

AMPCO PITTSBURGH CORP  
Form 10-K  
March 15, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR- 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

Commission File Number 1-898

**AMPCO-PITTSBURGH CORPORATION**

**Pennsylvania**  
(State of Incorporation)

**25-1117717**

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

I.R.S. Employer ID No.  
**(412) 456-4400**  
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common stock, \$1 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None  
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes \_\_\_ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes \_\_\_ No

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 period 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 (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No \_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

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

The aggregate market value of the voting stock of Ampco-Pittsburgh Corporation held by non-affiliates on June 30, 2012 (based upon the closing price of the Registrant's Common Stock on the New York Stock Exchange (the NYSE) on that date) was approximately \$157 million.

As of March 11, 2013, 10,346,090 common shares were outstanding.

Documents Incorporated by Reference: Part III of this report incorporates by reference certain information from the Proxy Statement for the 2013 Annual Meeting of Shareholders.

**PART I**

**ITEM 1. BUSINESS**

**GENERAL DEVELOPMENT OF BUSINESS**

Ampco-Pittsburgh Corporation (the Corporation) was incorporated in Pennsylvania in 1929. The Corporation, individually or together with its consolidated subsidiaries, is also referred to herein as the Registrant.

The Corporation classifies its businesses in two segments: Forged and Cast Rolls and Air and Liquid Processing.

**FINANCIAL INFORMATION ABOUT SEGMENTS**

The sales and operating profit of the Corporation's two segments and the identifiable assets attributable to both segments for the three years ended December 31, 2012 are set forth in Note 19 (Business Segments) on page 55 of this Annual Report on Form 10-K.

**NARRATIVE DESCRIPTION OF BUSINESS**

**Forged and Cast Rolls Segment**

*Union Electric Steel Corporation* produces forged hardened steel rolls used in cold rolling by producers of steel, aluminum and other metals throughout the world. It is headquartered in Carnegie, Pennsylvania with three manufacturing facilities in Pennsylvania and one in Indiana. Union Electric Steel Corporation is one of the largest producers of forged hardened steel rolls in the world. In addition to several domestic competitors, several major European, South American and Asian manufacturers also compete in both the domestic and foreign markets. In 2007, a subsidiary became a 49% partner in a joint venture in China to manufacture large forged backup rolls principally in weight and size larger than those which can be made in the subsidiary's facilities in the United States. Limited production continued in 2012.

*Union Electric Steel UK Limited* 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. Union Electric Steel UK is a 25% partner in a Chinese joint venture which produces cast rolls.

**Air and Liquid Processing Segment**

*Aerofin Division of Air & Liquid Systems Corporation* 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, and is located in Lynchburg, Virginia.

*Buffalo Air Handling Division of Air & Liquid Systems Corporation* produces large custom air handling systems used in commercial, institutional and industrial buildings and is located in Amherst, Virginia.

*Buffalo Pumps Division of Air & Liquid Systems Corporation* manufactures a line of centrifugal pumps for the refrigeration, power generation and marine defense industries and is located in North Tonawanda, New York.

All three of the divisions in this segment are principally represented by a common independent sales organization and have several major competitors.

In both segments, the products are dependent on engineering, principally custom designed, and are sold to sophisticated commercial and industrial users located throughout the world.

The Forged and Cast Rolls segment has two international customers which constituted approximately 23% of its sales in 2012. The loss of both of these customers could have a material adverse effect on the segment.

For additional information on the products produced and financial information about each segment, see page 4 and Note 19 (Business Segments) on page 55 of this Annual Report on Form 10-K.

*Raw Materials*

Raw materials used in both segments are generally available from many sources and the Corporation is not dependent upon any single supplier for any raw material. Substantial volumes of raw materials used by the Corporation are subject to significant variations in price. The Corporation generally does not purchase or commit for the purchase of a major portion of

raw materials significantly in advance of the time it requires such materials but does make forward commitments for the supply of natural gas.

#### ***Patents***

While the Corporation holds some patents, trademarks and licenses, in the opinion of management they are not material to either segment of the Corporation's business, other than in protecting the goodwill associated with the names under which products are sold.

#### ***Backlog***

The backlog of orders at December 31, 2012 was approximately \$196 million compared to a backlog of \$260 million at year-end 2011. Approximately 20% of the backlog is expected to be released after 2013.

#### ***Competition***

The Corporation faces considerable competition from a large number of companies in both segments. The Corporation believes, however, that it is a significant factor in each of the niche markets which it serves. Competition in both segments is based on quality, service, price and delivery. For additional information, see *Narrative Description of Business* on page 6 of this Annual Report on Form 10-K.

#### ***Research and Development***

As part of an overall strategy to develop new markets and maintain leadership in each of the industry niches served, the Corporation's businesses in both segments incur expenditures for research and development. The activities that are undertaken are designed to develop new products, improve existing products and processes, enhance product quality, adapt products to meet customer specifications and reduce manufacturing costs. In the aggregate, these expenditures approximated \$1.48 million in 2012, \$1.70 million in 2011 and \$1.71 million in 2010.

#### ***Environmental Protection Compliance Costs***

Expenditures for environmental control matters were not material to either segment in 2012 and such expenditures are not expected to be material in 2013.

#### ***Employees***

On December 31, 2012, the Corporation had 1,178 active employees.

### **FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS**

The Forged and Cast Rolls segment has a manufacturing operation in England and a small European sales and engineering support group in Belgium. For financial information relating to foreign and domestic operations see Note 19 (Business Segments) on page 55 of this Annual Report on Form 10-K.

### **AVAILABLE INFORMATION**

The Corporation files annual, quarterly and current reports, amendments to those reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may access and read the Corporation's filings without charge through the SEC's website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document the Corporation files at the SEC's Public Reference Room located at 100 F. Street, N.E., Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

The Corporation's Internet address is [www.ampcopittsburgh.com](http://www.ampcopittsburgh.com). The Corporation makes available, free of charge on its Internet website, access to these reports as soon as reasonably practicable after such material is filed with, or furnished to, the SEC. The information on the Corporation's website is not part of this Annual Report on Form 10-K.

## EXECUTIVE OFFICERS

The name, age, position with the Corporation<sup>(1)</sup> and business experience for the past five years of the Executive Officers of the Corporation are as follows:

**Robert A. Paul** (age 75). Mr. Paul was elected Chairman and Chief Executive Officer of the Corporation in 2004. Prior to that, he was President and Chief Executive Officer of the Corporation for more than five years. He has been a Director since 1970 and his current term expires in 2015. He is also Chairman and a director of The Louis Berkman Investment Company. Mr. Paul has been a shareholder, officer and director of the Corporation for more than forty years.

**Rose Hoover** (age 57). Ms. Hoover has been employed by the Corporation for more than thirty years. She has served as Executive Vice President and Chief Administrative Officer of the Corporation since May 2011; Senior Vice President of the Corporation since April 2009 and prior to that served as Vice President Administration of the Corporation since December 2006. She has also served as Secretary of the Corporation for more than five years.

**Marliss D. Johnson** (age 48). Ms. Johnson has been Vice President, Controller and Treasurer of the Corporation for more than ten years. Ms. Johnson is a Certified Public Accountant with fourteen years of experience with a major accounting firm prior to joining the Corporation.

**Robert F. Schultz** (age 65). Mr. Schultz has been with the Corporation for more than thirty years, twenty-one of which he has served as Vice President Industrial Relations and Senior Counsel. Prior to joining the Corporation, Mr. Schultz practiced law in a private practice law firm.

*(1) Officers serve at the discretion of the Board of Directors and none of the listed individuals serves as a director of a public company, except that Mr. Paul is a director of the Corporation.*

## ITEM 1A. RISK FACTORS

From time to time, important factors may cause actual results to differ materially from any future expected results based on performance expressed or implied by any forward-looking statements made by us, including known and unknown risks, uncertainties and other factors, many of which are not possible to predict or control. Several of these factors are described from time to time in our filings with the Securities and Exchange Commission, but the factors described in filings are not the only risks that are faced.

### Cyclical Demand for Products/Economic Downturns

A significant portion of our sales consists of rolling mill rolls to customers in the global steel industry which can be periodically impacted by economic or cyclical downturns. Such downturns, the timing and length of which are difficult to predict, may reduce the demand for, and sales of, our forged and cast steel rolls both in the United States and the rest of the world. Lower demand for rolls may also adversely impact profitability as other roll producers, which compete with us, lower selling prices in the market place in order to fill their manufacturing capacity. Cancellation of orders or deferral of delivery of rolls may occur and produce an adverse impact on financial results.

### Steel Industry Consolidation

Globally, the steel industry has undergone structural change by way of consolidation and mergers. In certain markets, the resultant reduction in the number of steel plants and the increased buying power of the enlarged steel producing companies may put pressure on the selling prices and profit margins of rolls.

### Export Sales

Exports are a significant proportion of our sales. Historically, changes in foreign exchange rates, particularly in respect of the U.S. dollar and the Euro, have impacted the export of our products and may do so again in the future. Other factors which may adversely impact export sales and operating results include political and economic instability, export controls, changes in tax laws and tariffs and new indigenous producers in overseas markets. A reduction in the level of export sales may have an adverse impact on our financial results. In addition, exchange rate changes may allow foreign roll suppliers to compete in our home markets.

### Capital Spending

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

Each of our businesses is susceptible to the general level of economic activity, particularly as it impacts industrial and construction capital spending. A downturn in capital spending in the United States and elsewhere may reduce demand for and

sales of our air handling, power generation and refrigeration equipment, and rolling mill rolls. Lower demand may also reduce profit margins due to our competitors and us striving to maximize manufacturing capacity by lowering prices.

### **Prices and Availability of Commodities**

We use certain commodities in the manufacture of our products. These include steel scrap, ferroalloys and energy. Any sudden price increase may cause a reduction in profit margins or losses where fixed-priced contracts have been accepted or increases cannot be obtained in future selling prices. In addition, there may be curtailment in electricity or gas supply which would adversely impact production. Shortage of critical materials while driving up costs may be of such severity as to disrupt production, all of which may impact sales and profitability.

### **Labor Agreements**

We have several key operations which are subject to multi-year collective bargaining agreements with our hourly work force. While we believe we have excellent relations with our unions, there is the risk of industrial action at the expiration of an agreement if contract negotiations break down, which may disrupt manufacturing and impact results of operations.

### **Dependence on Certain Equipment**

Our principal business relies on certain unique equipment such as an electric arc furnace and a spin cast work roll machine. Although a comprehensive critical spare inventory of key components for this equipment is maintained, if any such unique equipment is out of operation for an extended period, it may result in a significant reduction in our sales and earnings.

### **Asbestos Litigation**

Our subsidiaries, and in some cases, we, are defendants in numerous claims alleging personal injury from exposure to asbestos-containing components historically used in certain products of our subsidiaries. Through year-end 2012, our insurance has covered a substantial majority of our settlement and defense costs. We believe that the estimated costs net of anticipated insurance recoveries of our pending and future asbestos legal proceedings for the next ten years will not have a material adverse effect on our consolidated financial condition or liquidity. However, there can be no assurance that our subsidiaries or we will not be subject to significant additional claims in the future or that our subsidiaries ultimate liability with respect to asbestos claims will not present significantly greater and longer lasting financial exposure than provided for in our consolidated financial statements. Similarly, although the Corporation believes that the assumptions employed in valuing its insurance coverage were reasonable, there are other assumptions that could have been employed that would have resulted in materially lower insurance recovery projections. The ultimate net liability with respect to such pending and any unasserted claims is subject to various uncertainties, including the following:

the number of claims that are brought in the future;

the costs of defending and settling these claims;

insolvencies among our insurance carriers and the risk of future insolvencies;

the possibility that adverse jury verdicts could require damage payments in amounts greater than the amounts for which we have historically settled claims;

possible changes in the litigation environment or federal and state law governing the compensation of asbestos claimants;

the risk that the bankruptcies of other asbestos defendants may increase our costs; and

the risk that our insurance will not cover as much of our asbestos liabilities as anticipated. Because of the uncertainties related to such claims, it is possible that the ultimate liability could have a material adverse effect on our consolidated financial condition or liquidity in the future.

**Environmental Matters**

We are subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants and disposal of wastes and which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. We could incur substantial cleanup costs, fines and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or non-compliance with environmental permits required at our facilities.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

The Corporation has no unresolved staff comments.

**ITEM 2. PROPERTIES**

The location and general character of the principal locations in each segment, all of which are owned unless otherwise noted, are as follows:

<b>Company and Location</b>	<b>Principal Use</b>	<b>Approximate Square Footage</b>	<b>Type of Construction</b>
<b>FORGED AND CAST ROLLS SEGMENT</b>			
<i>Union Electric Steel Corporation</i>			
Route 18  Burgettstown, PA 15021	Manufacturing facilities	296,800 on 55 acres	Metal and steel
726 Bell Avenue  Carnegie, PA 15106	Manufacturing facilities and offices	165,900 on 8.7 acres	Metal and steel
U.S. Highway 30  Valparaiso, IN 46383	Manufacturing facilities	88,000 on 20 acres	Metal and steel
1712 Greengarden Road  Erie, PA 16501	Manufacturing facilities	40,000*	Metal and steel
Bosstraat 54  3560 Lummen  Belgium	Sales and engineering	4,500*	Cement block
<i>Union Electric Steel UK Limited</i> Coulthards Lane  Gateshead, England	Manufacturing facilities and offices	274,000 on 10 acres	Steel framed, metal and brick
<b>AIR AND LIQUID PROCESSING SEGMENT</b>			
<i>Air &amp; Liquid Systems Corporation</i>			
<i>Aerofin Division</i>  4621 Murray Place  Lynchburg, VA 24506	Manufacturing facilities and offices	146,000 on 15.3 acres	Brick, concrete and steel
<i>Buffalo Air Handling Division</i> Zane Snead Drive  Amherst, VA 24531	Manufacturing facilities and offices	89,000 on 19.5 acres	Metal and steel
<i>Buffalo Pump Division</i> 874 Oliver Street  N. Tonawanda, NY 14120	Manufacturing facilities and offices	94,000 on 9 acres	Metal, brick and cement block

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

*\* Facility is leased.*

The Corporation's office space and the Air & Liquid Systems headquarter's office space is leased. All of the owned facilities are adequate and suitable for their respective purposes.

The Forged and Cast Rolls segment's facilities were operated within 75% to 80% of their normal capacity during 2012. The facilities of the Air and Liquid Processing segment were operated within 60% to 70% of their normal capacity. Normal capacity is defined as capacity under approximately normal conditions with allowances made for unavoidable interruptions, such as lost time for repairs, maintenance, breakdowns, set-up, failure, supply delays, labor shortages and absences, Sundays, holidays, vacation, inventory taking, etc. The number of work shifts is also taken into consideration.

## ITEM 3. LEGAL PROCEEDINGS

### 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 two years ended December 31, 2012 and 2011:

	2012	2011
Total claims pending at the beginning of the period	8,145 <sup>(1)</sup>	8,081
New claims served	1,538	1,565
Claims dismissed	(1,420)	(1,225)
Claims settled	(256)	(276)
Total claims pending at the end of the period <sup>(1)</sup>	8,007	8,145
Gross settlement and defense costs (in 000 s)	\$ 23,589	\$ 22,767
Average gross settlement and defense costs per claim resolved (in 000 s)	\$ 14.07	\$ 15.17

*(1) Included as open claims are approximately 1,632 claims and 1,668 claims in 2012 and 2011, respectively, classified in various jurisdictions as inactive or transferred to a state or federal judicial panel on multi-district litigation, commonly referred to as the MDL.*

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

#### Asbestos Insurance

The Corporation and its Air & Liquid Systems Corporation (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). The Settlement Agreements include agreements with insurers encompassing all known solvent primary policies and solvent first-layer excess policies with responsibilities for Asbestos Liability. The Settlement Agreements also include an agreement, effective on October 8, 2012, with insurers responsible for the majority of the solvent second-layer and above excess insurance policies issued to the Corporation from 1981 through 1984. 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 claims against the Corporation's inactive subsidiary in dissolution, numbering approximately 300 as of December 31, 2012, are not included within the Settlement Agreements. The Corporation believes that the claims against the inactive subsidiary in dissolution are immaterial.

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 sub limits 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.

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

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 entered into an agreement, effective October 8, 2012, as described above, with eight of the domestic defendant insurers in the action. That agreement specifies the terms and conditions upon which the insurer parties would contribute to defense and indemnity costs for claims for Asbestos Liability. Howden also reached an agreement with such insurers, effective the same day, addressing asbestos-related bodily injury claims arising from the Products. On October 16, 2012, the Court entered Orders dismissing all claims filed by the Corporation and Air & Liquid, Howden and the eight settling excess insurers against each other in the litigation. Various counterclaims, cross claims and third party claims have been filed in the litigation and remain pending as to non-settled parties.

### 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, 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 has been periodically updated since that time. Most recently, the HR&A analysis was updated in 2012, and additional reserves were established by the Corporation as at December 31, 2012 for Asbestos Liability claims pending or projected to be asserted through 2022. The methodology used by HR&A in its projection in 2012 of the operating subsidiaries liability for pending and unasserted potential future claims for Asbestos Liability, which is substantially the same as the methodology employed by HR&A in prior estimates, relied upon and included the following factors:

HR&A s interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos;

epidemiological studies estimating the number of people likely to develop asbestos-related diseases;

HR&A s analysis of the number of people likely to file an asbestos-related injury claim against the subsidiaries and the Corporation based on such epidemiological data and relevant claims history from January 1, 2010 to December 20, 2012;

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

an analysis of claims resolution history from January 1, 2010 to December 20, 2012 to determine the average settlement value of claims, by type of injury claimed and jurisdiction of filing; and

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

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

In conjunction with developing the aggregate liability estimate referenced above, the Corporation also developed an estimate of probable insurance recoveries for its Asbestos Liabilities. In developing the estimate, the Corporation considered HR&A s projection for settlement or indemnity costs for Asbestos Liability and management s projection of associated defense costs (based on the current defense to indemnity cost ratio), as well as a number of additional factors. These additional factors included the Settlement Agreements then in effect, policy exclusions, policy limits, policy provisions regarding coverage for defense costs, attachment points, prior impairment of policies and gaps in the coverage, policy exhaustions, insolvencies among certain of the insurance carriers, 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, and the status of negotiations with insurers not party to the Settlement Agreements, 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

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

regarding the credit-worthiness of various insurers, the Corporation estimated the probable insurance recoveries for Asbestos Liability and defense costs through 2022. Although the Corporation believes that the assumptions employed in the insurance valuation were reasonable and previously consulted with its outside legal counsel and insurance consultant regarding those assumptions, there are other assumptions that could have been employed that would have resulted in materially lower insurance recovery projections.

Based on the analyses described above, the Corporation's reserve at December 31, 2012 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2022 was \$181 million, of which approximately 73% was attributable to settlement costs for unasserted claims projected to be filed through 2022 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 2022. Accordingly, no reserve has been recorded for any costs that may be incurred after 2022.

The Corporation's receivable at December 31, 2012 for insurance recoveries attributable to the claims for which the Corporation's Asbestos Liability reserve has been established, including the portion of incurred defense costs covered by the Settlement Agreements in effect through December 31, 2012, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims, was \$118 million. 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 the subsidiaries and it may incur after 2022. However, this insurance coverage also can be expected to have gaps creating significant shortfalls of insurance recoveries as against claims expense, which could be material in future years.

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

The Corporation intends to evaluate its estimated Asbestos Liability and related insurance receivables as well as the underlying assumptions on a 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.

## **ENVIRONMENTAL**

The Corporation is currently performing certain remedial actions in connection with the sale of real estate previously owned.

## PART II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The shares of common stock of Ampco-Pittsburgh Corporation are traded on the New York Stock Exchange (symbol AP). Cash dividends have been paid on common shares in every year since 1965.

Quarter	2012 Per Share			2011 Per Share		
	Common Stock Price		Dividends Declared	Common Stock Price		Dividends Declared
	High	Low		High	Low	
First	\$ 23.71	\$ 19.30	\$ 0.18	\$ 28.55	\$ 23.50	\$ 0.18
Second	20.22	15.20	0.18	27.81	21.96	0.18
Third	19.86	15.65	0.18	27.73	17.77	0.18
Fourth	19.90	16.14	0.18	23.78	16.45	0.18
Year	23.71	15.20	0.72	28.55	16.45	0.72

The number of shareholders at December 31, 2012 and 2011 equaled 454 and 487, respectively.

**STOCK PERFORMANCE GRAPH**

Comparison of Five Year Cumulative Total Return

Standard & Poors 500, NYSE Composite and Morningstar's Steel Industry

(Performance results through December 31, 2012)

Assumes \$100 invested at the close of trading on the last trading day preceding January 1, 2007 in Ampco-Pittsburgh Corporation common stock, Standard & Poors 500 Index, NYSE Composite Index and Morningstar's Steel Industry group.

*\*Cumulative total return assumes reinvestment of dividends.*

In the above graph, the Corporation has used Morningstar's Steel Industry group for its peer comparison. The diversity of products produced by subsidiaries of the Corporation made it difficult to match to any one product-based peer group. Although not totally comparable, the Steel Industry group was chosen because the largest percentage of the Corporation's sales is to the global steel industry.

Historical stock price performance shown on the above graph is not necessarily indicative of future price performance.

**ITEM 6. SELECTED FINANCIAL DATA**

	Year Ended December 31,				
<i>(dollars, except per share amounts, and shares</i>					
<i>outstanding in thousands)</i>	2012	2011	2010	2009	2008
Net sales	\$ 292,905	\$ 344,816	\$ 326,886	\$ 299,177	\$ 394,513
Net income <sup>(1)</sup>	8,355	21,309	15,456	27,677	12,575
Total assets	533,179	531,632	526,963	471,825	488,981
Shareholders' equity	192,093	192,872	196,777	179,202	144,987
Net income per common share:					
Basic <sup>(1)</sup>	0.81	2.07	1.51	2.71	1.24
Diluted	0.80	2.05	1.50	2.71	1.24
Per common share:					
Cash dividends declared	0.72	0.72	0.72	0.72	0.72
Shareholders' equity	18.57	18.68	19.10	17.49	14.25
Market price at year end	19.98	19.34	28.05	31.53	21.70
Weighted average common shares outstanding	10,338	10,319	10,254	10,200	10,177
Number of shareholders	454	487	507	545	566
Number of employees	1,178	1,240	1,264	1,231	1,306

(1) Net income includes:

2010 An after-tax charge of \$12,931 or \$1.26 per common share for estimated costs of asbestos-related litigation through 2020 net of estimated insurance recoveries (see Note 17 to Consolidated Financial Statements).

2009 An after-tax charge of \$2,831 or \$0.28 per common share associated with the write-off of goodwill deemed to be impaired at one of the divisions of the Air and Liquid Processing segment and a reduction in the effective state income tax rate for which certain net deferred income tax assets will be realized.

2008 An after-tax charge of \$31,006 for estimated costs of asbestos-related litigation through 2018 net of estimated insurance recoveries (see Note 17 to Consolidated Financial Statements) offset by the release of \$411 of tax-related valuation allowances associated with capital loss carryforwards for a net decrease to net income of \$30,595 or \$3.01 per common share.

---

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*(in thousands, except per share amounts)*

**EXECUTIVE OVERVIEW**

Ampco-Pittsburgh Corporation operates in two business segments – the Forged and Cast Rolls segment and the Air and Liquid Processing segment. The Forged and Cast Rolls segment consists of Union Electric Steel Corporation ( Union Electric Steel or UES ) and Union Electric Steel UK Limited ( UES-UK ). Union Electric Steel is one of the world's largest manufacturers of forged hardened steel rolls with principal operations in Pennsylvania and Indiana whereas UES-UK produces cast iron and steel rolls in England. Rolls are supplied to manufacturers of steel and aluminum throughout the world. The Air and Liquid Processing segment includes Aero-fin, Buffalo Air Handling and Buffalo Pumps, all divisions of Air & Liquid Systems Corporation, a wholly-owned subsidiary of the Corporation. Aero-fin 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 makes custom-designed air handling systems for commercial, institutional and industrial building markets. Buffalo Pumps manufactures centrifugal pumps for the 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 U.S. and Canada.

In 2012, the Forged and Cast Rolls group was adversely affected by stagnant demand worldwide and competitive pricing. Order backlog and profit in backlog also eroded as the year progressed. Lower production levels of our customers in Europe, excess roll inventories in Asia, particularly China, and the emergence of indigenous roll supply in China, South Korea and India each contributed to the falloff in demand. Price discounting has been necessary to obtain business and protect market share. For 2013, demand for rolling mill rolls is expected to recover modestly. Roll requirements by our customers in North America are anticipated to improve slightly as a result of a stronger automotive industry and a timid but positive housing market. New mill projects in Asia will partially offset the effects of excess roll inventories and competitive pricing pressures in that region. European sales, however, will remain generally weak as steel producers continue to rationalize capacity. Additionally, competitive pricing pressures will likely continue as most roll producers are expected to operate below capacity. Fluctuation in the strength of the Euro, as compared to the U.S. dollar and British pound, could result in diminished volumes and reduced margins for exports.

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 high quality forged hardened steel backup rolls of a size and weight not within UES's capacity. This is a start-up business which began limited production at the end of 2010 and has been adversely impacted by the global economic slowdown and reduced demand as a result of the excess roll inventories of potential steel industry customers, particularly in China, including our steel company partner which has been unable to purchase the anticipated quantity of rolls. Contractually, the partner will acquire a significant portion of UES-MG capacity when inventories are depleted which is not expected for at least two years. Consequently, in 2012, the joint venture incurred an operating loss and an operating loss is expected for 2013. Losses to date and expected in 2013 are largely the result of non-cash expenses. Whilst not contemplated at this time, if conditions deteriorate or other impairment indicators arise, our future earnings could be adversely affected by an impairment charge.

For the Air and Liquid Processing segment, a strong level of orders during the first half of 2012 from most markets served provided for a steady and profitable workflow throughout the year. Orders slowed in the second half of the year due to a reduction in spending by the institutional markets and for new ships by the U.S. Navy. As a result of the slower second half of the year, backlog at the beginning of 2013 is approximately 10% below that of the past two years. Our ongoing focus for this segment is developing new product lines and improving related distribution networks for the sale of such.

**CONSOLIDATED RESULTS OF OPERATIONS OVERVIEW****The Corporation**

	2012		2011		2010	
<b>Net Sales:</b>						
Forged and Cast Rolls	\$ 189,470	65%	\$ 248,380	72%	\$ 240,345	74%
Air and Liquid Processing	103,435	35%	96,436	28%	86,541	26%
Consolidated	\$ 292,905	100%	\$ 344,816	100%	\$ 326,886	100%
<b>Income (Loss) from Operations:</b>						
Forged and Cast Rolls	\$ 18,415		\$ 38,761		\$ 48,674	
Air and Liquid Processing <sup>(1)</sup>	7,267		8,155		(12,605)	
Corporate costs	(9,390)		(10,442)		(11,342)	
Consolidated	\$ 16,292		\$ 36,474		\$ 24,727	
<b>Backlog:</b>						
Forged and Cast Rolls	\$ 154,527	79%	\$ 214,449	82%	\$ 350,978	88%
Air and Liquid Processing	41,277	21%	45,552	18%	46,052	12%
Consolidated	\$ 195,804	100%	\$ 260,001	100%	\$ 397,030	100%

(1) Income (loss) from operations for the Air and Liquid Processing segment for 2010 includes a pre-tax charge of \$19,980 for estimated costs of asbestos-related litigation net of estimated insurance recoveries (see Note 17 to Consolidated Financial Statements).

Consolidated net sales for 2012 declined when compared to 2011 and 2010 due to a lower demand and depressed pricing for the Forged and Cast Rolls segment while net sales for each of the divisions of the Air and Liquid Processing segment improved. Consolidated income from operations for 2012 deteriorated when compared to 2011 and 2010 (which included a pre-tax charge of \$19,980 for asbestos-related costs). A lower volume of shipments, weaker pricing, reduced margins and differences in product mix contributed to the shortfall. A more detailed review by segment is included below. The variance in corporate costs between the years is primarily attributable to lower stock-based compensation costs.

Gross margin, excluding depreciation, as a percentage of net sales, was 22.9%, 25.7%, and 29.8% for 2012, 2011 and 2010, respectively. The ongoing decrease is attributable to price discounting necessary to remain competitive and higher raw material costs as a percentage of sales and increasing employee benefit expenses.

Selling and administrative expenses totaled \$40,530 (13.8% of net sales), \$41,887 (12.1% of net sales) and \$44,168 (13.5% of net sales) for 2012, 2011 and 2010, respectively. The decrease in 2012 from 2011 and in 2011 from 2010 is primarily due to lower stock-based compensation costs of \$696 and \$1,313, respectively, and a decrease in commission expense of \$2,283 and \$1,442, respectively, for the Forged and Cast Rolls group related to the reduction in sales.

The increase in depreciation expense over the years is attributable to completion of a significant capital investment program for the Forged and Cast Rolls group in mid-2010 and subsequent acquisitions. Depreciation expense includes a partial year of depreciation when assets are placed in service and a full year of depreciation thereafter.

The (credit) charge for asbestos litigation in 2012 includes a pre-tax credit of \$540 representing an adjustment to previously-provided charges for asbestos-related litigation net of estimated insurance recoveries and 2010 includes a pre-tax charge of \$19,980 for estimated costs of asbestos-related litigation net of estimated insurance recoveries. The claims result from alleged personal injury from exposure to asbestos-containing components historically used in some products manufactured by certain of our former subsidiary companies (now operated as divisions of the Air and Liquid Processing segment). See Note 17 to the Consolidated Financial Statements.

Investment-related income for 2010 includes a dividend from our Chinese cast roll joint venture of \$1,084. No dividend was declared or received in 2012 or 2011.

Other income (expense) fluctuated primarily as a result of changes in foreign exchange gains and losses and charges related to operations discontinued years ago. Gains (losses) on foreign exchange transactions approximated \$107, \$(371) and \$655 for 2012, 2011 and 2010, respectively, and charges related to operations discontinued years ago equaled \$(1,054), \$(1,219) and \$(1,631), respectively.



Our statutory income tax rate equals 35% which compares to an effective income tax rate of 34.4%, 37.2% and 35.3% for 2012, 2011 and 2010, respectively. The effective income tax rate for 2011 was adversely impacted by the revaluation of net deferred income tax assets associated with a reduction in the statutory income tax rate for the U.K. operation and adjustments to deferred income tax assets, partially offset by benefits associated with changes in uncertain tax positions.

Equity losses in the Chinese joint venture represent Union Electric Steel's share (49%) of the losses of UES-MG (see Note 2 to Consolidated Financial Statements). Since production by the joint venture has been limited, as explained in the Executive Overview, operating losses have been incurred and are expected for 2013. While losses to date are largely the result of non-cash expenses, if conditions deteriorate or other impairment indicators arise, future earnings may be adversely affected by an impairment charge.

As a result of the above, we earned \$8,355 or \$0.81 per common share for 2012, \$21,309 or \$2.07 per common share for 2011, and \$15,456 or \$1.51 per common share for 2010. Net income for 2010 includes an after-tax charge of \$12,931 or \$1.26 per common share for estimated costs of asbestos-related litigation through 2020 net of estimated insurance recoveries. See Note 17 to Consolidated Financial Statements.

### Forged and Cast Rolls

	2012	2011	2010
Net sales	\$ 189,470	\$ 248,380	\$ 240,345
Operating income	\$ 18,415	\$ 38,761	\$ 48,674
Backlog	\$ 154,527	\$ 214,449	\$ 350,978

For 2012, the decrease in net sales from 2011 is due to a reduction in the level of shipments and selling prices which adversely affected operating results by approximately \$12,500 and \$9,000, respectively. Lower freight and commission expense offset the impact to operating income. For 2011, the increase in net sales from 2010 is attributable to a higher level of sales from our cast roll operations. The additional volume added approximately \$2,606 of operating income. Increases in the cost of raw materials, fuels and employee-related expenses of approximately \$12,900 adversely affected operating income in 2011 when compared to 2010.

The decrease in backlog is reflective of weak demand resulting in shipments outpacing new orders. Additionally, profitability in backlog has deteriorated over the years. As of December 31, 2012, approximately \$32,315 of the backlog is expected to be released after 2013.

### Air and Liquid Processing

	2012	2011	2010
Net sales	\$ 103,435	\$ 96,436	\$ 86,541
Operating income (loss)	\$ 7,267	\$ 8,155	\$ (12,605)
Backlog	\$ 41,277	\$ 45,552	\$ 46,052

Although sales for the segment improved in the current year against the prior two years, operating income decreased when compared to 2011 but improved when compared to 2010. For 2012, operating income (loss) includes a credit of \$540 representing an adjustment to previously-provided charges for asbestos-related litigation net of estimated insurance recoveries. For 2010, operating income (loss) includes a charge of \$19,980 for asbestos litigation relating to claims resulting from alleged personal injury from exposure to asbestos-containing components historically used in some products (see Note 17 to Consolidated Financial Statements). In addition, operating income (loss) includes uninsured legal and case management and valuation costs associated with asbestos litigation of approximately \$1,737, \$918 and \$173 for 2012, 2011 and 2010, respectively.

For Aerofin, sales and operating income benefited from a higher volume of coil shipments to customers in the nuclear power generation market; such shipments having a better profit margin. When compared to 2010, sales and operating income improved in the current year as a result of a higher volume of shipments to the nuclear power generation and general industrial markets. For Buffalo Pumps, although sales increased from additional business activity with its power generation customers, operating income was unfavorably impacted by lower margins on certain projects for U.S. Navy shipbuilders. For Buffalo Air Handling, in 2010, the division received a large order for a customer in medical research. Portions of the order shipped in 2012 and 2011 thereby improving sales and operating results.

Backlog for Aerofin at December 31, 2012 continued to improve when compared to the previous two years due to additional orders for replacement coils for customers in the power generation market. Backlog for Buffalo Pumps was comparable at



December 31, 2012 and 2010; a higher level of orders for power generation customers increased its backlog at the end of 2011. Backlog for Buffalo Air Handling declined against the prior years which included a large order for a customer in medical research. The order has completely shipped as of December 31, 2012. The majority of the year-end backlog is scheduled to ship in 2013.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities for 2012 equaled \$25,444 compared to \$22,287 and \$42,951 for 2011 and 2010, respectively. While the credit for asbestos litigation recorded in 2012 improved earnings and the charge for asbestos litigation recorded in 2010 reduced earnings, they did not affect cash flows by those amounts. Instead, the asbestos liability, net of insurance recoveries, will be paid over a number of years and will generate tax benefits. Net asbestos-related payments equaled \$7,932, \$5,061 and \$5,129 in 2012, 2011 and 2010, respectively, and are expected to approximate \$5,100 in 2013. Contributions to our pension and other postretirement plans approximated \$2,500 in 2012, \$9,400 in 2011 (of which \$7,000 were voluntary contributions) and \$7,100 in 2010 (of which \$5,000 were voluntary contributions). In 2012, *Moving Ahead for Progress in the 21<sup>st</sup> Century* ( MAP-21 ) was signed into law. MAP-21 reduces funding requirements for single-employer defined benefit plans. As a result, no minimum contributions are expected for 2013; however, voluntarily contributions may be made.

Net cash flows used in investing activities were \$9,369, \$15,372 and \$33,163 in 2012, 2011 and 2010, respectively, the majority of which represents capital expenditures for the Forged and Cast Rolls group. In 2010, UES-UK was awarded a government grant of up to \$1,325 (£850) toward the purchase and installation of certain machinery and equipment of which \$1,083 (£680) has been received. As of December 31, 2012, anticipated future capital expenditures are expected to approximate \$8,797, the majority of which will be spent in 2013. Additionally, money is held in escrow which serves as collateral for the outstanding foreign currency sales contracts of UES-UK. A portion of this money was returned in 2010 in connection with diminishing exposure and no further deposits have been required to date.

Net cash outflows from financing activities represent primarily the payment of dividends of \$0.72 per common share during each of the years. Additionally, stock options were exercised each year resulting in proceeds from the issuance of common stock and excess tax benefits.

The effect of exchange rate changes on cash and cash equivalents is primarily attributable to the fluctuation of the British pound against the U.S. dollar.

As a result of the above, cash and cash equivalents increased by \$9,001 in 2012 and ended the year at \$78,889 (of which approximately \$8,600 is held by foreign operations) in comparison to \$69,888 and \$70,021 at December 31, 2011 and 2010, respectively. Repatriation of foreign funds may result in the Corporation accruing and paying additional income tax; however, the majority of foreign funds is 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 our operational and capital expenditure requirements. We also maintain short-term lines of credit in excess of the cash needs of our businesses. The total available at December 31, 2012 was approximately \$9,400 (including £3,000 in the U.K. and 400 in Belgium).

We had the following contractual obligations outstanding as of December 31, 2012:

	Total	Payments Due by Period				
		<1 year	1 3 years	3 5 years	>5 years	Other
Industrial Revenue Bond Debt <sup>(1)</sup>	\$ 13,311	\$ 0	\$ 0	\$ 0	\$ 13,311	\$ 0
Operating Lease Obligations	2,454	997	1,284	156	17	0
Capital Expenditures	8,797	8,797	0	0	0	0
Pension and Other Postretirement Benefit Obligations <sup>(2)</sup>	66,509	2,614	20,577	23,790	19,528	0
Purchase Obligations <sup>(3)</sup>	9,371	4,481	4,890	0	0	0
Unrecognized Tax Benefits <sup>(4)</sup>	442	152	0	0	0	290
Total	\$ 100,884	\$ 17,041	\$ 26,751	\$ 23,946	\$ 32,856	\$ 290

- (1) Represents principal only. Interest is not included since it is variable; interest rates averaged less than 1% in the current year. The Industrial Revenue Bonds begin to mature in 2020; however, if the bonds are unable to be remarketed they will be refinanced under a separate facility. See Note 6 to Consolidated Financial Statements.
- (2) Represents estimated contributions to our pension and other postretirement plans. Actual required contributions are contingent on a number of variables including future investment performance of the plans' assets and may differ from these estimates. See Note 7 to Consolidated Financial Statements. Contributions to the U.S. defined benefit plan are based on the projected funded status of the plan including anticipated normal costs, amortization of unfunded liabilities and an 8% expected return on plan assets. With respect to the U.K. defined benefit plan, the Trustees and UES-UK have agreed to a recovery plan that estimates the amount of employer contributions, based on U.K. regulations, necessary to eliminate the funding deficit of the plan over an agreed period.
- (3) Represents primarily commitments by one of our Forged and Cast Rolls subsidiaries for the purchase of natural gas through 2015 covering approximately 46% of anticipated needs to meet orders in backlog. See Note 11 to Consolidated Financial Statements.
- (4) Represents uncertain tax positions. Amount included as Other represents portion for which the period of cash settlement cannot be reasonably estimated. See Note 13 to Consolidated Financial Statements.

With respect to environmental matters, we are 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 the identification of new sites. However, we believe the potential liability for all environmental proceedings of approximately \$1,174 accrued at December 31, 2012 is considered adequate based on information known to date (see Note 18 to Consolidated Financial Statements).

The nature and scope of our business brings us into regular contact with a variety of persons, businesses and government agencies in the ordinary course of business. Consequently, we and certain of our subsidiaries from time to time are named in various legal actions. Generally, we do not anticipate that our financial condition or liquidity will be materially affected by the costs of known, pending or threatened litigation. However, claims have been asserted alleging personal injury from exposure to asbestos-containing components historically used in some products and there can be no assurance that future claims will not present significantly greater and longer lasting financial exposure than presently contemplated (see Note 17 to Consolidated Financial Statements).

## OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements include the operating lease, capital expenditures and purchase obligations disclosed in the contractual obligations table and the letters of credit unrelated to the Industrial Revenue Bonds as discussed in Note 8 to the Consolidated Financial Statements.

## EFFECTS OF INFLATION

While inflationary and market pressures on costs are likely to be experienced, it is anticipated that ongoing improvements in manufacturing efficiencies and cost savings efforts will mitigate the effects of inflation on 2013 operating results. The ability to pass on increases in the price of

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

commodities to the customer is contingent upon current market conditions with us potentially having to absorb some portion of such increase. Product pricing for the Forged and Cast Rolls segment is reflective of current costs with a majority of orders subject to a variable-index surcharge program which helps to protect the segment and its customers against the volatility in the cost of certain raw materials. Long-term labor agreements exist at each of the key locations (see Note 8 to Consolidated Financial Statements). Additionally, commitments have been executed for natural gas usage and for certain commodities (copper and aluminum) to cover a portion of orders in the backlog (see Note 11 to Consolidated Financial Statements).

---

**APPLICATION OF CRITICAL ACCOUNTING POLICIES**

We have identified critical accounting policies that are important to the presentation of our financial condition, changes in financial condition and results of operations and involve the most complex or subjective assessments. Critical accounting policies relate to accounting for pension and other postretirement benefits, assessing recoverability of long-lived assets, litigation, income taxes and stock-based compensation.

*Accounting for pension and other postretirement benefits* involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, input from our actuary is evaluated and extensive use is made of assumptions about inflation, long-term rate of return on plan assets, mortality, rates of increases in compensation, employee turnover and discount rates.

The expected long-term rate of return on plan assets is an estimate of average rates of earnings expected to be earned on funds invested or to be invested to provide for the benefits included in the projected benefit obligation. Since these benefits will be paid over many years, the expected long-term rate of return is reflective of current investment returns and investment returns over a longer period. Also, consideration is given to target and actual asset allocations, inflation and real risk-free return. We believe the expected long-term rate of return of 8% for our domestic plan and 5.61% for our foreign plan to be reasonable. Actual returns on plan assets for 2012 and 2011, respectively, approximated 10.98% and (1.90)% for our domestic plan and 9.61% and 2.80% for our foreign plan.

The discount rates used in determining future pension obligations and other postretirement benefits for each of our plans are based on rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension and other postretirement benefits. High-quality fixed-income investments are defined as those investments which have received one of the two highest ratings given by a recognized rating agency with maturities of 10+ years. We believe the assumed discount rates of 4.25% and 4.50% as of December 31, 2012 for our domestic and foreign plans, respectively, to be reasonable.

We believe that the amounts recorded in the accompanying consolidated financial statements related to pension and other postretirement benefits are based on appropriate assumptions although actual outcomes could differ. A percentage point decrease in the expected long-term rate of return would increase annual pension expense by approximately \$1,600. A 1/4 percentage point decrease in the discount rate would increase projected and accumulated benefit obligations by approximately \$8,000. Conversely, an increase in the expected long-term rate of return would decrease annual pension expense and an increase in the discount rate would decrease projected and accumulated benefit obligations (see Note 7 to Consolidated Financial Statements).

*Property, plant and equipment* are reviewed for recoverability whenever events or circumstances indicate the carrying amount of the long-lived assets may not be recoverable. If the undiscounted cash flows generated from the use and eventual disposition of the assets are less than their carrying value, then the asset value may not be fully recoverable potentially resulting in a write-down of the asset value. Estimates of future cash flows are based on expected market conditions over the remaining useful life of the primary asset(s). Accordingly, assumptions are made about pricing, volume and asset-resale values. Actual results may differ from these assumptions. We believe the amounts recorded in the accompanying consolidated financial statements for property, plant and equipment are recoverable and are not impaired as of December 31, 2012.

*Litigation and loss contingency* accruals are made when it is determined that it is probable that a liability has been incurred and the amount can be reasonably estimated. Specifically, we and certain of our subsidiaries are involved in various claims and lawsuits incidental to their businesses. In addition, claims have been asserted alleging personal injury from exposure to asbestos-containing components historically used in some products manufactured by certain of our former subsidiary companies (now operated as divisions of Air & Liquid) and of an inactive subsidiary in dissolution. To assist us in determining whether an estimate could be made of the potential liability for pending and unasserted future claims for Asbestos Liability along with applicable insurance coverage, and the amounts of any estimates, we hired a nationally-recognized asbestos-liability expert and insurance consultants. The asbestos-liability expert was not requested to estimate asbestos claims against the inactive subsidiary in dissolution, which we believe are immaterial. Based on their analyses, reserves for probable and reasonably estimable costs of Asbestos Liabilities including defense costs and receivables for the insurance recoveries that are deemed probable have been established. These amounts relied on assumptions which were based on currently known facts and strategy.

In 2012, we undertook another review of our Asbestos Liability claims, defense costs and the likelihood for insurance recoveries. Key variables in these assumptions are summarized in Note 17 to the Consolidated Financial Statements and include the number and type of new claims to be filed each year, the average cost of disposing of each 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 our Asbestos Liability and ability to recover under our 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. Actual expenses or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the calculations vary significantly from actual results.

We intend to evaluate our 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 incurrence of future charges; however, we are currently unable to estimate such future charges. Adjustments, if any, to our estimate of our recorded Asbestos Liability and/or insurance receivables could be material to the operating results for the periods in which the adjustments to the liability or receivable are recorded, and to our liquidity and consolidated financial position.

*Accounting for income taxes* includes management's evaluation of the underlying accounts, permanent and temporary differences, our tax filing positions and interpretations of existing tax law. A valuation allowance is recorded against deferred income tax assets to reduce them to the amount that is more likely than not to be realized. In doing so, assumptions are made about the future profitability of our operations and the nature of that profitability. Actual results may differ from these assumptions. If we determined we would not be able to realize all or part of the deferred income tax assets in the future, an adjustment to the valuation allowance would be established resulting in a charge to net income. Likewise, if we determined we would be able to realize deferred income tax assets in excess of the net amount recorded, we would release a portion of the existing valuation allowance resulting in an increase in net income. As of December 31, 2012, we have deferred income tax assets approximating \$69,235 and a valuation allowance of \$2,887.

We do not recognize a tax benefit in the financial statements related to a tax position taken or expected to be taken in a tax return unless it is more likely than not that the tax authorities will sustain the tax position solely on the basis of the position's technical merits. Consideration is given primarily to legislation and statutes, legislative intent, regulations, rulings and case law as well as their applicability to the facts and circumstances of the tax position when assessing the sustainability of the tax position. In the event a tax position no longer meets the more likely than not criteria, we would reverse the tax benefit by recognizing a liability and recording a charge to earnings. Conversely, if we subsequently determined that a tax position meets the more likely than not criteria, we would recognize the tax benefit by reducing the liability and recording a credit to earnings. As of December 31, 2012, based on information known to date, we believe the amount of unrecognized tax benefits of \$442 for tax positions taken or expected to be taken in a tax return which may be challenged by the tax authorities is adequate.

See Note 13 to the Consolidated Financial Statements.

*Accounting for stock-based compensation* is based on the fair value of the stock options on the date of grant. The fair value is affected by our stock price and various assumptions including assumptions about the expected term of the options, volatility, dividends and the risk-free interest rate. If the fair value of granted stock options was re-determined, on a date other than the date of grant, the resulting fair value would differ. Accordingly, the fair value of stock options granted to date is not indicative of the fair value of stock options to be granted in the future (see Note 9 to Consolidated Financial Statements).

## RECENTLY IMPLEMENTED ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (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 was effective for us 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 does not change the application of existing accounting principles and, accordingly, did not impact our 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 are presented either in a single continuous statement along with net income or in a separate statement immediately following net income. ASU 2011-05 was effective for us beginning in 2012. The guidance did 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, ASU 2011-05 did not impact our operating results, financial position or liquidity. We elected to present other comprehensive income and its components as a separate statement immediately following our consolidated statements of operations.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires entities to report the effect of significant reclassifications out of accumulated other comprehensive income (loss) on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. Information may be reported either on the face of the income statement or in the footnotes to the financial statements. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other disclosures. The guidance is effective for reporting periods beginning after January 1, 2013 and is to be applied prospectively. The new guidance affects disclosures only. It 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, ASU 2013-02 will not impact our operating results, financial position or liquidity.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires expanded disclosures, including gross and net information, about financial and derivative instruments that are either offset in the balance sheet or are subject to an enforceable master netting arrangement or similar agreement. The guidance is effective for reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. The new guidance affects disclosures only and will not impact our operating results, financial position or liquidity.

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 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 Operations and other sections of the Annual Report on Form 10-K as well as the consolidated financial statements and notes thereto contain forward-looking statements that reflect our 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 us, these risks and uncertainties include, but are not limited to, those described under Item 1A. Risk Factors of this Annual Report on Form 10-K. 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 undertake no obligation to update any forward-looking statement, whether as a result of new information, events or otherwise.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We view our primary market risk exposures as relating to changes in foreign currency exchange rates and commodity prices. To manage certain foreign currency exchange exposures, our policy is to hedge a portion of our foreign currency denominated sales and receivables, primarily U.S. sales denominated in Euros and U.K. sales denominated in U.S. dollars and Euros. Although strengthening of the U.S. dollar could result in a lower volume of exports from the U.S. and at reduced margins, exports of our foreign operation may increase and gross margins might improve. Additionally, strengthening of the British pound could result in a lower volume of exports from the U.K. and at reduced margins; however, exports for our domestic operations may increase and gross margins might improve. A weakening of the Euro, as compared to the U.S. dollar and British pound, could result in a lower volume of exports and at reduced margins.

To reduce the effect of price changes for certain of our raw materials and energy, we enter into contracts for particular commodities (copper and aluminum) and purchase a portion of our energy usage in advance. Based on estimated annual purchases, a 10% fluctuation in commodity prices (including electricity, natural gas, steel scrap and ferroalloys) would have impacted 2012 and 2011 by approximately \$9,500. There is no guarantee that fluctuations in commodity prices will be limited to 10%. The ability to pass on increases in the price of commodities to the customer is contingent upon current market conditions with us potentially having to absorb some portion of such increase. However, a sales price surcharge mechanism is in place with a majority of the customers of the Forged and Cast Rolls segment which helps to protect us against the volatility in the cost of certain raw materials.

See also Note 11 to the Consolidated Financial Statements.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****CONSOLIDATED BALANCE SHEETS**

	December 31,	
(in thousands, except par value)	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 78,889	\$ 69,888
Receivables, less allowance for doubtful accounts of \$519 in 2012 and \$141 in 2011	54,394	59,211
Inventories	70,669	68,544
Insurance receivable asbestos	18,400	18,000
Other current assets	15,230	12,888
Total current assets	237,582	228,531
Property, plant and equipment, net	150,297	150,240
Insurance receivable asbestos	99,715	108,419
Deferred income tax assets	25,800	23,638
Investments in joint ventures	13,319	14,872
Other noncurrent assets	6,466	5,932
	<b>\$ 533,179</b>	<b>\$ 531,632</b>
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 15,839	\$ 19,528
Accrued payrolls and employee benefits	9,301	10,983
Industrial Revenue Bond debt	13,311	13,311
Asbestos liability current portion	23,500	25,000
Other current liabilities	24,473	20,337
Total current liabilities	86,424	89,159
Employee benefit obligations	96,100	75,257
Asbestos liability	157,522	172,872
Other noncurrent liabilities	1,040	1,472
Total liabilities	341,086	338,760
Commitments and contingent liabilities (Note 8)		
Shareholders Equity:		
Common stock par value \$1; authorized 20,000 shares; issued and outstanding 10,346 shares in 2012 and 10,326 shares in 2011	10,346	10,326
Additional paid-in capital	124,464	123,088
Retained earnings	139,658	138,748
Accumulated other comprehensive loss	(82,375)	(79,290)
Total shareholders equity	192,093	192,872
	<b>\$ 533,179</b>	<b>\$ 531,632</b>

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

<i>(in thousands, except per share amounts)</i>	<b>For The Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net sales	<b>\$ 292,905</b>	\$ 344,816	\$ 326,886
Operating costs and expenses:			
Costs of products sold (excluding depreciation)	<b>225,906</b>	256,030	229,528
Selling and administrative	<b>40,530</b>	41,887	44,168
Depreciation	<b>10,661</b>	10,153	8,565
(Credit) charge for asbestos litigation	<b>(540)</b>	0	19,980
Loss (gain) on disposition of assets	<b>56</b>	272	(82)
	<b>276,613</b>	308,342	302,159
Income from operations	<b>16,292</b>	36,474	24,727
Other income (expense):			
Investment-related income	<b>63</b>	146	1,183
Interest expense	<b>(246)</b>	(315)	(324)
Other net	<b>(942)</b>	(1,578)	(964)
	<b>(1,125)</b>	(1,747)	(105)
Income before income taxes and equity losses in Chinese joint venture	<b>15,167</b>	34,727	24,622
Income tax provision	<b>(5,218)</b>	(12,916)	(8,687)
Equity losses in Chinese joint venture	<b>(1,594)</b>	(502)	(479)
Net income	<b>\$ 8,355</b>	\$ 21,309	\$ 15,456
Net income per common share:			
Basic	<b>\$ 0.81</b>	\$ 2.07	\$ 1.51
Diluted	<b>0.80</b>	2.05	1.50
Weighted average number of common shares outstanding:			
Basic	<b>10,338</b>	10,319	10,254
Diluted	<b>10,390</b>	10,393	10,291

*See Notes to Consolidated Financial Statements.*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(in thousands)</i>	For The Year Ended December 31,		
	2012	2011	2010
Net income	\$ 8,355	\$ 21,309	\$ 15,456
Other comprehensive (loss) income, net of income tax where applicable:			
Adjustments for changes in:			
Foreign exchange translation	3,193	653	(1,620)
Unrecognized employee benefit costs	(10,520)	(23,028)	2,511
Unrealized holding gains (losses) on marketable securities	149	(28)	267
Fair value of cash flow hedges	102	(707)	1,344
Reclassification adjustments for items included in net income:			
Amortization of unrecognized employee benefit costs	3,962	3,664	3,085
Realized (gains) losses from sale of marketable securities	(78)	13	23
Realized losses (gains) from settlement of cash flow hedges	107	(383)	(840)
Other comprehensive (loss) income	(3,085)	(19,816)	4,770
Comprehensive Income	\$ 5,270	\$ 1,493	\$ 20,226

*See Notes to Consolidated Financial Statements.*

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

<i>(in thousands, except per share amounts)</i>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
Balance January 1, 2010	\$ 10,246	\$ 116,396	\$ 116,804	\$ (64,244)	\$ 179,202
Stock-based compensation		3,267			3,267
<b>Comprehensive income:</b>					
Net income			15,456		15,456
Other comprehensive income				4,770	4,770
<b>Comprehensive income</b>					<b>20,226</b>
Issuance of common stock including excess tax benefits of \$681	59	1,411			1,470
Cash dividends (\$0.72 per share)			(7,388)		(7,388)
Balance December 31, 2010	10,305	121,074	124,872	(59,474)	196,777
Stock-based compensation		1,636			1,636
<b>Comprehensive income:</b>					
Net income			21,309		21,309
Other comprehensive loss				(19,816)	(19,816)
<b>Comprehensive income</b>					<b>1,493</b>
Issuance of common stock including excess tax benefits of \$47	21	378			399
Cash dividends (\$0.72 per share)			(7,433)		(7,433)
Balance December 31, 2011	10,326	123,088	138,748	(79,290)	192,872
<b>Stock-based compensation</b>		<b>1,058</b>			<b>1,058</b>
<b>Comprehensive income:</b>					
Net income			<b>8,355</b>		<b>8,355</b>
Other comprehensive loss				(3,085)	(3,085)
<b>Comprehensive income</b>					<b>5,270</b>
Issuance of common stock including excess tax benefits of \$16	20	318			338
Cash dividends (\$0.72 per share)			(7,445)		(7,445)
<b>Balance December 31, 2012</b>	<b>\$ 10,346</b>	<b>\$ 124,464</b>	<b>\$ 139,658</b>	<b>\$ (82,375)</b>	<b>\$ 192,093</b>

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(in thousands)</i>	<b>For The Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>			
Net income	<b>\$ 8,355</b>	<b>\$ 21,309</b>	<b>\$ 15,456</b>
<b>Adjustments to reconcile net income to net cash flows from operating activities:</b>			
Depreciation	<b>10,661</b>	10,153	8,565
(Credit) charge for asbestos litigation	<b>(540)</b>	0	19,980
Deferred income taxes	<b>2,545</b>	5,975	2,345
Pension and other postretirement benefits expense in excess of contributions	<b>10,074</b>	607	1,563
Stock-based compensation	<b>1,258</b>	1,954	3,267
Equity losses in Chinese joint venture	<b>1,594</b>	502	479
Change in provisions for bad debts and inventories	<b>346</b>	(24)	186
Provision for warranties net of settlements	<b>988</b>	396	260
Excess tax benefits from the exercise of stock options	<b>(16)</b>	(47)	(681)
Provision for environmental liabilities	<b>0</b>	303	871
Other net	<b>(13)</b>	438	684
<b>Changes in assets/liabilities:</b>			
Receivables	<b>5,188</b>	(12,852)	(7,476)
Inventories	<b>(1,101)</b>	301	385
Other assets, including insurance receivable asbestos	<b>10,507</b>	16,544	11,213
Accounts payable	<b>(3,894)</b>	(732)	4,204
Accrued payrolls and employee benefits	<b>(1,209)</b>	(582)	909
Other liabilities, including asbestos liability	<b>(19,299)</b>	(21,958)	(19,259)
Net cash flows provided by operating activities	<b>25,444</b>	22,287	42,951
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	<b>(9,668)</b>	(15,780)	(35,001)
Purchases of long-term marketable securities	<b>(770)</b>	(857)	(497)
Proceeds from the sale of long-term marketable securities	<b>694</b>	776	454
Proceeds from U.K. government grant	<b>373</b>	484	226
Return of collateral for outstanding foreign currency exchange contracts	<b>0</b>	0	1,543
Other	<b>2</b>	5	112
Net cash flows used in investing activities	<b>(9,369)</b>	(15,372)	(33,163)
<b>Cash flows from financing activities:</b>			
Dividends paid	<b>(7,442)</b>	(7,429)	(7,378)
Proceeds from the issuance of common stock	<b>123</b>	167	790
Excess tax benefits from the exercise of stock options	<b>16</b>	47	681
Net cash flows used in financing activities	<b>(7,303)</b>	(7,215)	(5,907)
Effect of exchange rate changes on cash and cash equivalents	<b>229</b>	167	(301)
Net increase (decrease) in cash and cash equivalents	<b>9,001</b>	(133)	3,580
Cash and cash equivalents at beginning of year	<b>69,888</b>	70,021	66,441
Cash and cash equivalents at end of year	<b>\$ 78,889</b>	<b>\$ 69,888</b>	<b>\$ 70,021</b>
<b>Supplemental disclosures of cash flow information:</b>			
Income tax payments	<b>\$ 4,462</b>	<b>\$ 5,711</b>	<b>\$ 8,362</b>
Interest payments	<b>246</b>	316	324
<b>Non-cash investing activities:</b>			
Purchases of property, plant and equipment in accounts payable	<b>\$ 710</b>	<b>\$ 2,418</b>	<b>\$ 2,201</b>

*See Notes to Consolidated Financial Statements.*

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(in thousands, except share and per share amounts)

**Description of Business****Description of Business**

Ampco-Pittsburgh Corporation (the Corporation) operates in two business segments. The *Forged and Cast Rolls* segment consists of Union Electric Steel Corporation (Union Electric Steel or UES) and Union Electric Steel UK Limited (UES-UK). Union Electric Steel is one of the world's largest manufacturers of forged hardened steel rolls with principal operations in Pennsylvania and Indiana whereas UES-UK produces cast iron and steel rolls in England. Rolls are supplied to manufacturers of steel and aluminum throughout the world. The *Air and Liquid Processing* segment includes Aerofin, Buffalo Air Handling and Buffalo Pumps, all divisions of Air & Liquid Systems Corporation, 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 makes custom-designed air handling systems for commercial, institutional and industrial building markets. Buffalo Pumps manufactures centrifugal pumps for the 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 U.S. and Canada.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Corporation's accounting policies conform to accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include valuing the assets and obligations related to employee benefit plans, assessing the carrying value of long-lived assets, accounting for loss contingencies associated with claims and lawsuits, accounting for income taxes and estimating the fair value of stock options granted. Actual results could differ from those estimates. A summary of the significant accounting policies followed by the Corporation is presented below.

**Consolidation**

All subsidiaries are wholly owned and are included in the consolidated financial statements of the Corporation. Intercompany accounts and transactions are eliminated. Investments in joint ventures whereby the Corporation owns 20% to 50% of the voting stock and has the ability to exercise significant influence over the operating and financial policies of the joint venture are accounted for using the equity method of accounting. Investments in joint ventures whereby the Corporation does not have the ability to exercise significant influence over the operating and financial policies of the joint venture are accounted for using the cost method of accounting. Investments in joint ventures are reviewed for impairment whenever events or circumstances indicate the carrying amount of the investment may not be recoverable. If the estimated fair value of the investment is less than the carrying amount and such decline is determined to be other than temporary, then the investment may not be fully recoverable potentially resulting in a write-down of the investment value.

**Cash and Cash Equivalents**

Securities with purchased original maturities of three months or less are considered to be cash equivalents. The Corporation maintains cash and cash equivalents at various financial institutions which may exceed federally insured amounts.

**Inventories**

Inventories are valued at the lower of cost or market. Cost includes the cost of raw materials, direct labor and overhead for those items manufactured but not yet sold or for which title has not yet transferred. Fixed production overhead is allocated to inventories based on normal capacity of the production facilities. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. The amount of fixed overhead allocated to inventories is not increased as a consequence of abnormally low production or idle plant. Costs for abnormal amounts of spoilage, handling costs and freight costs are charged to expense when incurred. Cost of domestic raw materials, work-in-process and finished goods inventories is primarily determined by the last-in,

first-out (LIFO) method. Cost of domestic supplies and foreign inventories is determined primarily by the first-in, first-out method.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost with depreciation computed using the straight-line method over the following estimated useful lives: land improvements 15 to 20 years, buildings 25 to 50 years and machinery and equipment 3 to 25 years. Expenditures that extend economic useful lives are capitalized. Routine maintenance is charged to expense. Gains or losses are recognized on retirements or disposals. Property, plant and equipment are reviewed for impairment whenever events or circumstances indicate the carrying amount of the asset may not be recoverable. If the undiscounted cash flows generated from the use and eventual disposition of the assets are less than their carrying value, then

the asset value may not be fully recoverable potentially resulting in a write-down of the asset value. Estimates of future cash flows are based on expected market conditions over the remaining useful life of the primary asset(s). Proceeds from government grants are recorded as a reduction in the purchase price of the underlying assets and amortized against depreciation over the lives of the related assets.

### **Product Warranty**

Provisions for product warranties are recognized at the time the underlying sale is recorded. The provision is based on historical experience as a percentage of sales adjusted for potential claims when a liability is probable and for known claims.

### **Employee Benefit Plans**

#### *Funded Status*

If the fair value of the plan assets exceeds the projected benefit obligation, the over-funded projected benefit obligation is recognized as an asset (prepaid pensions) on the consolidated balance sheet. Conversely, if the projected benefit obligation exceeds the fair value of plan assets, the under-funded projected benefit obligation is recognized as a liability (employee benefit obligations) on the consolidated balance sheet. Gains and losses arising from the difference between actuarial assumptions and actual experience and unamortized prior service costs are recorded as a separate component of accumulated other comprehensive income (loss) and presented net of income tax.

#### *Net Periodic Pension and Other Postretirement Costs*

Net periodic pension and other postretirement costs includes service cost, interest cost, expected rate of return on the market-related value of plan assets, amortization of prior service costs and recognized actuarial gains or losses. When actuarial gains or losses exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets, they are amortized to net periodic pension and other postretirement costs over the average remaining service period of employees expected to receive benefits under the plans. When the gains or losses are less than 10% of the greater of the projected benefit obligation or the market-related value of plan assets, they are included in net periodic pension and other postretirement costs indirectly as a result of lower/higher interest costs arising from a decrease/increase in the projected benefit obligation. The market-related value of plan assets is determined using a five-year moving average which recognizes 20% of unrealized gains and losses each year.

### **Other Comprehensive Income (Loss)**

Other comprehensive income (loss) includes changes in assets and liabilities from non-owner sources including foreign currency translation adjustments, changes in the fair value of derivatives designated and effective as cash flow hedges, unrealized holding gains and losses on securities designated as available for sale, and unamortized prior service costs and unrecognized actuarial gains and losses associated with employee benefit plans. Certain components of other comprehensive income (loss) are presented net of income tax. Foreign currency translation adjustments exclude the effect of income tax since earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

Reclassification adjustments are amounts which are realized during the year and, accordingly, are deducted from other comprehensive income (loss) in the period in which they are included in net income or when a transaction no longer qualifies as a cash flow hedge. Foreign currency translation adjustments are included in net income upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity. Changes in the fair value of derivatives are included in net income when the projected sale occurs or, if a foreign currency purchase contract, over the estimated useful life of the underlying asset. Unrealized holding gains and losses on securities are included in net income when the underlying security is sold. Unamortized prior service costs and unrecognized actuarial gains and losses associated with employee benefit plans are included in net income either indirectly as a result of lower/higher interest costs arising from a decrease/increase in the projected benefit obligation or over the average remaining service period of employees expected to receive benefits under the plans.

### **Revenue Recognition**

Revenue from sales is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Persuasive evidence of an arrangement identifies the final understanding between the parties as to the specific nature and terms of the agreed-upon transaction that creates enforceable obligations. It can be in the form of an executed purchase order from the customer, sales agreement issued by the Corporation or a similar arrangement deemed to be normal and customary business practice for that particular customer or class of customer (collectively, a sales agreement).

Delivery and performance is considered to have occurred when the customer has taken title and assumed the risks and rewards of ownership of the product. Typically this occurs when the product is shipped to the customer (i.e., FOB shipping point),



delivered to the customer (i.e., FOB destination), or, for foreign sales, in accordance with trading guidelines known as Incoterms. Incoterms are standard trade definitions used in international contracts and are developed, maintained and promoted by the ICC Commission on Commercial Law and Practice.

The sales price required to be paid by the customer is fixed or determinable from the sales agreement. It is not subject to refund or adjustment except for a variable-index surcharge provision which increases or decreases, as applicable, the selling price of a rolling mill roll for corresponding changes in the published index cost of certain raw materials. The variable-index surcharge is recognized as revenue when the corresponding revenue for the inventory is recognized. Likelihood of collectability is assessed prior to acceptance of an order. There are no customer-acceptance provisions other than customer inspection and testing prior to shipment. Post-shipment obligations are insignificant.

Amounts billed to the customer for shipping and handling are recorded within net sales and the related costs are recorded within costs of products sold (excluding depreciation). Amounts billed for taxes assessed by various government authorities (e.g. sales tax, value-added tax, etc.) are excluded from the determination of net income and instead are recorded as a liability until remitted to the government authority.

### **Foreign Currency Translation**

Assets and liabilities of the Corporation's foreign operations are translated at year-end exchange rates and the statements of operations are translated at the average exchange rates for the year. Gains or losses resulting from translating foreign currency financial statements are accumulated as a separate component of accumulated other comprehensive income (loss) until the entity is sold or substantially liquidated.

### **Derivative Instruments**

Derivative instruments which include forward exchange (for foreign currency sales and purchases) and futures contracts are recorded on the 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 the 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 sale, the foreign currency sales contract 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). Upon occurrence of the anticipated purchase, the foreign currency purchase contract is settled and the change in fair value deferred in accumulated other comprehensive income (loss) is reclassified to earnings (depreciation expense) over the life of the underlying assets. Upon settlement of a futures contract, the change in fair value deferred in accumulated other comprehensive income (loss) is reclassified to earnings (costs of products sold, excluding depreciation) when the corresponding inventory is sold and revenue is recognized. 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 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). Cash flows associated with the derivative instruments are recorded as a component of operating activities on the consolidated statement of cash flows.

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

### **Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. A hierarchy of inputs is used to determine fair value measurements with three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities and are considered the most reliable evidence of fair value. Level 2 inputs are observable prices that are not quoted on active exchanges. Level 3 inputs are unobservable inputs used for measuring the fair value of assets or liabilities.

### **Stock-Based Compensation**

Compensation expense is recognized for stock-based compensation awards over the requisite service period based on the estimated fair value of the award as of the date of grant calculated using the Black-Scholes option-pricing model. Fair value is affected by the Corporation's stock price and various assumptions including assumptions about the expected term of the options, volatility, dividends and the risk-free interest rate. The expected life of the options is estimated by considering



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

### Legal Costs

Legal costs expected to be incurred in connection with loss contingencies are accrued when such costs are probable and estimable.

### Income Taxes

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income. Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the book carrying amounts and the tax basis of assets and liabilities including net operating loss carryforwards. Unremitted earnings of the Corporation's non-US subsidiaries and affiliates are deemed to be permanently reinvested and, accordingly, no deferred income tax liability is recorded. A valuation allowance is provided against a deferred income tax asset when it is more likely than not the asset will not be realized. Similarly, if a determination is made that it is more likely than not the deferred income tax asset will be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded. Penalties and interest are recognized as a component of the income tax provision.

Tax benefits are recognized in the financial statements for tax positions taken or expected to be taken in a tax return when it is more likely than not that the tax authorities will sustain the tax position solely on the basis of the position's technical merits. Consideration is given primarily to legislation and statutes, legislative intent, regulations, rulings and case law as well as their applicability to the facts and circumstances of the tax position when assessing the sustainability of the tax position. In the event a tax position no longer meets the more likely than not criteria, the tax benefit is reversed by recognizing a liability and recording a charge to earnings. Conversely, if a tax position subsequently meets the more likely than not criteria, a tax benefit would be recognized by reducing the liability and recording a credit to earnings.

### Earnings Per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period. The computation of diluted earnings per common share is similar to basic earnings per common share except that the denominator is increased to include the dilutive effect of the net additional common shares that would have been outstanding assuming exercise of outstanding stock options, calculated using the treasury stock method. The weighted average number of common shares outstanding assuming exercise of the stock options was 10,389,678 for 2012, 10,393,159 for 2011 and 10,290,824 for 2010. Weighted-average outstanding stock options excluded from the diluted earnings per common share calculation, since the effect would have been antidilutive, were 671,977 for 2012, 544,342 for 2011 and 344,135 for 2010.

### Recently Implemented Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (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 was effective for the Corporation 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 does not change the application of existing accounting principles and, accordingly, did not impact the operating results, financial position or liquidity of the Corporation.

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 are presented either in a single continuous statement along with net income or in a separate statement immediately following net income. ASU 2011-05 was effective for the Corporation beginning in 2012. The guidance did 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, ASU 2011-05 did not impact the operating results, financial position or liquidity of the Corporation. The Corporation elected to present other comprehensive income and its components as a separate statement immediately following its consolidated statements of operations.

### Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires entities to report the effect of significant reclassifications out of accumulated other comprehensive income (loss) on the respective line items in net income if the amount being reclassified is



required to be reclassified in its entirety to net income. Information may be reported either on the face of the income statement or in the footnotes to the financial statements. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other required disclosures. The guidance is effective for reporting periods beginning after January 1, 2013 and is to be applied prospectively. The new guidance affects disclosures only. It 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, ASU 2013-02 will not impact the operating results, financial position or liquidity of the Corporation.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires expanded disclosures, including gross and net information, about financial and derivative instruments that are either offset in the balance sheet or are subject to an enforceable master netting arrangement or similar agreement. The guidance is effective for reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. The new guidance affects disclosures only and will not impact the operating results, financial position or liquidity of the Corporation.

## NOTE 2 INVESTMENTS IN JOINT VENTURES:

In 2007, a subsidiary of UES entered into an agreement with Maanshan Iron & Steel Company Limited (Maanshan) to form a joint venture company in China. UES owns 49% of the joint venture company and Maanshan owns 51%. Both companies contributed cash for their respective interests (which equated to \$14,700 for UES). The joint venture company principally manufactures and sells forged backup rolling mill rolls of a size and weight currently not able to be produced by UES. Limited production began in 2010. UES has exclusive marketing and sales rights and earned commissions of \$74 and \$191 during 2012 and 2011, respectively, of which \$14 and \$50 is outstanding as of December 31, 2012 and 2011, respectively. No commissions were earned in 2010. UES has not guaranteed any of the obligations of the joint venture; accordingly, its maximum exposure of loss is limited to its investment. Since UES is the minority shareholder and allocation of earnings and voting rights are proportional to ownership interests, UES is not considered the primary beneficiary and, accordingly, accounts for its 49% interest in the joint venture under the equity method of accounting.

Assets, liabilities and shareholders' equity of the joint venture as of September 30, 2012 and 2011 are summarized below. The joint venture is a start-up business and has been adversely impacted by the global economic slow-down, reduced demand and excess roll inventories of the potential customer base in China, including Maanshan. Losses of the joint venture approximated \$(3,254), \$(1,024) and \$(979) for the twelve month period ended September 30, 2012, 2011 and 2010, respectively, of which the Corporation has recognized its share (or 49%) in its consolidated statements of operations. Management expects a continuation of losses in 2013. While losses to date are largely the result of non-cash expense, if conditions deteriorate or other impairment indicators arise, future earnings of the Corporation may be adversely affected by an impairment charge. The joint venture is financed primarily with external debt and borrowings from Maanshan. The difference between the carrying amount of the investment \$(11,979) and the value of the underlying equity in the net assets of the joint venture \$(13,396) relates primarily to the elimination of 49% of the profit (intercompany profit) for the sale of technology from UES to the joint venture in earlier years. The intercompany profit will be recognized when realized outside of the controlled group.

	2012	2011
Assets:		
Current assets (includes receivables from related parties of \$271 and \$1,044, respectively)	\$ 17,356	\$ 12,965
Noncurrent assets	39,455	41,916
Total assets	\$ 56,811	\$ 54,881
Liabilities and Shareholders' Equity:		
Current liabilities (include liabilities to related parties of \$18,534 and \$6,433, respectively)	\$ 18,621	\$ 7,609
Noncurrent liabilities	10,850	17,077
Shareholders' Equity	27,340	30,195
Total Liabilities and Shareholders' Equity	\$ 56,811	\$ 54,881

The Corporation also has a 25% investment in a Chinese cast roll joint venture company which is recorded at cost, or \$1,340. The Corporation does not participate in the management or daily operation of the joint venture company, has not guaranteed any of its obligations and has no ongoing responsibilities to it. Dividends may be declared by the Board of Directors of the joint venture company after allocation of after-tax profits to various funds equal to the minimum amount required under Chinese law. No dividends were declared or received in 2012 or 2011. Dividends declared and received in 2010 approximated \$1,084.

**NOTE 3 INVENTORIES:**

	2012	2011
Raw materials	\$ 22,514	\$ 20,798
Work-in-progress	31,164	29,314
Finished goods	5,907	7,835
Supplies	11,084	10,597
	<b>\$ 70,669</b>	<b>\$ 68,544</b>

At December 31, 2012 and 2011 approximately 68% and 62%, respectively, of the inventories was valued using the LIFO method. The LIFO reserve approximated \$(27,911) and \$(29,702) at December 31, 2012 and 2011, respectively. During each of the years, inventory quantities decreased resulting in a liquidation of LIFO layers which were at lower costs. The effect of the liquidations was to decrease costs of products sold (excluding depreciation) by approximately \$277, \$1,127 and \$645 for 2012, 2011 and 2010, respectively, which increased net income by approximately \$180 or \$0.02 per common share for 2012, \$733 or \$0.07 per common share for 2011 and \$420 or \$0.04 per common share for 2010.

**NOTE 4 PROPERTY, PLANT AND EQUIPMENT:**

	2012	2011
Land and land improvements	\$ 5,006	\$ 4,974
Buildings	43,411	41,433
Machinery and equipment	237,473	224,426
Construction-in-process	7,493	12,446
Other	8,674	8,419
	<b>302,057</b>	<b>291,698</b>
Accumulated depreciation	<b>(151,760)</b>	<b>(141,458)</b>
	<b>\$ 150,297</b>	<b>\$ 150,240</b>

Land and buildings of UES-UK (equal to approximately \$2,954 at December 31, 2012) are held as collateral by the trustees of the UES-UK contributory defined benefit pension plan (see Note 7).

**NOTE 5 OTHER CURRENT LIABILITIES:**

	2012	2011
Customer-related liabilities	\$ 13,444	\$ 10,506
Accrued sales commissions	2,146	2,245
Other	8,883	7,586
	<b>\$ 24,473</b>	<b>\$ 20,337</b>

Customer-related liabilities include liabilities for product warranty claims and deposits received on future orders. The following summarizes changes in the liability for product warranty claims for each of the years ended December 31.

	2012	2011	2010
Balance at the beginning of the year	\$ 5,498	\$ 5,113	\$ 4,929
Satisfaction of warranty claims	(2,411)	(2,691)	(1,727)
Provision for warranty claims	3,399	3,087	1,987
Other, primarily impact from changes in foreign currency exchange rates	139	(11)	(76)
Balance at the end of the year	<b>\$ 6,625</b>	<b>\$ 5,498</b>	<b>\$ 5,113</b>

**NOTE 6 BORROWING ARRANGEMENTS:**

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

The Corporation maintains short-term lines of credit of approximately \$9,400 (including £3,000 in the U.K. and 400 in Belgium). No amounts were outstanding under these lines of credit as of December 31, 2012 and 2011.

As of December 31, 2012, the Corporation had the following Industrial Revenue Bonds (IRBs) outstanding: (1) \$4,120 tax-exempt IRB maturing in 2020, interest at a floating rate which averaged 0.22% during the current year; (2) \$7,116 taxable IRB maturing in 2027, interest at a floating rate which averaged 0.22% during the current year and (3) \$2,075 tax-exempt IRB maturing in 2029, interest at a floating rate which averaged 0.25% during the current year. The IRBs are remarketed periodically at which time interest rates are reset. The IRBs are secured by letters of credit of equivalent amounts. The letter of credit agreements require, among other things, maintenance of a minimum net worth and prohibit a leverage ratio in excess of a stipulated amount. The Corporation was in compliance with the applicable bank covenants as of December 31, 2012.

Despite principal not beginning to become due until 2020, the IRBs can be put back to the Corporation on short notice if, although considered remote by the Corporation and its bankers, the bonds cannot be remarketed. At that time, the bondholders can seek reimbursement from the letters of credit. As provided by a separate agreement with the Corporation's bank, funding of the letters of credit, if so drawn against, would be satisfied with equal and immediate borrowings under a separate IRB Standby Letter of Credit facility (the Facility). The Facility expires on August 1, 2014 and is expected to be renewed annually to provide for a continual term of greater than one year. However, the Facility includes language regarding material adverse change to the Corporation's business which could result in it being called or cancelled at the bank's discretion; accordingly, the IRBs remain classified as a current liability. The availability under the Facility is \$13,566, equal to the letters of credit, and as of December 31, 2012 no amounts were outstanding.

#### NOTE 7 PENSION AND OTHER POSTRETIREMENT BENEFITS:

##### Pension Plans

The Corporation has a qualified defined benefit pension plan covering substantially all of its U.S. employees. Generally, benefits are based on years of service multiplied by either a fixed amount or a percentage of compensation. For its U.S. pension plan covered by the Employee Retirement Income Security Act of 1974 (ERISA), the Corporation's policy is to fund at least the minimum actuarially computed annual contribution required under ERISA. Although no minimum contributions were required, voluntary contributions of \$7,000 and \$5,000 were made in 2011 and 2010, respectively. No voluntary contributions were made in the current year. In 2012, *Moving Ahead for Progress in the 21<sup>st</sup> Century* (MAP-21) was signed into law. MAP-21 reduces funding requirements for single-employer defined benefit plans. As a result, no minimum contributions are expected for 2013. Estimated benefit payments for subsequent years are \$8,334 for 2013, \$8,815 for 2014, \$9,267 for 2015, \$9,699 for 2016, \$10,149 for 2017 and \$57,898 for 2018–2022. The fair value of the plan's assets as of December 31, 2012 and 2011 approximated \$140,218 and \$133,403, respectively, in comparison to accumulated benefit obligations of \$180,737 and \$161,126 for the same periods.

Employees of UES-UK participate in a contributory defined benefit pension plan that was curtailed effective December 31, 2004 and replaced with a defined contribution pension plan. The UES-UK plans are non-U.S. plans and therefore are not covered by ERISA. Instead, the Trustees and UES-UK have agreed to a recovery plan that estimates the amount of employer contributions, based on U.K. regulations, necessary to eliminate the funding deficit of the plan over an agreed period with such estimates subject to change based on the future investment performance of the plan's assets. Employer contributions to the contributory defined benefit pension plan approximated \$1,786, \$1,693 and \$1,420 in 2012, 2011 and 2010, respectively, and are expected to approximate \$1,825 in 2013. The fair value of the plan's assets as of December 31, 2012 and 2011 approximated \$41,875 (£25,774) and \$36,436 (£23,443), respectively, in comparison to accumulated benefit obligations of \$59,210 (£36,443) and \$50,698 (£32,620) for the same periods. Estimated benefit payments for subsequent years are \$1,169 for 2013, \$1,239 for 2014, \$1,549 for 2015, \$1,460 for 2016, \$2,167 for 2017 and \$12,660 for 2018–2022. Contributions to the defined contribution pension plan approximated \$311, \$415 and \$337 in 2012, 2011 and 2010, respectively, and are expected to approximate \$375 in 2013.

The Corporation also maintains a nonqualified defined benefit pension plan to provide supplemental retirement benefits for selected executives in addition to benefits provided under the Corporate-sponsored pension plans. The assets are held in a grantor tax trust known as a Rabbi trust; accordingly, the assets are subject to claims of the Corporation's creditors, but otherwise must be used only for purposes of providing benefits under the plan. No contributions were made to the trust in 2010–2012 and none are expected in 2013. The fair market value of the trust at December 31, 2012 and 2011, which is included in other noncurrent assets, was \$3,358 and \$3,090, respectively. Changes in the fair market value of the trust are recorded as a component of other comprehensive income (loss). The plan is treated as a non-funded pension plan for financial reporting purposes. Accumulated benefit obligations approximated \$2,082 and \$1,698 at December 31, 2012 and 2011, respectively. Estimated benefit payments for subsequent years are approximately \$25 for 2013, \$35 for 2014, \$44 for 2015, \$53 for 2016, \$70 for 2017 and \$1,860 for 2018–2022.

Employees at one location participate in a multi-employer plan, I.A.M. National Pension Fund, in lieu of the Corporation's defined benefit pension program. A multi-employer plan generally receives contributions from two or more unrelated employers pursuant to one or more collective-bargaining agreements. The assets contributed by one employer may be used to fund the benefits provided to employees of other employers in the plan because the plan assets, once contributed, are not restricted to individual employers. The latest report of summary plan information (for the 2011 plan year) provided by I.A.M. National Pension Fund indicates:

1,038 employers contribute to the plan and in excess of 100,000 employees participate in the plan  
Assets of nearly \$8.5 billion and a funded status in excess of 100%.

Less than 100 of the Corporation's employees participate in the plan and contributions are based on a rate per hour. The Corporation's contributions equaled \$241, \$246 and \$232 in 2012, 2011 and 2010, respectively, and represent less than five percent of total contributions to the plan by all contributing employers. Contributions are expected to approximate \$275 in 2013.

### Other Postretirement Benefits

The Corporation provides postretirement health care benefits principally to the bargaining groups of one subsidiary. The plan covers participants and their spouses and/or dependents who retire under the existing pension plan on other than a deferred vested basis and at the time of retirement have also rendered 15 or more years of continuous service irrespective of age. Other health care benefits are provided to retirees under plans no longer being offered by the Corporation. Retiree life insurance is provided to substantially all retirees. Postretirement benefits with respect to health care are subject to certain Medicare offsets. The Corporation also provides health care and life insurance benefits to former employees of certain discontinued operations. This obligation had been estimated and provided for at the time of disposal. The Corporation's postretirement health care and life insurance plans are not funded or subject to any minimum regulatory funding requirements. Estimated benefit payments for subsequent years, which would represent employer contributions, are approximately \$764 for 2013, \$809 for 2014, \$840 for 2015, \$862 for 2016, \$871 for 2017, and \$5,068 for 2018-2022.

### Reconciliations

The following provides a reconciliation of projected benefit obligations, plan assets, the funded status of the plans and the amounts recognized in the consolidated balance sheets for the Corporation's defined benefit plans calculated using a measurement date as of the end of the respective years.

	U.S. Pension		Foreign Pension		Other Postretirement	
	Benefits <sup>(a)</sup>		Benefits		Benefits	
	2012	2011	2012	2011	2012	2011
<b>Change in projected benefit obligations:</b>						
Projected benefit obligations at January 1	\$ 174,814	\$ 153,595	\$ 50,698	\$ 47,009	\$ 22,348	\$ 17,058
Service cost	3,943	3,115	0	0	804	643
Interest cost	8,514	8,867	2,506	2,589	919	1,020
Plan amendments	(42)	153	0	0	0	0
Foreign currency exchange rate changes	0	0	2,434	(298)	0	0
Actuarial loss (gain)	17,289	16,121	5,239	2,321	(623)	4,277
Participant contributions	0	0	0	0	428	495
Benefits paid from plan assets	(7,425)	(6,992)	(1,667)	(923)	0	0
Benefits paid by the Corporation	(36)	(45)	0	0	(1,070)	(1,145)
Projected benefit obligations at December 31	\$ 197,057	\$ 174,814	\$ 59,210	\$ 50,698	\$ 22,806	\$ 22,348
<b>Change in plan assets:</b>						
Fair value of plan assets at January 1	\$ 133,403	\$ 135,730	\$ 36,436	\$ 34,836	\$ 0	\$ 0
Actual return on plan assets	14,240	(2,335)	3,586	1,014	0	0
Foreign currency exchange rate changes	0	0	1,734	(184)	0	0
Corporate contributions	36	7,045	1,786	1,693	642	650
Participant contributions	0	0	0	0	428	495
Gross benefits paid	(7,461)	(7,037)	(1,667)	(923)	(1,070)	(1,145)
Fair value of plan assets at December 31	\$ 140,218	\$ 133,403	\$ 41,875	\$ 36,436	\$ 0	\$ 0
<b>Funded status of the plans:</b>						
Fair value of plan assets	\$ 140,218	\$ 133,403	\$ 41,875	\$ 36,436	\$ 0	\$ 0
Less benefit obligations	197,057	174,814	59,210	50,698	22,806	22,348
Funded status at December 31	\$ (56,839)	\$ (41,411)	\$ (17,335)	\$ (14,262)	\$ (22,806)	\$ (22,348)

(a) Includes the non-qualified defined benefit pension plan.

	U.S. Pension Benefits		Foreign Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
<b>Amounts recognized in the balance sheets:</b>						
Employee benefit obligations:						
Accrued payrolls and employee benefits (current)	\$ (25)	\$ (53)	\$ (152)	\$ (1,905)	\$ (738)	\$ (881)
Employee benefit obligations (noncurrent)	(56,814)	(41,358)	(17,183)	(12,357)	(22,068)	(21,467)
	\$ (56,839)	\$ (41,411)	\$ (17,335)	\$ (14,262)	\$ (22,806)	\$ (22,348)
Accumulated other comprehensive loss (pre-tax):						
Net actuarial loss	\$ 84,825	\$ 78,307	\$ 28,155	\$ 23,848	\$ 6,403	\$ 7,098
Prior service cost	2,113	2,825	0	0	227	312
Total (pre-tax)	\$ 86,938	\$ 81,132	\$ 28,155	\$ 23,848	\$ 6,630	\$ 7,410

Amounts included in accumulated other comprehensive loss as of December 31, 2012 expected to be recognized in net periodic pension and other postretirement costs in 2013 include:

	U.S. Pension Benefits	Foreign Pension Benefits	Other Postretirement Benefits
Net actuarial loss	\$ 7,232	\$ 710	\$ 335
Prior service cost	665	0	85
	\$ 7,897	\$ 710	\$ 420

### Investment Policies and Strategies

The investment policies and strategies are determined and monitored by the Investment Committee of the Board of Directors for the U.S. pension plan and by the Trustees (as appointed by UES-UK and the employees of UES-UK) for the foreign pension plan, each of whom employ their own investment managers to manage the plan's assets in accordance with the policy guidelines. Pension assets are invested with the objective of maximizing long-term returns while minimizing material losses to meet future benefit obligations as they become due. Investments in equity securities are primarily in common stocks of publicly-traded U.S. and international companies across a broad spectrum of industry sectors. Investments in fixed-income securities are principally A-rated or better bonds with maturities of less than ten years, preferred stocks and convertible bonds. The Corporation believes there are no significant concentrations of risk associated with the Plans' assets.

Attempts to minimize risk include allowing temporary changes to the allocation mix in response to market conditions, diversifying investments among asset categories (e.g., equity securities, fixed-income securities, alternative investments, cash and cash equivalents) and within these asset categories (e.g., economic sector, industry, geographic distribution, size) and consulting with independent financial and legal counsels to assure that the investments and their expected returns and risks are consistent with the goals of the Investment Committee or Trustees.

With respect to the U.S. pension plan, the following investments are prohibited unless otherwise approved by the Investment Committee: stock of the Corporation, futures and options except for hedging purposes, unregistered or restricted stock, warrants, margin trading, short-selling, real estate excluding public or real estate partnerships and commodities including art, jewelry and gold. The foreign plan invests in specific funds. Any investments other than those specifically identified would be considered prohibited.

The following summarizes target asset allocations (within +/-5% considered acceptable) and major asset categories. Certain investments are classified differently for target asset allocation purposes and external reporting purposes.

	U.S. Pension Benefits			Foreign Pension Benefits		
	Target Allocation	Percentage of Plan Assets		Target Allocation	Percentage of Plan Assets	
	Dec. 31, 2012	2012	2011	Dec. 31, 2012	2012	2011
Equity Securities	65%	66%	65%	44%	44%	47%
Fixed-Income Securities	15%	18%	19%	35%	34%	43%
Alternative Investments	15%	12%	14%	21%	22%	9%
Other (primarily cash and cash equivalents)	5%	4%	2%	0%	0%	1%



## Fair Value Measurement of Plan Assets

Equity securities and mutual funds are actively traded on exchanges and price quotes for these investments are readily available. Similarly, corporate debt and preferred securities consist of fixed income securities of U.S. and U.K. corporations and price quotes for these investments are readily available. Common collective trust and commingled funds are not traded publicly, but the underlying assets (such as stocks and bonds) held in these funds are traded on active markets and the prices for the underlying assets are readily observable. For securities not actively traded, the fair value may be based on third-party appraisals, discounted cash flow analysis, benchmark yields and inputs that are currently observable in markets for similar securities.

## Investment Strategies

The significant investment strategies of the various funds are summarized below.

<b>Fund</b>	<b>Investment Strategy</b>	<b>Primary Investment Objective</b>
Temporary	Invests primarily in a diversified portfolio of investment grade money market instruments.	Achieve a high level of current income while maintaining stability of principal and liquidity.
Investment Funds		
Various Equity	Each fund maintains a diversified holding in common stock of applicable companies (e.g. common stock of small capitalization companies if a small-cap fund, common stock of medium capitalization companies if a mid-cap fund, common stock of foreign corporations if an international fund, etc.).	Outperform the fund's related index.
Funds		
Pooled Funds	Invests primarily in common stocks and other equity securities of issuers organized or conducting business in countries other than the United States.	Exceed the return of the corresponding Morgan Stanley Index.
Various Growth and	Invests primarily in common stocks and other equity securities generally traded on a major U.S. exchange or the NASDAQ Stock Market.	Exceed the return of the Russell 2500 Growth Index or Value Index, as applicable, over a market cycle.
Value Funds		
Return Fund	Invests at least 65% of its assets in a diversified portfolio of fixed income securities of varying maturities.	Outperform the Barclays Capital U.S. Aggregate Index.
Alternative	Invests in equities and equity-like asset classes and strategies, (such as public equities, venture capital, private equity, real estate, natural resources and hedged strategies) and fixed income securities.	Generate a minimum annual inflation adjusted return of 5% and outperform a traditional 70/30 equities/bond portfolio.
Investments		
Managed Funds		
Alternative	Invests in a diversified portfolio of alternative investment styles and strategies.	Generate long-term capital appreciation while maintaining a low correlation with the traditional global financial markets.
Investments		
Hedge and Absolute		
Return Funds		

**Categories of Plan Assets**

Asset categories based on the nature and risks of the Plans' assets as of December 31, 2012 are summarized below.

	U.S. Pension Benefits			Total
	Quoted Prices in Active Markets for Identical Inputs (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Equity Securities:</b>				
U.S.				
Capital goods	\$ 1,269	\$ 0	\$ 0	\$ 1,269
Chemicals	1,864	0	0	1,864
Commercial property	1,919	0	0	1,919
Commercial services	1,192	0	0	1,192
Common collective trust funds	0	30,451	0	30,451
Electronics	1,208	0	0	1,208
Engineering & construction	794	0	0	794
Food processing	3,549	0	0	3,549
Health care	830	0	0	830
Limited partnerships - public equity	7,251	0	0	7,251
Manufacturing	1,868	0	0	1,868
Oil and gas	3,322	0	0	3,322
Retail	870	0	0	870
Technology	879	0	0	879
Other (represents 11 business sectors)	5,196	0	0	5,196
International				
Bank and financial services	1,255	0	0	1,255
Common collective trust funds	0	5,916	0	5,916
Energy	763	0	0	763
Real estate	1,929	0	0	1,929
Technology	1,004	0	0	1,004
Other (represents 10 business sectors)	3,751	0	0	3,751
Total Equity Securities	40,713	36,367	0	77,080
<b>Fixed-Income Securities:</b>				
Commingled funds	0	14,482	0	14,482
Preferred (represents 3 business sectors)	5,755	0	0	5,755
Other (represents 1 business sector)	684	0	0	684
Total Fixed-Income Securities	6,439	14,482	0	20,921
<b>Alternative Investments:</b>				
Managed funds <sup>(a)</sup>	0	0	30,064	30,064
Hedge and absolute return funds	0	0	6,490	6,490
Total Alternative Investments	0	0	36,554	36,554
<b>Other (primarily cash and cash equivalents):</b>				
Mutual funds	2,944	0	0	2,944
Commingled funds	0	696	0	696
Other <sup>(b)</sup>	2,023	0	0	2,023
Total Other	4,967	696	0	5,663
	\$ 52,119	\$ 51,545	\$ 36,554	\$ 140,218

(a) Includes approximately 57% in equity and equity-like asset securities, 32% in alternative investments (real assets, commodities and resources, absolute return funds), 10% fixed income securities and 1% in cash and cash equivalents.

(b) Includes accrued receivables and pending broker settlements.

	Foreign Pension Benefits			Total
	Quoted Prices in Active Markets for Identical Inputs	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(Level 1)	(Level 2)	(Level 3)	
<b>Equity Securities:</b>				
Commingled Funds (U.K.)	\$ 3,277	\$ 0	\$ 0	\$ 3,277
Commingled Funds (International)	15,140	0	0	15,140
Total Equity Securities	18,417	0	0	18,417
<b>Fixed-Income Securities:</b>				
Commingled Funds (U.K.)	14,341	0	0	14,341
<b>Alternative Investments:</b>				
Hedge and Absolute Return Funds	0	0	9,031	9,031
<b>Cash and cash equivalents</b>	86	0	0	86
	\$ 32,844	\$ 0	\$ 9,031	\$ 41,875

Asset categories based on the nature and risks of the Plans' assets as of December 31, 2011 are summarized below.

	U.S. Pension Benefits			Total
	Quoted Prices in Active Markets for Identical Inputs	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(Level 1)	(Level 2)	(Level 3)	
<b>Equity Securities:</b>				
U.S.				
Bank and financial services	\$ 1,881	\$ 0	\$ 0	\$ 1,881
Capital goods	1,448	0	0	1,448
Chemicals	1,626	0	0	1,626
Commercial property	1,769	0	0	1,769
Commercial services	1,331	0	0	1,331
Common collective trust funds	0	28,165	0	28,165
Electronics	1,003	0	0	1,003
Food processing	3,221	0	0	3,221
Health care	1,300	0	0	1,300
Limited partnerships - public equity	7,253	0	0	7,253
Manufacturing	1,782	0	0	1,782
Oil and gas	2,904	0	0	2,904
Technology	1,608	0	0	1,608
Wholesale distribution	1,017	0	0	1,017
Other (represents 12 business sectors)	6,057	0	0	6,057
International				
Common collective trust funds	0	5,349	0	5,349
Real estate	1,654	0	0	1,654
Other (represents 6 business sectors)	2,619	0	0	2,619
Total Equity Securities	38,473	33,514	0	71,987
<b>Fixed-Income Securities:</b>				
Commingled funds	0	13,100	0	13,100
Preferred (represents 4 business sectors)	6,481	0	0	6,481
Other (represents 2 business sectors)	1,195	0	0	1,195
Total Fixed-Income Securities	7,676	13,100	0	20,776
<b>Alternative Investments:</b>				
Managed funds <sup>(a)</sup>	0	0	29,280	29,280
Hedge and absolute return funds	0	0	5,940	5,940
Total Alternative Investments	0	0	35,220	35,220
<b>Other (primarily cash and cash equivalents):</b>				
Mutual funds	1,906	0	0	1,906
Commingled funds	0	3,182	0	3,182

Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

Other <sup>(b)</sup>	332	0	0	<b>332</b>
Total Other	2,238	3,182	0	<b>5,420</b>
	\$ 48,387	\$ 49,796	\$ 35,220	<b>\$ 133,403</b>

- (a) Includes approximately 54% in equity and equity-like asset securities, 35% in alternative investments (real assets, commodities and resources, absolute return funds), 10% fixed income securities and 1% in cash and cash equivalents.
- (b) Includes accrued receivables and pending broker settlements.

	Quoted Prices in Active Markets for Identical Inputs (Level 1)	Foreign Pension Benefits		Total
		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Equity Securities:</b>				
Commingled Funds (U.K.)	\$ 4,521	\$ 0	\$ 0	\$ 4,521
Commingled Funds (International)	12,411	0	0	12,411
Total Equity Securities	16,932	0	0	16,932
<b>Fixed-Income Securities:</b>				
Commingled Funds (U.K.)	15,733	0	0	15,733
<b>Alternative Investments:</b>				
Hedge and Absolute Return Funds	0	0	3,324	3,324
<b>Cash and cash equivalents</b>	447	0	0	447
	\$ 33,112	\$ 0	\$ 3,324	\$ 36,436

The table below sets forth a summary of changes in the fair value of the Level 3 plan assets for U.S. and foreign pension plans for the year ended December 31, 2012.

	Alternative Investments		
	U.S. Pension Benefits	Foreign Pension Benefits	
Fair value as of January 1, 2012	\$ 5,940	\$ 29,280	\$ 3,324
Acquisitions	0	0	5,191
Withdrawals	0	(1,919)	(87)
Change in net unrealized gain	550	2,703	333
Other, primarily impact from changes in foreign currency exchange rates	0	0	270
Fair value as of December 31, 2012	\$ 6,490	\$ 30,064	\$ 9,031

The table below sets forth a summary of changes in the fair value of the Level 3 plan assets for U.S. and foreign pension plans for the year ended December 31, 2011.

	Alternative Investments		
	U.S. Pension Benefits	Foreign Pension Benefits	
Fair value as of January 1, 2011	\$ 5,951	\$ 0	\$ 3,211
Acquisitions	0	28,433	25
Change in net unrealized gain	(11)	847	100
Other, primarily impact from changes in foreign currency exchange rates	0	0	(12)
Fair value as of December 31, 2011	\$ 5,940	\$ 29,280	\$ 3,324

#### Net Periodic Pension and Other Postretirement Benefit Costs

The actual return on the fair value of plan assets is included in determining the funded status of the plans. In determining net periodic pension costs, the expected long-term rate of return on the market-related value of plan assets is used. Differences between the actual return on plan assets and the expected long-term rate of return on plan assets are classified as part of unrecognized actuarial gains or losses and are recorded as a component of accumulated other comprehensive income (loss) on the consolidated balance sheet. When these gains or losses exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets, they are amortized to net periodic pension and other postretirement costs over the average remaining service period of employees expected to receive benefits under the plans. When the gains or losses are less than 10% of the greater of the projected benefit obligation or the market-related value of plan assets, they are included in net periodic pension and other postretirement costs indirectly as a result of lower/higher interest costs arising from a decrease/increase in the projected benefit obligation.

Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

Net periodic pension and other postretirement benefit costs include the following components for the year ended December 31:

	U.S. Pension Benefits			Foreign Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Service cost	\$ 3,943	\$ 3,115	\$ 2,868	\$ 0	\$ 0	\$ 0	\$ 804	\$ 643	\$ 482
Interest cost	8,514	8,867	8,525	2,506	2,589	2,482	919	1,020	924
Expected return on plan assets	(9,556)	(9,658)	(9,572)	(2,101)	(2,311)	(1,885)	0	0	0
Amortization of prior service cost	668	656	656	0	0	0	85	86	86
Amortization of actuarial loss	6,087	4,236	3,484	598	496	464	71	256	140
Net cost	\$ 9,656	\$ 7,216	\$ 5,961	\$ 1,003	\$ 774	\$ 1,061	\$ 1,879	\$ 2,005	\$ 1,632

**Assumptions**

Assumptions are reviewed on an annual basis. The expected long-term rate of return on plan assets is an estimate of average rates of earnings expected to be earned on funds invested or to be invested to provide for the benefits included in the projected benefit obligation. Since these benefits will be paid over many years, the expected long-term rate of return is reflective of current investment returns and investment returns over a longer period. Consideration is also given to target and actual asset allocations, inflation and real risk-free return. The discount rates used in determining future pension obligations and other postretirement benefits for each of the plans are based on rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension and other postretirement benefits. High-quality fixed-income investments are defined as those investments which have received one of the two highest ratings given by a recognized rating agency with maturities of 10+ years.

The following assumptions were used to determine the benefit obligations as of December 31:

	U.S. Pension Benefits		Foreign Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Discount rate	4.25%	5.00%	4.50%	4.90%	4.25%	5.00%
Weighted-average rate of increases in compensation	4.00%	4.00%	n/a	n/a	n/a	n/a

In addition, the assumed health care cost trend rate at December 31, 2012 for other postretirement benefits is 7% for 2013 gradually decreasing to 4.75% in 2018. In selecting rates for current and long-term health care assumptions, the Corporation considers known health care cost increases, the design of the benefit programs, the demographics of its active and retiree populations and expectations of inflation rates in the future. A one percentage point increase or decrease in the assumed health care cost trend rate would change the postretirement benefit obligation at December 31, 2012 and the annual benefit expense for 2012 by approximately \$3,400 and \$260, respectively.

The following assumptions were used to determine net periodic pension and other postretirement benefit costs for the year ended December 31:

	U.S. Pension Benefits			Foreign Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Discount rate	5.00%	5.75%	6.00%	4.90%	5.40%	5.80%	5.00%	5.75%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%	5.61%	6.39%	6.00%	n/a	n/a	n/a
Weighted-average rate of increases in compensation	4.00%	4.00%	4.00%	n/a	n/a	n/a	n/a	n/a	n/a

**NOTE 8 COMMITMENTS AND CONTINGENT LIABILITIES:**

Outstanding standby and commercial letters of credit as of December 31, 2012 approximated \$18,749, the majority of which serves as collateral for the IRBs.

In 2010, UES-UK was awarded a government grant of up to \$1,325 (£850) toward the purchase and installation of certain machinery and equipment of which \$1,083 (£680) has been received. 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.

Approximately 53% of the Corporation's employees are covered by collective bargaining agreements. There are six bargaining agreements. Two of the bargaining agreements, which represented approximately 50% of covered employees, expired in 2012; however, employees continue to work under the expired agreements while negotiations proceed. The remaining bargaining agreements have expiration dates ranging from May 2014 to October 2017.

See Note 17 regarding litigation and Note 18 for environmental matters.

**NOTE 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. 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 Compensation Committee granted non-qualified stock options in each of the years as outlined below. The options granted in 2012 and 2011 have a ten-year life and vest over a three-year period. The options previously granted under earlier incentive plans have a ten-year life with one-third vesting at the date of grant, one-third vesting on the first anniversary date of the date of grant and one-third vesting on the second anniversary date of the date of grant. The exercise prices are equal to the closing prices of the Corporation's common stock on the New York Stock Exchange on the dates of grant.

The fair value of the options as of the dates of grant was calculated using the Black-Scholes option-pricing model based on the assumptions outlined below.

	<b>Grant Date</b>		
	<b>2012</b>	2011	2010
Options granted	<b>164,500</b>	176,250	325,000
Exercise price	<b>\$ 17.67</b>	\$ 25.18	\$ 25.77
<b>Assumptions:</b>			
Expected life in years	<b>6</b>	6	6
Risk-free interest rate	<b>0.76%</b>	2.30%	2.98%
Expected annual dividend yield	<b>3.01%</b>	2.96%	3.00%
Expected volatility	<b>53.46%</b>	56.25%	55.12%
Grant date fair value	<b>\$ 6.68</b>	\$ 10.53	\$ 10.77
Resulting stock-based compensation expense	<b>\$ 1,099</b>	\$ 1,857	\$ 3,500

The resulting stock-based compensation expense is recognized over the requisite service period and approximated \$1,058, \$1,636 and \$3,267 for 2012, 2011 and 2010, respectively. The related income tax benefit recognized in the statements of operations was \$370, \$573 and \$1,143 for the respective years. Unrecognized stock-based compensation expense equaled \$1,680 at December 31, 2012 and is expected to be recognized over a weighted-average period of two years.

A summary of stock options outstanding and exercisable and activity for the year ended December 31, 2012 is as follows:

	Shares	Weighted	Remaining	Intrinsic
	Under	Average	Contractual	
	Options	Exercise	Life In	Value
		Price	Years	
Outstanding at January 1, 2012	1,011,089	\$ 27.24	7.7	\$ 1,118
Granted	164,500	17.67		
Exercised	(9,168)	13.37		
Outstanding at December 31, 2012	<b>1,166,421</b>	<b>\$ 26.00</b>	<b>7.1</b>	<b>\$ 1,178</b>
Exercisable at December 31, 2012	<b>884,421</b>	<b>\$ 27.65</b>	<b>6.5</b>	<b>\$ 1,178</b>
Vested or expected to vest at December 31, 2012	<b>1,166,421</b>	<b>\$ 26.00</b>	<b>7.1</b>	<b>\$ 1,178</b>

The 2011 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 fully vest as of the grant date. In 2012 and 2011, respectively, 11,320 and 7,944 shares of common stock were issued to the non-management directors.

**NOTE 10 ACCUMULATED OTHER COMPREHENSIVE LOSS:**

Net change and ending balances for the various components of other comprehensive income (loss) and for accumulated other comprehensive loss as of and for the year ended December 31, 2010, 2011 and 2012 is summarized below.

	Foreign	Unrecognized	Unrealized		Accumulated
	Currency	Components	Holding Gains		Other
	Translation	of Employee	(Losses) on		Comprehensive
	Adjustments	Benefit Plans	Securities	Derivatives	Loss
Balance at January 1, 2010	\$ (3,769)	\$ (61,457)	\$ 287	\$ 695	\$ (64,244)
Net Change	(1,620)	5,596	290	504	4,770
Balance at December 31, 2010	(5,389)	(55,861)	577	1,199	(59,474)
Net Change	653	(19,364)	(15)	(1,090)	(19,816)
Balance at December 31, 2011	(4,736)	(75,225)	562	109	(79,290)
Net Change	3,193	(6,558)	71	209	(3,085)
<b>Balance at December 31, 2012</b>	<b>\$ (1,543)</b>	<b>\$ (81,783)</b>	<b>\$ 633</b>	<b>\$ 318</b>	<b>\$ (82,375)</b>

The tax benefit (expense) associated with the various components of other comprehensive income (loss) for each of the years ended December 31 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.

	2012	2011	2010
Tax benefit (expense) associated with changes in:			
Unrecognized employee benefit costs	\$ 5,256	\$ 12,958	\$ (2,219)
Unrealized holding gains (losses) on marketable securities	(80)	15	(144)
Fair value of cash flow hedges	(61)	427	(801)
Tax benefit (expense) associated with reclassification adjustments:			
Amortization of unrecognized employee benefit costs	(2,632)	(2,065)	(1,745)
Realized (gains) losses from sale of marketable securities	42	(7)	(12)
Realized losses (gains) from settlement of cash flow hedges	(68)	228	503



**NOTE 11 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 and are recorded in the 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 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).

As of December, 2012, approximately \$13,037 of anticipated foreign-denominated sales has been hedged which are covered by fair value contracts settling at various dates through October 2013. The fair value of assets held as collateral for the fair value contracts as of December 31, 2012 approximated \$812. As of December 31, 2012, there are no cash flow contracts outstanding for future sales.

Additionally, certain of the Corporation's divisions 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. 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, excluding depreciation) when the projected sales occur. At December 31, 2012, approximately 57% or \$3,267 of anticipated copper purchases over the next nine months and 63% or \$769 of anticipated aluminum purchases over the next six months are hedged. The fair value of assets held as collateral as of December 31, 2012 equaled \$500.

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. The change in the fair value is included in accumulated other comprehensive income (loss) and is being amortized to pre-tax earnings (as an offset to depreciation expense) over the life of the underlying assets.

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.

At December 31, 2012, the Corporation has purchase commitments covering 46% or \$7,000 of anticipated natural gas usage over approximately the next three years at one of its subsidiaries. The commitments qualify as normal purchases and, accordingly, are not reflected on the consolidated balance sheet.

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

The location and fair value of the foreign currency sales contracts recorded on the consolidated balance sheets as of December 31, 2012 and 2011 are as follows:

	Location	December 31,	
		2012	2011
Cash flow hedge contracts	Other current assets	\$ 46	\$ 256
	Noncurrent assets	0	57
Fair value hedge contracts	Other current assets	218	107
	Noncurrent assets	0	112
Fair value hedged item	Accounts receivable	(94)	(72)
	Other current liability	223	174
	Noncurrent liability	0	116



The change in the fair value of the cash flow contracts is recorded as a component of accumulated other comprehensive income (loss). The balances as of December 31, 2012 and 2011 and the amount recognized as and reclassified from accumulated other comprehensive income (loss) for each of the years is summarized below. All amounts are after-tax.

	Comprehensive Gain (Loss) Beginning of the Year	Recognized as Comprehensive Income (Loss)	Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss)	Comprehensive Gain (Loss) End of the Year
<b>For the Year Ended December 31, 2012</b>				
Foreign currency sales contracts cash flow hedges	\$ 114	\$ 10	\$ 124	\$ 0
Foreign currency sales contracts fair value hedges	n/a	n/a	n/a	n/a
Foreign currency purchase contracts	309	0	17	292
Futures contracts copper and aluminum	(314)	92	(248)	26

**For the Year Ended December 31, 2011**

Foreign currency sales contracts cash flow hedges	\$ 281	\$ (24)	\$ 143	\$ 114
Foreign currency sales contracts fair value hedges	n/a	n/a	n/a	n/a
Foreign currency purchase contracts	329	0	20	309
Futures contracts copper and aluminum	589	(684)	219	(314)

The change in fair value reclassified or expected to be reclassified from accumulated other comprehensive income (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	Year Ended December 31,		
			2012	2011	2010
Foreign currency sales contracts cash flow hedges	Sales	n/a	\$ 197	\$ 228	\$ 999
Foreign currency sales contracts fair value hedges	n/a	n/a	n/a	n/a	n/a
Foreign currency purchase contracts	Depreciation expense	\$ 27	27	32	16
Futures contracts copper and aluminum	Costs of products sold (excluding depreciation)	40	(398)	353	328

Gains (losses) on foreign exchange transactions included in other income (expense) approximated \$107, \$(371) and \$655 for 2012, 2011 and 2010, respectively.

**NOTE 12 FAIR VALUE:**

The Corporation's financial assets and liabilities that are reported at fair value in the accompanying consolidated balance sheets were as follows:

	Quoted Prices	Significant		
	in Active	Other	Significant	
2012	Markets for	Observable	Unobservable	
	Identical Inputs	Inputs	Inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
Investments				
Other noncurrent assets	\$ 3,358	\$ 0	\$ 0	\$ 3,358
Foreign currency exchange contracts				
Other current assets	0	264	0	264
Other noncurrent assets	0	0	0	0
Other current liabilities	0	223	0	223
Other noncurrent liabilities	0	0	0	0

2011

Investments				
Other noncurrent assets	\$ 3,090	\$ 0	\$ 0	\$ 3,090
Foreign currency exchange contracts				
Other current assets	0	363	0	363
Other noncurrent assets	0	169	0	169
Other current liabilities	0	174	0	174
Other noncurrent liabilities	0	116	0	116

**Fair Value of Financial Instruments**

The investments held as other noncurrent assets represent assets held in the Rabbi trust for the purpose of providing benefits under the 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.

**NOTE 13 INCOME TAXES:**

Income before income taxes and equity losses in Chinese joint venture was comprised of the following:

	2012	2011	2010
Domestic	\$ 14,754	\$ 30,629	\$ 17,664
Foreign	413	4,098	6,958
	\$ 15,167	\$ 34,727	\$ 24,622

At December 31, 2012, the Corporation has state net operating loss carryforwards of \$25,188 which begin to expire in 2018 through 2032 and capital loss carryforwards of \$1,019 which begin to expire in 2014.



The provision (benefit) for taxes on income consisted of the following:

	2012	2011	2010
<b>Current:</b>			
Federal	\$ 2,550	\$ 6,047	\$ 4,983
State	184	754	995
Foreign	(61)	140	364
	<b>2,673</b>	<b>6,941</b>	<b>6,342</b>
<b>Deferred:</b>			
Federal	2,142	3,518	2,210
State	360	2	(494)
Foreign	175	2,633	1,284
Reversal of valuation allowance	(132)	(178)	(655)
	<b>2,545</b>	<b>5,975</b>	<b>2,345</b>
	<b>\$ 5,218</b>	<b>\$ 12,916</b>	<b>\$ 8,687</b>

The provision (benefit) for taxes on income was affected by the reversal of valuation allowances previously provided against deferred income tax assets associated with state net operating loss carryforwards for 2012 and 2011, and foreign tax credits and capital loss carryforwards for 2010.

The difference between statutory U.S. federal income tax and the Corporation's effective income tax was as follows:

	2012	2011	2010
Computed at statutory rate	\$ 5,309	\$ 12,154	\$ 8,618
Tax differential on non-U.S. earnings	(45)	(358)	(355)
State income taxes	403	1,296	902
Manufacturers deduction (I.R.C. Section 199)	(257)	(792)	(449)
Meals and entertainment	198	220	191
Tax credits	(64)	(29)	(165)
Chinese joint venture	(558)	(175)	(168)
Reversal of valuation allowance	(132)	(178)	(655)
Subpart F income inclusion	0	0	615
Other net	364	778	153
	<b>\$ 5,218</b>	<b>\$ 12,916</b>	<b>\$ 8,687</b>

Deferred income tax assets and liabilities as of December 31, 2012 and 2011 are summarized below. The current portion of net deferred income tax assets is included in other current assets. Unremitted earnings of the Corporation's non-US subsidiaries and affiliates are deemed to be permanently reinvested, and accordingly, no deferred tax liability has been recorded. It is not practical to estimate the income tax effect that might be incurred if cumulative prior year earnings not previously taxed in the U.S were remitted to the U.S.

	2012	2011
<b>Assets:</b>		
Employment related liabilities	\$ 12,814	\$ 12,129
Pension liability foreign	3,984	3,562
Pension liability domestic	19,574	14,178
Liabilities related to discontinued operations	1,155	1,322
Capital loss carryforwards	391	418
Asbestos-related liability	23,702	26,882
Net operating loss state	1,795	1,616
Other	5,820	6,827
Gross deferred income tax assets	69,235	66,934
Valuation allowance	(2,887)	(3,042)
	<b>66,348</b>	<b>63,892</b>
<b>Liabilities:</b>		

Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

Depreciation	(31,931)	(30,124)
Mark-to-market adjustment derivatives	(153)	(42)
Other	(2,353)	(1,824)
Gross deferred income tax liabilities	(34,437)	(31,990)
Net deferred income tax assets	\$ 31,911	\$ 31,902

The following summarizes changes in unrecognized tax benefits:

	2012	2011	2010
Balance at the beginning of the year	\$ 311	\$ 786	\$ 804
Gross increases for tax positions taken in the current year	233	81	55
Gross increases for tax positions taken in prior years	18	0	0
Gross decreases in tax positions due to lapse in statute of limitations	(120)	(498)	(29)
Gross decreases for tax positions taken in prior years	0	(25)	(44)
Gross decreases for tax settlements with taxing authorities	0	(33)	0
Balance at the end of the year	\$ 442	\$ 311	\$ 786

If the unrecognized tax benefits were recognized, \$354 would reduce the Corporation's effective income tax rate. The amount of penalties and interest recognized in the consolidated balance sheets as of December 31, 2012 and 2011 and in the consolidated statements of operations for 2012, 2011 and 2010 is insignificant. Unrecognized tax benefits of \$55 are to expire due to the lapse in the statute of limitations within the next 12 months.

The Corporation is subject to taxation in the U.S., various states and foreign jurisdictions, and remains subject to examination by tax authorities for tax years 2009-2012. The consolidated U.S. federal income tax return for 2009 was under examination by the Internal Revenue Service but was completed in 2012 without adjustment.

#### NOTE 14 OPERATING LEASES:

The Corporation leases certain factory and office space and certain office equipment. Operating lease expense was \$1,013 in 2012, \$813 in 2011 and \$815 in 2010. Operating lease payments for subsequent years are \$997 for 2013, \$810 for 2014, \$474 for 2015, \$115 for 2016, \$41 for 2017 and \$17 thereafter.

#### NOTE 15 RESEARCH AND DEVELOPMENT COSTS:

Expenditures relating to the development of new products, identification of products or process alternatives and modifications and improvements to existing products and processes are expensed as incurred. These expenses approximated \$1,476 for 2012, \$1,698 for 2011 and \$1,711 for 2010.

#### NOTE 16 RELATED PARTIES:

In the ordinary course of business, the Corporation purchases industrial supplies from a subsidiary of The Louis Berkman Company ( LB Co ) and the Chinese cast roll joint venture company, and earns a commission from the sale of forged backup rolling mill rolls for the Chinese forged roll joint venture company. Certain directors of the Corporation are either officers, directors and/or shareholders of LB Co; UES-UK has a 25% interest in the cast roll joint venture company; and UES has a 49% interest in the Chinese forged roll joint venture company.

Purchases from LB Co approximated \$1,538 in 2012, \$1,579 in 2011 and \$1,752 in 2010. In addition, LB Co paid the Corporation approximately \$253 in 2012, \$246 in 2011 and \$239 in 2010 for certain administrative services. At December 31, 2012 and 2011, the net amount payable to LB Co approximated \$61 and \$57, respectively. Purchases of industrial supplies from the Chinese cast roll joint venture company approximated \$455 in 2012, \$480 in 2011 and \$449 in 2010. At December 31, 2012, no amounts were outstanding and at December 31, 2011, \$108 was payable to the Chinese cast roll joint venture company. During 2012, UES earned \$74 in commissions of which \$14 was outstanding as of December 31, 2012. During 2011, UES earned \$191 in commissions of which \$50 was outstanding as of December 31, 2011. No amounts were earned prior thereto.

#### NOTE 17 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.

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

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 two years ended December 31, 2012 and 2011:

	2012	2011
Total claims pending at the beginning of the period	8,145 <sup>(1)</sup>	8,081
New claims served	1,538	1,565
Claims dismissed	(1,420)	(1,225)
Claims settled	(256)	(276)
Total claims pending at the end of the period <sup>(1)</sup>	8,007	8,145
Gross settlement and defense costs (in 000 s)	\$ 23,589	\$ 22,767
Average gross settlement and defense costs per claim resolved (in 000 s)	\$ 14.07	\$ 15.17

(1) Included as open claims are approximately 1,632 claims and 1,668 claims in 2012 and 2011 respectively, classified in various jurisdictions as inactive or transferred to a state or federal judicial panel on multi-district litigation, commonly referred to as the MDL.

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

## Asbestos Insurance

The Corporation and its Air & Liquid Systems Corporation ( 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 ). The Settlement Agreements include agreements with insurers encompassing all known solvent primary policies and solvent first-layer excess policies with responsibilities for Asbestos Liability. The Settlement Agreements also include an agreement, effective on October 8, 2012, with insurers responsible for the majority of the solvent second-layer and above excess insurance policies issued to the Corporation from 1981 through 1984. 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 claims against the Corporation's inactive subsidiary in dissolution, numbering approximately 300 as of December 31, 2012, are not included within the Settlement Agreements. The Corporation believes that the claims against the inactive subsidiary in dissolution are immaterial.

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 sub limits 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 entered into an agreement, effective October 8, 2012, as described above, with eight of the domestic defendant insurers in the action. That agreement specifies the terms and conditions upon which the insurer parties would contribute to defense and indemnity costs for claims for Asbestos Liability. Howden also reached an agreement with such insurers, effective the same day, addressing asbestos-related bodily injury claims arising from the Products. On October 16, 2012, the Court entered Orders dismissing all claims filed by the Corporation and Air & Liquid, Howden and the eight settling excess insurers against each other in the litigation. Various counterclaims, cross claims and third party claims have been filed in the litigation and remain pending as to non-settled parties.

## 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, 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 has been periodically updated since that time. Most recently, the HR&A analysis was updated in 2012, and additional reserves were established by the Corporation as at December 31, 2012 for Asbestos Liability claims pending or projected to be asserted through 2022. The methodology used by HR&A in its projection in 2012 of the operating subsidiaries' liability for pending and unasserted potential future claims for Asbestos Liability, which is substantially the same as the methodology employed by HR&A in prior estimates, relied upon and included the following factors:

- HR&A's interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos;
- epidemiological studies estimating the number of people likely to develop asbestos-related diseases;
- HR&A's analysis of the number of people likely to file an asbestos-related injury claim against the subsidiaries and the Corporation based on such epidemiological data and relevant claims history from January 1, 2010 to December 20, 2012;
- an analysis of pending cases, by type of injury claimed and jurisdiction where the claim is filed;
- an analysis of claims resolution history from January 1, 2010 to December 20, 2012 to determine the average settlement value of claims, by type of injury claimed and jurisdiction of filing; and
- an adjustment for inflation in the future average settlement value of claims, at an annual inflation rate based on the Congressional Budget Office's ten year forecast of inflation.

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

In conjunction with developing the aggregate liability estimate referenced above, the Corporation also developed an estimate of probable insurance recoveries for its Asbestos Liabilities. In developing the estimate, the Corporation considered HR&A's projection for settlement or indemnity costs for Asbestos Liability and management's projection of associated defense costs (based on the current defense to indemnity cost ratio), as well as a number of additional factors. These additional factors included the Settlement Agreements then in effect, policy exclusions, policy limits, policy provisions regarding coverage for defense costs, attachment points, prior impairment of policies and gaps in the coverage, policy exhaustions, insolvencies among certain of the insurance carriers, 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, and the status of negotiations with insurers not party to the Settlement Agreements, as well as estimated erosion of insurance limits on account of claims against Howden arising out of the Products. In addition to consulting with the Corporation's outside legal counsel on these insurance matters, the Corporation consulted with a nationally-recognized insurance consulting firm it retained to assist the Corporation with certain policy allocation matters that also are among the several factors considered by the Corporation when analyzing potential recoveries from relevant historical insurance for Asbestos Liabilities. Based upon all of the factors considered by the Corporation, and taking into account the Corporation's analysis of publicly available information regarding the credit-worthiness of various insurers, the Corporation estimated the probable insurance recoveries for Asbestos Liability and defense costs through 2022. Although the Corporation believes that the assumptions employed in the insurance valuation were reasonable and previously consulted with its outside legal counsel and insurance consultant regarding those assumptions, there are other assumptions that could have been employed that would have resulted in materially lower insurance recovery projections.

Based on the analyses described above, the Corporation's reserve at December 31, 2012 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2022 was \$181,022, of which approximately 73% was attributable to settlement costs for unasserted claims projected to be filed through 2022 and future defense costs. While it is reasonably possible that the Corporation will

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

incur additional charges for Asbestos Liability and defense costs in excess of the amounts currently reserved, the Corporation believes that there is too much uncertainty to provide for reasonable estimation of the number of future claims, the nature of such claims and the cost to resolve them beyond 2022. Accordingly, no reserve has been recorded for any costs that may be incurred after 2022.

The Corporation's receivable at December 31, 2012 for insurance recoveries attributable to the claims for which the Corporation's Asbestos Liability reserve has been established, including the portion of incurred defense costs covered by the Settlement Agreements in effect through December 31, 2012, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims, was \$118,115.

The following table summarizes activity relating to insurance recoveries for each of the years ended December 31, 2012 and 2011.

	2012	2011
Insurance receivable - asbestos, beginning of the year	\$ 126,206	\$ 141,839
Settlement and defense costs paid by insurance carriers	(15,468)	(15,633)
Changes in estimated coverage	7,377	0
Insurance receivable - asbestos, end of the year	\$ 118,115	\$ 126,206

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 the subsidiaries and it may incur after 2022. However, this insurance coverage also can be expected to have gaps creating significant shortfalls of insurance recoveries as against claims expense, which could be material in future years.

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

The Corporation intends to evaluate its estimated Asbestos Liability and related insurance receivables as well as the underlying assumptions on a 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.

#### **NOTE 18 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 \$1,174 at December 31, 2012 is considered adequate based on information known to date.

**NOTE 19 BUSINESS SEGMENTS:**

The Corporation organizes its business into two operating segments Forged and Cast Rolls and Air and Liquid Processing. Summarized financial information concerning the Corporation's reportable segments is shown in the following tables. Corporate assets included under Identifiable Assets represent primarily cash and cash equivalents and other items not allocated to reportable segments. Long-lived assets exclude deferred income tax assets. Corporate costs are comprised of operating costs of the corporate office and other costs not allocated to the segments.

The accounting policies are the same as those described in Note 1.

	Income Before Income Taxes and						
	2012	Net Sales			Equity Losses in Chinese Joint Venture		
		2011	2010	2012	2011	2010	
Forged and Cast Rolls	\$ 189,470	\$ 248,380	\$ 240,345	\$ 18,415	\$ 38,761	\$ 48,674	
Air and Liquid Processing <sup>(1)</sup>	103,435	96,436	86,541	7,267	8,155	(12,605)	
Total Reportable Segments	292,905	344,816	326,886	25,682	46,916	36,069	
Corporate costs, including other income (expense)				(10,515)	(12,189)	(11,447)	
	\$ 292,905	\$ 344,816	\$ 326,886	\$ 15,167	\$ 34,727	\$ 24,622	

	Capital Expenditures			Depreciation Expense			Identifiable Assets <sup>(2)</sup>		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Forged and Cast Rolls	\$ 8,867	\$ 15,108	\$ 34,214	\$ 9,282	\$ 8,712	\$ 6,942	\$ 268,489	\$ 265,340	\$ 251,343
Air and Liquid Processing	798	610	701	1,311	1,374	1,553	186,340	195,463	210,111
Corporate	3	62	86	68	67	70	78,350	70,829	65,509
	\$ 9,668	\$ 15,780	\$ 35,001	\$ 10,661	\$ 10,153	\$ 8,565	\$ 533,179	\$ 531,632	\$ 526,963

	Income Before Income Taxes								
	and Equity Losses in								
	Net Sales <sup>(3)</sup>			Long-Lived Assets <sup>(4)</sup>			Chinese Joint Venture		
Geographic Areas:	2012	2011	2010	2012	2011	2010	2012	2011	2010
United States <sup>(1)</sup>	\$ 143,579	\$ 148,629	\$ 129,094	\$ 228,177	\$ 238,927	\$ 251,967	\$ 14,707	\$ 30,190	\$ 17,664
Foreign	149,326	196,187	197,792	41,620	40,536	37,615	460	4,537	6,958
	\$ 292,905	\$ 344,816	\$ 326,886	\$ 269,797	\$ 279,463	\$ 289,582	\$ 15,167	\$ 34,727	\$ 24,622

	Net Sales by Product Line		
	2012	2011	2010
Forged and Cast Rolls <sup>(5)</sup>	\$ 189,470	\$ 248,380	\$ 240,345
Heat Exchange Coils	44,477	41,845	36,812
Centrifugal Pumps	30,551	28,602	25,467
Air Handling Systems	28,407	25,989	24,262
Total Net Sales	\$ 292,905	\$ 344,816	\$ 326,886

(1) Income before income taxes and equity losses in Chinese joint venture for 2010 includes a pre-tax charge of \$19,980 for estimated costs of asbestos-related litigation, net of estimated insurance recoveries as described in Note 17.

(2) Identifiable assets for the Forged and Cast Rolls segment include investments in joint ventures of \$13,319, \$14,872 and \$14,160 at December 31, 2012, 2011 and 2010, respectively. The change in the identifiable assets of the Air and Liquid Processing segment relates primarily to the movement in asbestos-related insurance receivables, the balances of which equaled \$118,115, \$126,206 and \$142,089 at December 31, 2012, 2011 and 2010, respectively. See Note 17.

- (3) *Net sales are attributed to countries based on location of the customer. Sales to individual countries were less than 10% of consolidated net sales in 2012 and 2011. China represented approximately 10% of consolidated net sales for 2010.*
- (4) *Foreign long-lived assets represent primarily investments in joint ventures of \$13,319, \$14,872 and \$14,160 at December 31, 2012, 2011 and 2010, respectively, and assets of the U.K. operations. Long-lived assets of the U.S. include noncurrent asbestos-related insurance receivables of \$99,715, \$108,206 and \$124,089 for 2012, 2011 and 2010, respectively.*
- (5) *For the Forged and Cast Rolls segment, two customers accounted for 23% of its net sales for 2012 and 22% of its net sales for 2011 and one customer accounted for 12% of its net sales for 2010.*

## NOTE 20 - QUARTERLY INFORMATION

## QUARTERLY INFORMATION UNAUDITED

<i>(in thousands, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2012</b>				
Net sales	\$ 73,605	\$ 69,956	\$ 72,190	\$ 77,154
Gross profit <sup>(a)</sup>	17,369	15,654	16,124	17,852
Net income	2,000	1,508	1,528	3,319
Net income per common share:				
Basic	0.19	0.15	0.15	0.32
Diluted	0.19	0.15	0.15	0.32
Comprehensive income (loss) <sup>(b)</sup>	5,445	1,278	4,362	(5,815)
<b>2011</b>				
Net sales	\$ 89,068	\$ 94,971	\$ 74,263	\$ 86,514
Gross profit <sup>(a)</sup>	25,674	27,381	16,204	19,527
Net income	7,676	9,123	2,756	1,754
Net income per common share:				
Basic	0.74	0.88	0.27	0.17
Diluted	0.74	0.88	0.26	0.17
Comprehensive income (loss) <sup>(b)</sup>	9,477	9,817	1,194	(18,995)

(a) Gross profit excludes depreciation.

(b) Fourth quarter includes a net-of-tax adjustment to reflect the funded status of the various pension and other postretirement benefit plans of \$(10,520) and \$(23,028) for 2012 and 2011, respectively.

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of Ampco-Pittsburgh Corporation**

We have audited the accompanying consolidated balance sheets of Ampco-Pittsburgh Corporation and subsidiaries (the Corporation ) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ampco-Pittsburgh Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2013 expressed an unqualified opinion on the Corporation's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania  
March 15, 2013

---

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Corporation did not experience any changes in, or disagreements with its accountants on, accounting and financial disclosure during the period covered.

### ITEM 9A. CONTROLS AND PROCEDURES

**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 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 at the reasonable assurance level as of December 31, 2012.

**Management's Annual Report on Internal Control Over Financial Reporting.** The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Effective internal control over financial reporting can only provide reasonable assurance that the objectives of the control process are met. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Further, the design of internal control over financial reporting includes the consideration of the benefits of each control relative to the cost of the control.

Management assessed the effectiveness of internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on those criteria and management's assessment, management, including the principal executive officer and principal financial officer, concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2012.

The Corporation's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Corporation's internal control over financial reporting which is included herein.

**Changes in Internal Control Over Financial Reporting.** There were no changes in the Corporation's internal control over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of Ampco-Pittsburgh Corporation**

We have audited the internal control over financial reporting of Ampco-Pittsburgh Corporation and subsidiaries (the Corporation) as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Corporation and our report dated March 15, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania  
March 15, 2013

**ITEM 9B. OTHER INFORMATION**

No information was required to be disclosed in a report on Form 8-K during the fourth quarter of 2012 which was not reported.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## IDENTIFICATION OF DIRECTORS

*Name, Age, Tenure as a Director, Position with the Corporation<sup>(1)</sup>, Principal Occupation, Business Experience Past Five Years, Other Directorships in Public Companies and the qualifications, attributes or skills that led to the conclusion that the individual should serve as a Director of the Corporation.*

**Robert J. Appel** (age 81, Director since 2004; current term expires in 2015). Mr. Appel has been President of Appel Associates since 2003 and before that was a partner of Neuberger Berman (an investment advisory firm) for twenty years. He also served as a director of Neuberger Berman during the past five years. The Board concluded that Mr. Appel should serve as a director because of his many years of financial and investment experience, including his background as a Certified Public Accountant.

**Leonard M. Carroll** (age 70, Director since 1996; current term expires in 2013). Mr. Carroll has been Managing Director of Seneca Capital Management, Inc., a private investment company, for the past fifteen years. The Board concluded that Mr. Carroll should serve as a director because of his broad financial background and investment knowledge. He is a retired Certified Public Accountant and has held various positions in the banking industry including President, Director and Chairman for over 37 years.<sup>(N)</sup>

**Paul A. Gould** (age 67, Director since 2002; current term expires in 2015). Mr. Gould has been with Allen & Co., Inc., an investment banking company, for more than thirty-five years and has been managing director of that company for more than five years. During the last five years, he has served as a director of Discovery Communications, Discovery Holding Company, UnitedGlobalCom, Inc., Liberty Global, Inc., Liberty Media Corporation and DirecTV. He resigned from the Boards of Liberty Media Corporation and Discovery Holding Company in 2009. Mr. Gould's long-term financial and investment background led to the Board's conclusion that he should serve as a director.

**William K. Lieberman** (age 65, Director since 2004; current term expires in 2014). Mr. Lieberman has been President of The Lieberman Companies, insurance brokerage and consulting company, for more than five years. In addition to more than forty years of management experience in the insurance, benefit and risk management areas, Mr. Lieberman has served as a director or trustee of many organizations including charitable companies, hospital and universities. These qualifications led the Board to conclude that he should serve as a director.

**Laurence E. Paul** (age 48, Director since 1998; current term expires in 2013). Mr. Paul has been a managing principal of Laurel Crown Partners, a private investment company, for more than five years and prior to that was an investment banker for ten years. He became a President of The Louis Berkman Investment Company, a private investment company, in 2013. He is also a director of Valeant Pharmaceuticals International, Inc. Mr. Paul's experience as a senior investment banker and private equity investor for almost twenty years led the Board to conclude that he possessed skills in financial management and risk assessment that would be beneficial to the Corporation.<sup>(N)</sup>

**Robert A. Paul** (age 75, Director since 1970; current term expires in 2015). Mr. Paul was elected Chairman and Chief Executive Officer of the Corporation in 2004. Prior to that, he was President and Chief Executive Officer of the Corporation for more than five years. He is also Chairman and a director of The Louis Berkman Investment Company, a private investment company. As a shareholder, officer and director of the Corporation for more than forty years, the Board believes he possesses the experience and knowledge to serve as a Director. In addition, the Board considered his many years of service to the community serving as Trustee and Chairman of the Investment Committees of several major hospitals and universities.

**Stephen E. Paul** (age 45, Director since 2002; current term expires in 2014). Mr. Paul has been a managing principal of Laurel Crown Partners, a private investment company, for more than five years. He became a President of The Louis Berkman Investment Company, a private investment company, in 2013. Mr. Paul's background in investment banking and private equity investment led the Board to conclude that he should serve as a director.

**Carl H. Pforzheimer, III** (age 76, Director since 1982; current term expires in 2014). Mr. Pforzheimer has been Managing Partner or Manager of Carl H. Pforzheimer & Co. LLC or its predecessors or related entities for more than forty-five years. In addition to the attendant investment advisory analytical skills gained from such a long term position, his role as chairman

of the Audit and Risk Management Committees of U. S. Trust Co. led the Board to conclude Mr. Pforzheimer should serve as a director.

**Ernest G. Siddons** (age 79, Director since 1981; current term expires in 2013). Mr. Siddons was President and Chief Operating Officer of the Corporation for more than five years prior to his retirement as President in April 2009. With more than thirty years of experience with the Corporation in operations and financial management, the Board concluded that Mr. Siddons should serve as a director. Positions held earlier with the Corporation, including those of Chief Financial Officer and Treasurer and President of Union Electric Steel, and his qualification as a Chartered Accountant were also considered. <sup>(N)</sup>

(N) Nominee for election at the May 2, 2013 Annual Shareholders Meeting.

(1) Officers serve at the discretion of the Board of Directors.

#### **IDENTIFICATION OF EXECUTIVE OFFICERS**

The identification of the Executive Officers of the Corporation can be found in Part 1 of this Annual Report on Form 10K.

#### **FAMILY RELATIONSHIPS**

Robert A. Paul is the father of Laurence E. Paul and Stephen E. Paul. There are no other family relationships among the Directors and Executive Officers.

#### **COMMITTEES**

The various committees of the Board of Directors are currently comprised as follows:

**Audit Committee:** Carl H. Pforzheimer, III (Chairman), Robert J. Appel, Leonard M. Carroll, Paul A. Gould and William K. Lieberman;

**Compensation Committee:** Robert J. Appel (Chairman), Paul A. Gould, William K. Lieberman and Carl H. Pforzheimer, III;

**Executive Committee:** Robert A. Paul (Chairman), Leonard M. Carroll, William K. Lieberman, Carl H. Pforzheimer, III and Ernest G. Siddons;

**Investment Committee:** Robert A. Paul (Chairman), Robert J. Appel, Leonard M. Carroll, Paul A. Gould, Ernest G. Siddons, Laurence E. Paul and Stephen E. Paul; and

**Nominating and Corporate Governance Committee:** Paul A. Gould (Chairman), William K. Lieberman and Carl H. Pforzheimer, III.

The Nominating and Governance Committee Charter, the Compensation Committee Charter, the Audit Committee Charter and the Corporate Governance Guidelines are available on the Corporation's website at [www.ampcopittsburgh.com](http://www.ampcopittsburgh.com). The Corporation will provide a copy of these documents to any shareholder who makes a request in writing to the Corporate Secretary, Ampco-Pittsburgh Corporation, 600 Grant Street, Suite 4600, Pittsburgh, PA 15219.

#### **AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Directors has determined that Carl H. Pforzheimer, III, Chairman of the Audit Committee, is a financial expert and independent as defined under applicable SEC rules.

#### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Corporation's directors, executive officers and persons who beneficially own more than 10% of the Corporation's common stock, to file reports of holdings and transactions in the Corporation's common stock with the SEC and to furnish the Corporation with copies of all Section 16(a) reports that they file. Based on those records and other information furnished, during 2011, executive officers, directors and persons who beneficially own more than 10% of the Corporation's common stock complied with all filing requirements.



## **CODE OF ETHICS**

The Corporation has adopted a Code of Business Conduct and Ethics that applies to all of its officers, directors and employees, as well as an additional Code of Ethics that applies to the Corporation's principal executive and financial officers. Copies of both Codes are available on the Corporation's website at [www.ampcopittsburgh.com](http://www.ampcopittsburgh.com). In addition, the Corporation will provide without charge, upon request of any shareholder, a copy of the Codes as requested by written request to the Corporate Secretary, Ampco-Pittsburgh Corporation, 600 Grant Street, Suite 4600, Pittsburgh, PA 15219. The Corporation will make any required disclosures regarding amendments to, or waivers of, provisions of its Code of Business Conduct and Ethics and its separate Code of Ethics for its principal executive and financial officers by posting such information on its website or by filing a Form 8-K.

## **ITEM 11. EXECUTIVE COMPENSATION**

The information required for this item is hereby incorporated by reference to the Corporation's Proxy Statement dated March 19, 2013.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes information, as of the December 31, 2012, with respect to compensation plans under which equity securities of the Corporation are authorized for issuance:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,166,421	\$26	639,986
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>1,166,421</b>	<b>\$26</b>	<b>639,986</b>

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information, to the extent known by the Corporation, concerning individuals (other than directors or officers of the Corporation) or entities holding more than five percent of the outstanding shares of the Corporation's Common Stock. The percent of class in the table below is calculated based upon 10,346,090 shares outstanding as of March 11, 2013.

Name of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Gabelli Funds, Inc. (and affiliates) Corporate Center Rye, NY 10580 The Louis Berkman Investment Company	1,803,218 <sup>(1)</sup>	17.43
P.O. Box 576 Steubenville, OH 43952 Royce & Associates, LLC	1,438,641 <sup>(2)</sup>	13.90
745 Fifth Avenue New York, NY 10151 BlackRock, Inc.	1,383,571 <sup>(3)</sup>	13.37
40 East 52 <sup>nd</sup> Street New York, NY 10022	558,418 <sup>(4)</sup>	5.40

(1) Reported in an amendment to Schedule 13D filed with the SEC in February 2011.

Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

- (2) *Robert A. Paul, Chairman and Chief Executive Officer of the Corporation, is an officer and director of The Louis Berkman Investment Company and disclaims beneficial ownership of the 28.79% of its common stock owned by his wife. Laurence E. Paul and Stephen E. Paul, directors of the Corporation, own 23.33% and 23.94%, respectively, of The Louis Berkman Investment Company's non-voting stock, held in various trusts.*
- (3) *Reported as of December 31, 2012 on an amended Schedule 13G filed with the SEC disclosing it had sole voting and dispositive power over these shares.*
- (4) *Reported as of December 31, 2012 on a Schedule 13G filed with the SEC disclosing it had sole voting and dispositive power over these shares.*

Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

The following table sets forth, as of March 11, 2013, information concerning the beneficial ownership of the Corporation's Common Stock by the Directors and Named Executive Officers and all Directors and Executive Officers of the Corporation as a group:

Name of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Robert A. Paul	1,621,563 <sup>(1)(2)</sup>	15.49
Laurence E. Paul	1,441,989 <sup>(3)</sup>	13.94
Stephen E. Paul	1,441,989 <sup>(4)</sup>	13.94
Robert F. Schultz	71,700 <sup>(5)</sup>	*
Rose Hoover	64,834 <sup>(6)</sup>	*
Marliss D. Johnson	53,500 <sup>(6)</sup>	*
Ernest G. Siddons	50,083 <sup>(7)</sup>	*
Paul A. Gould	13,348 <sup>(8)</sup>	*
Robert J. Appel	9,348 <sup>(8)</sup>	*
Carl H. Pforzheimer, III	5,141 <sup>(9)</sup>	*
Leonard M. Carroll	3,908 <sup>(8)</sup>	*
William K. Lieberman	3,408 <sup>(10)</sup>	*
Directors and Executive Officers as a group (12 persons)	1,903,529 <sup>(11)</sup>	17.78

\* Less than 1%

(1) Includes 42,889 shares owned directly, 125,000 shares he has the right to acquire within sixty days pursuant to stock options and the following shares in which he disclaims beneficial ownership: 1,438,641 shares owned by The Louis Berkman Investment Company, 13,767 shares owned by his wife and 1,266 shares held by The Louis and Sandra Berkman Foundation, of which he is a trustee.

(2) The Louis Berkman Investment Company owns beneficially and of record 1,438,641 shares of the Corporation's Common Stock. Robert A. Paul, an officer and director of The Louis Berkman Investment Company, disclaims beneficial ownership of the 28.79% of its common stock owned by his wife.

(3) Represents 3,348 shares owned directly and 1,438,641 shares owned by The Louis Berkman Investment Company. Mr. Paul is a President of The Louis Berkman Investment Company and owns 23.33% of its non-voting stock held in various trusts.

(4) Represents 3,348 shares owned directly and 1,438,641 shares owned by The Louis Berkman Investment Company. Mr. Paul is a President of The Louis Berkman Investment Company and owns 23.94% of its non-voting stock held in various trusts.

(5) Includes 200 shares held jointly with his wife and 71,500 shares he has the right to acquire within sixty days pursuant to stock options.

(6) Represents shares that she has the right to acquire within sixty days pursuant to stock options.

(7) Includes 1,007 shares held jointly with his wife, 2,408 shares owned directly and 46,668 shares he has the right to acquire within sixty days pursuant to stock options.

(8) Represents shares owned directly.

(9) Includes 3,408 shares owned directly, 800 shares held by a trust of which he is a trustee and principal beneficiary, and the following shares in which he disclaims beneficial ownership: 133 shares held by his daughter and 800 shares held by a trust of which he is a trustee.

(10) *Includes 1,000 shares held jointly with his wife and 2,408 shares owned directly.*

(11) *Excludes double counting of shares deemed to be beneficially owned by more than one director.*  
Unless otherwise indicated the individuals named have sole investment and voting power.

**CHANGES IN CONTROL**

The Corporation knows of no arrangements that may at a subsequent date result in a change in control of the Corporation.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The Corporation's policies and procedures for reviewing, approving and ratifying transactions with related persons are set forth in the Corporation's Corporate Governance Guidelines, which are available on the Corporation's website at [www.ampcopittsburgh.com](http://www.ampcopittsburgh.com). Under these policies and procedures, the Corporation's management is responsible for determining whether a particular transaction should be referred to the Nominating and Governance Committee for consideration. The Nominating and Governance Committee then determines whether to approve, ratify, revise the terms of or reject the transaction or to refer the transaction to the full Board or another appropriate committee of the Board for approval or ratification. The policy and procedures apply to transactions involving an amount in excess of \$120,000 in which a related person has a direct or indirect material interest. The policy and procedures generally do not apply to employment matters (except employment of an executive officer who is an immediate family member of another executive officer), director compensation, commercial transactions in the ordinary course of business under ordinary business terms, charitable contributions, transactions such as payment of dividends where all shareholders receive the same proportional benefits and transactions involving competitive bids.

In 2012, the Corporation bought industrial supplies from a subsidiary of The Louis Berkman Company in transactions in the ordinary course of business amounting to \$1,538,051. Additionally, The Louis Berkman Company paid the Corporation \$253,000 for certain administrative services. Robert A. Paul is an officer and director of that company. These transactions and services were at prices generally available from outside sources. Transactions between the parties will also take place in 2013.

The purchase of industrial supplies from a subsidiary of The Louis Berkman Company follows a competitive bid process which includes several non-related vendors after which annual contract awards are made to the lowest bidder by the purchasing executive at each of the Corporation's subsidiary companies. The administration services are provided under an agreement to provide such services for fees which are subject to annual review.

Following his retirement as President in April 2009, the Corporation entered into a Consulting Agreement with Ernest G. Siddons for a term of three years from the date of his retirement and renewed the term of that agreement in 2012 for an additional year. The current agreement primarily provides for compensation of \$120,000 per year and the same medical provided to him prior to his retirement.

The Board of Directors has adopted categorical standards to assist it in evaluating the independence of its Directors. The standards are attached to the Corporate Governance Guidelines which are available on the Corporation's website at [www.ampcopittsburgh.com](http://www.ampcopittsburgh.com). After performing this evaluation in accordance with those guidelines, the Board has determined that Robert J. Appel, Leonard M. Carroll, Paul A. Gould, William K. Lieberman and Carl H. Pforzheimer, III do not have material relationships with the Corporation (other than as members of the Board of Directors) and are independent within the meaning of the Corporation's independence standards and those of the NYSE.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table summarizes the aggregate fees to the Corporation by Deloitte & Touche LLP:

	2012	2011
Audit fees <sup>(a)</sup>	\$ 733,270	\$ 748,055
Audit-related fees <sup>(b)</sup>	31,010	28,035
Tax fees <sup>(c)</sup>	1,000	107,081
All other fees	0	0
<b>Total<sup>(d)</sup></b>	<b>\$ 765,280</b>	<b>\$ 883,171</b>

(a) Fees for audit services related primarily to the audit of the Corporation's annual consolidated financial statements and its internal control over financial reporting.

(b) Fees for audit-related services related primarily to the audits of the Corporation's employee benefit plans.

(c) Fees for tax services provided in connection with tax planning and advice.

(d) The Audit Committee approved all fees in the years reported.

In considering the nature of the services provided by Deloitte & Touche LLP, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with Deloitte & Touche LLP and the Corporation's management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC. All services provided by Deloitte & Touche LLP and reflected in the table above were approved by the Audit Committee in accordance with the policy described below.

The Audit Committee has adopted a Policy for Approval of Audit and Non-Audit Services (the Policy) provided by the Corporation's independent auditor. According to the Policy, the Corporation's independent auditor may not provide the following services to the Corporation:

- maintain or prepare the Corporation's accounting records or prepare the Corporation's financial statements that are either filed with the SEC or form the basis of financial statements filed with the SEC;
- provide appraisal or valuation services when it is reasonably likely that the results of any valuation or appraisal would be material to the Corporation's financial statements, or where the independent auditor would audit the results;
- provide certain management or human resource functions;
- serve as a broker-dealer, promoter or underwriter of the Corporation's securities;
- provide any service in which the person providing the service must be admitted to practice before the courts of a U.S. jurisdiction;
- provide any internal audit services relating to accounting controls, financial systems, or financial statements; or
- design or implement a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the Corporation's financial statements, taken as a whole.

In addition, in connection with its adoption of the Policy, the Audit Committee pre-approved certain audit-related and other non-prohibited services. Any services not prohibited or pre-approved by the Policy must be pre-approved by the Audit Committee in accordance with the Policy. The Policy is reviewed and approved annually by the Board of Directors.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:**

**1. Financial Statements**

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Income

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flow

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

**2. Financial Statement Schedules**

The following additional financial data should be read in conjunction with the consolidated financial statements in this Annual Report on Form 10-K. Schedules not included with this additional financial data have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto:

	Schedule Number	Page Number
Index to Ampco-Pittsburgh Corporation Financial Data		71
Report of Independent Registered Public Accounting Firm		72
Valuation and Qualifying Accounts	II	73

**3. Exhibits**

*Exhibit No.*

**(3) Articles of Incorporation and By-laws**

a. Articles of Incorporation

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

b. By-laws

Incorporated by reference to the Form 8-K dated December 21, 2010.

**(10) Material Contracts**

## Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

- a. 1988 Supplemental Executive Retirement Plan, as amended and restated December 17, 2008 Incorporated by reference to the 2008 Annual Report on Form 10-K.
- b. Severance Agreements between Ampco-Pittsburgh Corporation and certain officers and employees of Ampco-Pittsburgh Corporation as amended and restated December 31, 2008 Incorporated by reference to the 2008 Annual Report on Form 10-K.
- c. Amendment to Severance Agreement between Ampco-Pittsburgh Corporation and Robert A. Paul dated February 16, 2011 Incorporated by reference to the 2010 Annual Report on Form 10-K.
- d. 2008 Omnibus Incentive Plan Incorporated by reference to the Proxy Statement dated March 6, 2008.
- e. 2011 Omnibus Incentive Plan Incorporated by reference to the Proxy Statement dated March 22, 2011.
- f. Retirement and Consulting Agreement between Ampco-Pittsburgh Corporation and Ernest G. Siddons dated April 30, 2009 Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

Amendment effective May 1, 2012 to Retirement and Consulting Agreement dated April 30, 2009 between Ampco-Pittsburgh Corporation and Ernest G. Siddons.

**(21) Significant Subsidiaries**

**(23.1) Consent of Deloitte & Touche LLP**

**(23.2) Consent of Hamilton, Rabinovitz & Associates, Inc.**

**(31.1) Certification of Principal Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.**

**(31.2) Certification of Principal Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.**

**(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)**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

March 15, 2013

AMPCO-PITTSBURGH CORPORATION

By: /s/ Robert A. Paul

Name: **Robert A. Paul**

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities and on the dates indicated.

<b>SIGNATURE</b>	<b>TITLE</b>	<b>DATE</b>
/s/ Robert A. Paul	Director, Chairman and Chief	March 15, 2013
Robert A. Paul	Executive Officer (Principal Executive Officer)	
/s/ Marliss D. Johnson	Vice President, Controller and	March 15, 2013
Marliss D. Johnson	Treasurer (Principal Financial and Accounting Officer)	
/s/ Robert J. Appel	Director	March 15, 2013
Robert J. Appel		
/s/ Leonard M. Carroll	Director	March 15, 2013
Leonard M. Carroll		
/s/ Paul A. Gould	Director	March 15, 2013
Paul A. Gould		
/s/ William K. Lieberman	Director	March 15, 2013
William K. Lieberman		
/s/ Laurence E. Paul	Director	March 15, 2013
Laurence E. Paul		
/s/ Stephen E. Paul	Director	March 15, 2013
Stephen E. Paul		
/s/ Carl H. Pforzheimer	Director	March 15, 2013

Edgar Filing: AMPCO PITTSBURGH CORP - Form 10-K

Carl H. Pforzheimer, III

/s/ Ernest G. Siddons

Director

March 15, 2013

Ernest G. Siddons

ampco pittsburgh | 2012 annual report

70

---

**INDEX TO AMPCO-PITTSBURGH CORPORATION FINANCIAL DATA**

	<b>Schedule Number</b>	<b>Page Number</b>
Index to Ampco-Pittsburgh Corporation Financial Data		71
Report of Independent Registered Public Accounting Firm		72
Valuation and Qualifying Accounts	II	73

71

ampco pittsburgh | 2012 annual report

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of Ampco-Pittsburgh Corporation**

We have audited the consolidated financial statements of Ampco-Pittsburgh Corporation and subsidiaries (the Corporation ) as of December 31, 2012 and 2011, and for each of the three years in the period ended December 31, 2012, and the Corporation's internal control over financial reporting as of December 31, 2012, and have issued our reports thereon dated March 15, 2013; such reports are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Corporation listed in Item 15. The consolidated financial statement schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania

March 15, 2013

## SCHEDULE Valuation and Qualifying Accounts

## SCHEDULE II

## Ampco-Pittsburgh Corporation

## Valuation and Qualifying Accounts

For the Years Ended December 31, 2012, 2011 and 2010

*(in thousands)*

Description	Balance at Beginning of Period	Additions			Deductions	Other <sup>(3)</sup>	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts <sup>(1)</sup>				
<b>Year ended December 31, 2012</b>							
Allowance for doubtful accounts	\$ 141	\$ 379	\$ 0	\$ (4)	\$ 3	\$ 519	
Valuation allowance against gross deferred income tax assets	\$ 3,042	\$ 0	\$ 11	\$ (132) <sup>(2)</sup>	\$ (34)	\$ 2,887	
<b>Year ended December 31, 2011</b>							
Allowance for doubtful accounts	\$ 176	\$ 6	\$ 0	\$ (41)	\$ 0	\$ 141	
Valuation allowance against gross deferred income tax assets	\$ 1,853	\$ 0	\$ 1,368	\$ (178) <sup>(2)</sup>	\$ (1)	\$ 3,042	
<b>Year ended December 31, 2010</b>							
Allowance for doubtful accounts	\$ 428	\$ 61	\$ 0	\$ (313)	\$ 0	\$ 176	
Valuation allowance against gross deferred income tax assets	\$ 2,465	\$ 0	\$ 54	\$ (655) <sup>(2)</sup>	\$ (11)	\$ 1,853	

(1) Represents valuation allowances established for deferred income tax assets since it is more likely than not that the assets will not be realized.

(2) Reduction in valuation allowances reflects primarily changes in the amount of deferred income tax assets expected to be realized, resulting in credit to the income tax provision (benefit) in the statements of operations.

(3) Represents primarily impact from changes in foreign currency exchange rates.