales of air handling units decreased approximately 27% for the quarter and 14% year-on-year due to low order intake in the latter part of 2014. Net sales of pumps increased approximately

10% for the quarter and 6% on a year-to-date basis due to a higher volume of shipments of commercial pumps to the power generation market. Despite the lower sales, operating income for the three and six months ended June 30, 2015 improved from the comparable prior year periods principally due to product mix and cost containment. Backlog approximated \$42,047 at June 30, 2015 against \$36,830 as of December 31, 2014 and \$40,299 as of June 30, 2014 and benefited from additional orders for pumps and air handling units while orders for heat exchange coils decreased principally due to reduced activity in the fossil-fueled utility and industrial markets. Approximately \$8,000 of the current backlog is expected to ship after 2015.

Other income (expense) fluctuated primarily as a result of changes in foreign exchange gains and losses. For the three and six months ended June 30, 2015, gains (losses) on foreign exchange transactions approximated \$174 and \$(206), respectively. While the value of the euro against the U.S. dollar decreased during the first six months of the year, it rebounded slightly during the second quarter of 2015. By comparison, other income (expense) for the three and six months ended June 30, 2014 included foreign exchange losses of \$(26) and foreign exchange gains of \$181, respectively.

Effective income tax rate increased for the six months ended June 30, 2015 in comparison to the six months ended June 30, 2014. The increase is primarily due to lower beneficial permanent differences. The tax provision for an interim period is computed as the difference between the estimated tax provision for the year and the amounts reported for previous interim periods. Accordingly, the effective income tax rate from quarter-to-quarter or between a quarter and the comparable prior year quarter includes an adjustment necessary to record the year-to-date tax provision at the estimated annual effective income tax rate for that year.

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Net (loss) income and earnings per common share for the three months ended June 30, 2015 and 2014 equaled \$(520) or \$(0.05) per common share and \$1,121 or \$0.11 per common share and \$(448) or \$(0.04) per common share and \$1,199 or \$0.12 per common share for the six months ended June 30, 2015 and 2014, respectively.

Liquidity and Capital Resources

Net cash flows provided by operating activities increased for the six months ended June 30, 2015 when compared to the six months ended June 30, 2014. The majority of the improvement is associated with changes in working capital.

Receivables decreased \$9,262 from year end primarily due to lower sales in the second quarter of 2015 versus the fourth quarter of 2014. Inventories increased \$10,156 at June 30, 2015 from December 31, 2014 primarily due to higher inventory levels for the Forged and Cast Engineered Products segment including higher raw material levels to take advantage of reduced pricing and, to a lesser extent, delays in the delivery of rolls. Employee benefit obligations decreased at June 30, 2015 from December 31, 2014 by \$7,125 primarily as a result of freezing a portion of the U.S. Defined Benefit Pension Plan in the first quarter.

Net cash flows used in investing activities represent primarily capital expenditures for the Forged and Cast Engineered Products segment. As of June 30, 2015, commitments for future capital expenditures approximated \$11,000, which is expected to be spent over the next 12-18 months.

Net cash flows used in financing activities were comparable for the six months ended June 30, 2015 and 2014 and represented primarily payment of dividends.

As a result of all of the above, cash and cash equivalents decreased \$4,000 and ended the period at \$93,098 (of which approximately \$10,990 is held by foreign operations) in comparison to \$97,098 at December 31, 2014 (of which approximately \$9,479 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 June 30, 2015 was approximately \$9,200 (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, 2014, remain unchanged.

Recently Issued Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on our behalf. Management's Discussion and Analysis of Financial Condition and Results of Operation and other sections of the Form 10-Q as well as the condensed consolidated financial statements and notes thereto may contain forward-looking statements that reflect our current views with respect to future events and financial performance. All statements in this document other than statements of historical fact are statements that are, or could be, deemed forward-looking statements within the meaning of the Act. In this document, statements regarding future financial position, sales, costs, earnings, cash flows, other measures of results of operations, capital expenditures or debt levels and plans, objectives, outlook, targets, guidance or goals are forward-looking statements. Words such as may, intend, believe, expect, anticipate, estimate, project, forecast and other terms of similar meaning to future events and trends are also generally intended to identify forward-looking statements. 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 us, these risks and uncertainties include, but are not limited to, those described under Item 1A, Risk Factors, of Part

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II of this Form 10-Q. In addition, there may be events in the future that we are 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, we assume no obligation, and disclaim any obligation, to update forward-looking statements 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, 2014.

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 June 30, 2015.

(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 June 30, 2015, 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, 2014.

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.

(10) Material Contracts

(a) Amendment No. 1 to the Amended and Restated Union Electric Steel Corporation Retirement Restoration Plan for Robert G. Carothers effective as of July 1, 2015.

(b) Amendment No. 1 to the Ampco-Pittsburgh Corporation 1988 Supplemental Executive Retirement Plan effective as of July 1, 2015.

- (c) Severance Agreement between Ampco-Pittsburgh Corporation and Maria Trainor, dated June 1, 2015.

- (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: August 10, 2015

BY: /s/ John S. Stanik
John S. Stanik

Chief Executive Officer

DATE: August 10, 2015

BY: /s/ Marliss D. Johnson
Marliss D. Johnson

Chief Financial Officer and Treasurer

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AMPCO-PITTSBURGH CORPORATION

EXHIBIT INDEX

| | | |
|---------|---------|---|
| Exhibit | (10(a)) | Amendment No. 1 to the Amended and Restated Union Electric Steel Corporation Retirement Restoration Plan for Robert G. Carothers effective as of July 1, 2015 |
| | (10(b)) | Amendment No. 1 to the Ampco-Pittsburgh Corporation 1988 Supplemental Executive Retirement Plan effective as of July 1, 2015 |
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