AMPCO PITTSBURGH CORP
Form 10-K
March 16, 2011

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, 2010

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:

Title of each class	**Name of each exchange on which registered**
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_ü_

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_ü_

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_ü_ 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.

Large Accelerated Filer___ Accelerated Filer_ü_ 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_ü_

The aggregate market value of the voting stock of Ampco-Pittsburgh Corporation held by non-affiliates on June 30, 2010 (based upon the closing price of the Registrant s Common Stock on the New York Stock Exchange (the NYSE) on that date) was approximately $177 million.

As of March 14, 2011, 10,305,156 common shares were outstanding.

Documents Incorporated by Reference: Part III of this report incorporates by reference certain information from the Proxy Statement for the 2011 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, 2010 are set forth in Note 19 (Business Segments) on page 51 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 company became a 49% partner in a joint venture in China which will manufacture large forged backup rolls and is expected to be fully operational in 2011 with manufacturing capacity utilization increasing through 2012.

Union Electric Steel UK Limited (formerly known as The Davy Roll Company 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 also has an investment in a Chinese producer of cast rolls.

Air and Liquid Processing Segment

Aerofin Division of Air & Liquid Systems Corporation produces finned tube and plate finned heat exchange coils for the commercial and industrial construction, process and utility industries 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 one international customer which constituted approximately 12% of its sales in 2010. The loss of this customer would not be expected to have a significant adverse financial impact 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 51 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 substantial 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, 2010 was approximately $397 million compared to a backlog of $501 million at year-end 2009. In addition, certain companies in the Forged and Cast Rolls group have long-term supply agreements under which certain customers are committed to purchasing approximately $50 million (through 2014) of product for which specific orders have not yet been received. To better match the changing production levels of their customers, backlog remains subject to rescheduling including, in some situations, bringing forward orders previously deferred. Accordingly, it is difficult to predict accurately the proportion of backlog to ship in 2011 and thereafter; however, based on current estimates, approximately $137 million is expected to be released after 2011.

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 $1.71 million in 2010, $1.35 million in 2009 and $1.35 million in 2008.

Environmental Protection Compliance Costs

Expenditures for environmental control matters were not material to either segment in 2010 and such expenditures are not expected to be material in 2011.

Employees

On December 31, 2010, the Corporation had 1,264 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 51 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. You may access and read the Corporation s filings without charge through the SEC s website at 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. 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 Securities and Exchange Commission. The information on our website is not part of this Annual Report on Form 10-K.

EXECUTIVE OFFICERS

The name, age, position with the Corporation[1] and business experience for the past five years of the Executive Officers of the Corporation are as follows:

Robert A. Paul (age 73). 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 2012. He is also President and a director of The Louis Berkman Investment Company. Mr. Paul has been a shareholder, officer and director of the Corporation for more than 40 years.

Rose Hoover (age 55). Ms. Hoover has been employed by the Corporation for more than thirty years. She has served as Senior Vice President and Secretary of the Corporation since April 2009 and prior to that served as Vice President Administration and Secretary of the Corporation since December 2006. Prior to December 2006, she was Vice President and Secretary of the Corporation.

Marliss D. Johnson (age 46). Ms. Johnson has been Vice President, Controller and Treasurer of the Corporation for eleven 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 63). Mr. Schultz has been with the Corporation for thirty years, for 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.

Roll Demand

An unprecedented increase in steel production prior to 2010, particularly in China and certain other developing countries, had created a severe shortage of rolling mill roll production capacity throughout the world. This shortage resulted in our Forged and Cast Rolls segment receiving orders and contracts for the supply of rolls for several years into the future. Cancellation of such orders and contracts or delays in acceptance of delivery of rolls by customers may result in potential adverse impact on financial results and be the subject of contract renegotiation or even litigation.

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

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 electric arc furnaces and forge presses. 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. Loss of certain subcontractors may have a similar impact.

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 2010, 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:

Company and Location	Principal Use	Approximate Square Footage	Type of Construction
FORGED AND CAST ROLLS SEGMENT			
Union Electric Steel Corporation			
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
Union Electric Steel UK Limited (formerly The Davy Roll Company Limited) Coulthards Lane Gateshead, England	Manufacturing facilities and offices	274,000 on 10 acres	Steel framed, metal and brick
AIR AND LIQUID PROCESSING SEGMENT			
Air & Liquid Systems Corporation			
Aerofin Division 4621 Murray Place Lynchburg, VA 24506	Manufacturing facilities and offices	146,000 on 15.3 acres	Brick, concrete and steel
Buffalo Air Handling Division Zane Snead Drive Amherst, VA 24531	Manufacturing facilities and offices	89,000 on 19.5 acres	Metal and steel

Buffalo Pump Division			
874 Oliver Street N. Tonawanda, NY 14120	Manufacturing facilities and offices	94,000 on 9 acres	Metal, brick and cement block

** Facility is leased.*

The Corporate office space is leased, as are several small sales offices. All of the owned facilities are adequate and suitable for their respective purposes.

The Forged and Cast Rolls segment s facilities were operated within 80% to 90% of their normal capacity during 2010. 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 and another former division of the Corporation. Those subsidiaries, and in some cases the Corporation, are defendants (among a number of defendants, typically over 50) in cases filed in various state and federal courts.

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 and the former division, for the three years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Open claims at end of period	**8,081**[(1)]	8,168[(1)]	9,354 [(1)]
Gross settlement and defense costs (in 000 s)	**$ 18,085**	$ 28,744	$ 19,102
Claims resolved	**1,377**	3,336	1,015

(1) Included as open claims are approximately 1,791 claims in 2010, 1,938 claims in 2009 and 3,243 claims in 2008 classified in various jurisdictions as inactive or transferred to a state or federal judicial panel on multi-district litigation, commonly referred to as the MDL.

A substantial majority of the settlement and defense costs reflected in the above table were reported and paid by insurers. Because claims are often filed and can be settled or dismissed in large groups, the amount and timing of settlements, as well as the number of open claims, can fluctuate significantly from period to period. In 2006, for the first time, a claim for Asbestos Liability against one of the Corporation s subsidiaries was tried to a jury. The trial resulted in a defense verdict. Plaintiffs appealed that verdict and in 2008 the California Court of Appeals reversed the jury verdict and remanded the case back to the trial court.

Asbestos Insurance

Certain of the Corporation s subsidiaries and the Corporation have an arrangement (the Coverage Arrangement) with insurers responsible for historical primary and some first-layer excess insurance coverage for Asbestos Liability (the Paying Insurers). Under the Coverage Arrangement, the Paying Insurers accept financial responsibility, subject to the limits of the policies and based on fixed defense percentages and specified indemnity allocation formulas, for pending and future claims for Asbestos Liability. The claims against the Corporation s inactive subsidiary that is in dissolution proceedings, numbering approximately 400 as of December 31, 2010, are not included within the Coverage Arrangement. The one claim filed against the former division also is not included within the Coverage Arrangement. The Corporation believes that the claims against the inactive subsidiary in dissolution and the former division are immaterial.

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

On August 4, 2009, Howden filed a lawsuit in the United States District Court for the Western District of Pennsylvania. In the lawsuit Howden raised claims against certain insurance companies that allegedly issued policies to Howden that do not cover the Corporation or its subsidiaries, and also raised claims against the Corporation and two other insurance companies that issued excess insurance policies covering certain subsidiaries of the Corporation (the Excess Policies), but that were not part of the Coverage Arrangement. In the lawsuit, Howden seeks, as respects the Corporation, a declaratory judgment from the court as to the respective rights and obligations of Howden, the Corporation and the insurance carriers under the Excess Policies. One of the excess carriers and the Corporation filed cross-claims against each other seeking declarations regarding their respective rights and obligations under Excess Policies issued by that carrier. The Corporation s cross-claim also sought damages for the carrier s failure to pay certain defense and indemnity costs. The Corporation and that carrier concluded a settlement generally consistent with the Coverage Arrangement, and all claims between that carrier and the Corporation were dismissed with prejudice on December 8, 2010. The litigation remains pending with respect to the other carrier that issued one of the Excess Policies.

On February 24, 2011, the Corporation and its Air & Liquid Systems Corporation subsidiary filed a lawsuit in the United States District Court for the Western District of Pennsylvania against thirteen domestic insurance companies, certain underwriters at Lloyd s, London and certain London market insurance companies, and Howden. The lawsuit seeks a declaratory judgment regarding the respective rights and obligations of the parties under excess insurance policies not included within the Coverage Arrangement that were issued to the Corporation from 1981 through 1984 as respects claims against the Corporation and its subsidiary for Asbestos Liability and as respects asbestos bodily-injury claims against Howden arising from the Products.

Asbestos Valuations

In 2006, the Corporation retained Hamilton, Rabinovitz & Associates, Inc. (HR&A), a nationally recognized expert in the valuation of asbestos liabilities, to assist the Corporation in estimating the potential liability for pending and unasserted future claims for Asbestos Liability. HR&A was not requested to estimate asbestos claims against the inactive subsidiary in dissolution or the former division, which the Corporation believes are immaterial. Based on this analysis, the Corporation recorded a reserve for Asbestos Liability claims pending or projected to be asserted through 2013 as at December 31, 2006. HR&A s analysis was updated in 2008, and additional reserves were established by the Corporation as at December 31, 2008 for Asbestos Liability claims pending or projected to be asserted through 2018. HR&A s analysis was most recently updated in 2010, and additional reserves were established by the Corporation as at December 31, 2010 for Asbestos Liability claims pending or projected to be asserted through 2020. The methodology used by HR&A in its projection in 2010 of the operating subsidiaries liability for pending and unasserted potential future claims for Asbestos Liability, which is substantially the same as the methodology employed by HR&A in the 2006 and 2008 estimates, relied upon and included the following factors:

- HR&A s interpretation of a widely accepted forecast of the population likely to have been exposed to asbestos;
- epidemiological studies estimating the number of people likely to develop asbestos-related diseases;
- HR&A s analysis of the number of people likely to file an asbestos-related injury claim against the subsidiaries and the Corporation based on such epidemiological data and relevant claims history from January 1, 2008 to August 30, 2010;
- an analysis of pending cases, by type of injury claimed and jurisdiction where the claim is filed;
- an analysis of claims resolution history from January 1, 2008 to August 30, 2010 to determine the average settlement value of claims, by type of injury claimed and jurisdiction of filing; and
- an adjustment for inflation in the future average settlement value of claims, at an annual inflation rate based on the Congressional Budget Office s ten year forecast of inflation.

Using this information, HR&A estimated in 2010 the number of future claims for Asbestos Liability that would be filed through the year 2020, as well as the settlement or indemnity costs that would be incurred to resolve both pending and future unasserted claims through 2020. This methodology has been accepted by numerous courts.

In conjunction with developing the aggregate liability estimate referenced above, the Corporation also developed an estimate of probable insurance recoveries for its Asbestos Liabilities. In developing the estimate, the Corporation considered HR&A s projection for settlement or indemnity costs for Asbestos Liability and management s projection of associated defense costs (based on the current defense to indemnity cost ratio), as well as a number of additional factors . These additional factors included the Coverage Arrangement, self-insured retentions, policy exclusions, policy limits, policy provisions regarding coverage for defense costs, attachment points, prior impairment of policies and gaps in the coverage, policy exhaustions, insolvencies among certain of the insurance carriers, the nature of the underlying claims for Asbestos Liability asserted against the subsidiaries and the Corporation as reflected in the Corporation s asbestos claims database, as well as estimated erosion of insurance limits on account of claims against Howden arising out of the Products. In addition to consulting with the Corporation s outside legal counsel on these insurance matters, the Corporation retained in 2010 a nationally-recognized insurance consulting firm to assist the Corporation with certain policy allocation matters that also are among the several factors considered by the Corporation when analyzing potential recoveries from relevant historical insurance for Asbestos Liabilities. Based upon all of the factors considered by the Corporation, and taking into account the Corporation s analysis of publicly available information regarding the credit-worthiness of various insurers, the Corporation estimated the probable insurance recoveries for Asbestos Liability and defense costs through 2020. Although the Corporation believes that the assumptions employed in the insurance valuation were reasonable and previously consulted with its outside legal counsel and insurance consultant regarding those assumptions, there are other assumptions that could have been employed that would have resulted in materially lower insurance recovery projections.

Based on the analyses described above, the Corporation s reserve at December 31, 2010 for the total costs, including defense costs, for Asbestos Liability claims pending or projected to be asserted through 2020 was $218 million, of which approximately 85% was attributable to settlement costs for unasserted claims projected to be filed through 2020 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 2020. Accordingly, no reserve has been recorded for any costs that may be incurred after 2020.

The Corporation s receivable at December 31, 2010 for insurance recoveries attributable to the claims for which the Corporation s Asbestos Liability reserve has been established, including the portion of incurred defense costs covered by the Coverage Arrangement, and the probable payments and reimbursements relating to the estimated indemnity and defense costs for pending and unasserted future Asbestos Liability claims, was $142 million ($115 million as of December 31, 2009). The insurance receivable recorded by the Corporation does not assume any recovery from insolvent carriers, and substantially all of the insurance recoveries deemed probable were from insurance companies rated A (excellent) or better by A.M. Best Corporation. There can be no assurance, however, that there will not be further insolvencies among the relevant insurance carriers, or that the assumed percentage recoveries for certain carriers will prove correct. The $76 million difference between insurance recoveries and projected costs at December 31, 2010 is not due to exhaustion of all insurance coverage for Asbestos Liability. The Corporation and the subsidiaries have substantial additional insurance coverage which the Corporation expects to be available for Asbestos Liability claims and defense costs the subsidiaries and it may incur after 2020. However, this insurance coverage also can be expected to have gaps creating significant shortfalls of insurance recoveries as against claims expense, which could be material in future years.

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

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

With respect to environmental matters, the Corporation is currently performing certain remedial actions in connection with the sale of real estate previously owned and has been named a Potentially Responsible Party at two third-party landfill sites (a third location was settled on a de minimis basis in 2009). In addition, as a result of the sale of a segment, the Corporation retained the liability to remediate certain environmental contamination and has agreed to indemnify the buyer against third-party claims arising from the discharge of certain contamination. 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. However, in the opinion of management, the potential liability for all environmental proceedings based on information known to date has been adequately reserved.

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.

	2010 Per Share			2009 Per Share		
	Common Stock Price		**Dividends**	Common Stock Price		Dividends
Quarter	**High**	**Low**	**Declared**	High	Low	Declared
First	**$ 32.72**	**$ 22.01**	**$ 0.18**	$ 24.96	$ 7.64	$ 0.18
Second	**27.10**	**20.45**	**0.18**	29.50	12.69	0.18
Third	**25.50**	**19.89**	**0.18**	29.90	20.07	0.18
Fourth	**29.80**	**23.61**	**0.18**	33.27	26.48	0.18
Year	**32.72**	**19.89**	**0.72**	33.27	7.64	0.72

The number of shareholders at December 31, 2010 and 2009 equaled 507 and 545, 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, 2010)

Assumes $100 invested at the close of trading on the last trading day preceding January 1, 2006 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 prior years, the Corporation used the Standard & Poors 500 Index as a broad equity market index for purposes of its stock performance graphs. Beginning this year, the Corporation instead intends to use the NYSE Composite Index because the Corporation believes it is broader in scope and more representative of the market as a whole than the Standard & Poors 500 Index.

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

(dollars, except per share amounts, and shares outstanding in thousands)	Year Ended December 31,				
	2010	2009	2008	2007	2006
Net sales	**$ 326,886**	$ 299,177	$ 394,513	$ 346,834	$ 301,780
Net income(1)	**15,456**	27,677	12,575	39,231	16,635
Total assets(2)	**526,963**	471,825	488,981	404,392	381,211
Shareholders equity	**196,777**	179,202	144,987	187,730	140,204
Net income per common share:					
Basic(1)	**1.51**	2.71	1.24	3.90	1.69
Diluted	**1.50**	2.71	1.24	3.88	1.67
Per common share:					
Cash dividends declared	**0.72**	0.72	0.72	0.60	0.40
Shareholders equity	**19.10**	17.49	14.25	18.45	14.25
Market price at year end	**28.05**	31.53	21.70	38.13	33.48
Weighted average common shares outstanding	**10,254**	10,200	10,177	10,046	9,828
Number of shareholders	**507**	545	566	593	629
Number of employees	**1,264**	1,231	1,306	1,323	1,324

(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.

2007 A tax benefit of $714 or $0.07 per common share for the release of tax-related valuation allowances associated with capital loss carryforwards.

2006 An after-tax charge of $15,888 for estimated costs of asbestos-related litigation through 2013 net of estimated insurance recoveries (see Note 17 to Consolidated Financial Statements) offset by the release of $6,500 of tax-related valuation allowances primarily associated with the U.K. operation for a net decrease to net income of $9,388 or $0.96 per common share.

(2) Total assets include asbestos-related insurance receivables of $142,089 for 2010, $115,430 for 2009, $136,176 for 2008, $94,548 for 2007 and $114,548 for 2006 (see Note 17 to Consolidated Financial Statements).

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, formerly known as The Davy Roll Company 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. Aerofin produces highly-engineered heat-exchange coils for a variety of users including electric utility, HVAC, power generation, industrial process and other manufacturing industries. 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 2010, the Forged and Cast Rolls group achieved strong earnings in a recovering global metals industry. Aided by a robust government stimulus in the western world and the continued need for steel products by developing countries, particularly China and India, demand for roll products was significantly better than in 2009. The group also benefited from long-term supply agreements in place with its major steel and aluminum producers who, in turn, placed a higher-than-normal percentage of business with the Forged and Cast Rolls group to meet its contractual requirements. All of these events resulted in improved operating levels compared to 2009. There are signs that excessive inventories of rolling mill rolls throughout the world are being reduced as production begins to return to pre-2009 levels. Expectations for 2011 are for a modest increase in roll consumption and, for us, a gradual improvement in production levels. Additionally, we expect to continue to benefit from a weak U.S. dollar and British pound; however, pricing pressures from our customers will likely remain.

In 2010, results of the Air and Liquid Processing segment were impacted by a pre-tax charge of $19,980 for the increase in estimated settlement and defense costs of pending and future asbestos claims, net of estimated insurance recoveries. The claims result from alleged personal injury from exposure to asbestos-containing components historically used in some products manufactured decades ago by certain former subsidiary companies (now operated as divisions) within the Air and Liquid Processing group. With the help of experts in asbestos liability valuation and insurance recovery modeling, we determined that litigation costs net of insurance recoveries could be reasonably estimated through 2020 causing the additional charge (see Note 17 to Consolidated Financial Statements). Notwithstanding the asbestos charge of $19,980, the Air and Liquid Processing segment had disappointing operating results when compared to 2009. The backlog at the beginning of 2010 was well below the prior year which forced the segment to rely on quick-turn business which in many cases was at lower margins. The power generation and new construction spending by the institutional markets has yet to exhibit any significant signs of a recovery. The focus for these companies is to continue to search for new product lines and to strengthen their sales distribution networks.

Operating results for the Corporation for 2011 are expected to be comparable to those of 2010, excluding the additional asbestos charge. Additionally, we are financially liquid with over $70,000 in cash and cash equivalents as of December 31, 2010.

CONSOLIDATED RESULTS OF OPERATIONS OVERVIEW

The Corporation

	2010		2009		2008	
Net Sales:						
Forged and Cast Rolls	**$ 240,345**	**74%**	$ 191,316	64%	$ 282,934	72%
Air and Liquid Processing	**86,541**	**26%**	107,861	36%	111,579	28%
Consolidated	**$ 326,886**	**100%**	$ 299,177	100%	$ 394,513	100%
Income (Loss) from Operations:						
Forged and Cast Rolls	**$ 48,674**		$ 45,282		$ 63,754	
Air and Liquid Processing[1]	**(12,605)**		11,389		(41,020))	
Corporate costs	**(11,342)**		(9,940)		(9,126)	
Consolidated	**$ 24,727**		$ 46,731		$ 13,608	
Backlog:						
Forged and Cast Rolls	**$ 350,978**	**88%**	$ 468,500	93%	$ 635,884	92%
Air and Liquid Processing	**46,052**	**12%**	32,811	7%	54,843	8%
Consolidated	**$ 397,030**	**100%**	$ 501,311	100%	$ 690,727	100%

(1) Income (loss) from operations for the Air and Liquid Processing segment includes a provision for asbestos-related costs of $19,980 and $51,018 for 2010 and 2008, respectively, (see Note 17 to Consolidated Financial Statements).

After being adversely impacted by the global economic downturn beginning in the fourth quarter of 2008, consolidated net sales began to rebound during the current year due to improved demand for forged and cast rolls. Notwithstanding the additional asbestos charge of $19,980 and $51,018 for 2010 and 2008, respectively, consolidated income from operations for 2010 decreased when compared to the earlier years principally due to higher costs for raw materials. A more detailed synopsis by segment is included below. The increase in corporate costs over the previous years is primarily attributable to stock-based compensation and higher pension-related costs and professional fees.

Gross margin, excluding depreciation, as a percentage of net sales was 29.8%, 32.2% and 29.0% for 2010, 2009 and 2008, respectively. The improvement in 2009 is primarily attributable to lower raw material costs and reduced labor charges related to decreases in employment and temporary layoffs. Raw material costs increased in the current year and, for the Forged and Cast Rolls group, manning levels began to return to more historical levels.

Selling and administrative expenses totaled $44,168 (13.5% of net sales), $39,722 (13.3% of net sales) and $42,867 (10.9% of net sales) for 2010, 2009 and 2008, respectively. The increase in 2010 from 2009 is primarily attributable to escalating pension-related expenses, stock-based compensation associated with a 2010 grant of stock options, and higher commissions and freight costs attributable to higher sales. While pension-related expenses and stock-based compensation costs for 2009 increased over 2008 amounts, the effect was more than offset by lower commissions and freight costs.

Depreciation expense increased in 2010 as a result of the completion of a significant portion of our capital investment program for the Forged and Cast Rolls group including the installation of a forged press and manipulator at one of its domestic operations.

The goodwill impairment charge in 2009 represents the write-off of goodwill associated with one of the divisions of the Air and Liquid Processing segment. We do not have any other material intangible assets.

The charge for asbestos litigation in 2010 represents an extension of the estimated costs of pending and future asbestos claims, net of additional insurance recoveries, to the end of 2020. The charge for asbestos litigation in 2008 represented an extension of the estimated costs of pending and future asbestos claims, net of additional insurance recoveries, from 2013 through the end of 2018. The claims result from alleged personal injury from exposure to asbestos-containing components historically used in some products manufactured decades ago by certain of our former subsidiary companies (now operated as divisions) within the Air and Liquid Processing group (see Note 17 to Consolidated Financial Statements).

Investment-related income increased in 2010 when compared to 2009 due to higher dividends from our Chinese cast-roll joint venture company which approximated $1,084, $812 and $800 in 2010, 2009 and 2008, respectively. Investment-related income decreased in 2009 against 2008 due to lower average interest rates during the year.

Interest expense for 2010 and 2009 decreased from 2008 as a result of lower interest rates on our variable-rate Industrial Revenue Bonds.

Other (expense) income fluctuated primarily as a result of foreign exchange gains in 2010 versus foreign exchange losses in 2009 and 2008. Additionally, provisions were made in 2010 and 2009 of $871 and $475, respectively, for environmental costs estimated to be incurred relating to the remediation of real estate previously owned whereas 2008 benefited from a $960 reduction in an accrual for environmental remediation for unrelated locations which were previously sold.

Our statutory income tax rate equals 35% which compares to an effective income tax rate of 35.3%, 38.0% and 15.1% for 2010, 2009 and 2008, respectively. For 2010, although the effective income tax rate was favorably impacted by beneficial permanent differences for our domestic operations and reversal of a valuation allowance previously provided against deferred income tax assets associated with foreign tax credit carryforwards, tax consequences related to certain foreign-sourced income and changes in state income tax rates offset the expected improvement. For 2009, the income tax provision includes an additional charge to recognize a reduction in the effective state income tax rate for which certain net deferred income tax assets will be realized. For 2008, beneficial permanent differences for our domestic operations favorably impacted the effective income tax rate. In addition, for 2008, the effective income tax rate was reduced by the reversal of a valuation allowance previously provided against deferred income tax assets associated with capital loss carryforwards.

Equity losses in 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 is in its early stages, operating results have been insignificant.

As a result of the above, we earned $15,456 or $1.51 per common share for 2010, $27,677 or $2.71 per common share for 2009 and $12,575 or $1.24 per common share for 2008. 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 income for 2009 includes an after-tax charge of $2,831 or $0.28 per common share for the write-off of goodwill associated with one of the divisions of the Air and Liquid Processing segment and adjustment of net deferred income tax assets to their realizable amount. Net income for 2008 includes an after-tax charge of $30,595 or $3.01 per common share for estimated costs of asbestos-related litigation through 2018 offset by the release of tax-related valuation allowances associated with capital loss carryforwards.

Forged and Cast Rolls

	2010	2009	2008
Net sales	**$ 240,345**	$ 191,316	$ 282,934
Operating income	**$ 48,674**	$ 45,282	$ 63,754
Backlog	**$ 350,978**	$ 468,500	$ 635,884

Net sales for the current year improved from the prior year due to an increase in the volume of shipments, particularly to our international customers. The expected contribution to operating income from the additional sales was offset by lower revenues from the variable-index surcharge program and higher costs for direct and indirect materials and fuels. Additionally, as sales and production returned to more normal levels during 2010, commissions and employee-related costs increased and, with the completion of a significant portion of its capital investment program, depreciation expense was higher. Pension-related expenses also continued to increase.

Net sales for 2009 declined when compared to 2008 primarily due to the weak economy and worldwide recession resulting in a lower consumption of rolling mill rolls and the deferral of orders by customers, particularly for the cast roll business in England. By comparison, the global steel and aluminum industries were operating at or near capacity in 2008. Additionally, in 2009, revenues from the variable-index surcharge program were less than that in 2008. While reduced shipment levels negatively impacted operating income, the effect was minimized from lower raw material costs, lower employee-related costs resulting from temporary layoffs and reductions in manning, and a decrease in commission expense and freight costs. Deterioration in the weighted-average exchange rates used to translate sales and operating income of UES-UK from the British pound to the U.S. dollar also reduced sales and operating income for 2009 when compared to 2008 by $8,402 and $551, respectively.

With respect to the variable-index surcharge, a majority of customer orders include a provision allowing the selling price to be increased or decreased, as applicable, for corresponding changes in the published index cost of certain raw materials (e.g., steel scrap and ferroalloys) utilized in the manufacturing process. While this variable-index surcharge program helps to protect us and our customers against unpredictable changes in the cost of commodities used in the manufacturing process against the base cost of commodities used to establish selling prices at the time of order placement, there is a lag in timing of approximately six months between the recognition of these changes in our costs of products sold and in our revenues.

The ongoing decline in backlog from the previous periods is a result of shipments outpacing new orders. Historically, the norm for the level of backlog was 6 to 12 months. However, the surge in global steel production coupled with the then existing shortage of supply caused customers to place orders for rolling mill rolls out several years. The resultant high level of backlog at the end 2008 has been declining and becoming more in line with our historical pattern. As of December 31, 2010, approximately $136,000 of the backlog is expected to be released after 2011. In addition, we have commitments of roughly $50,000 from customers under long-term supply arrangements which will be included in backlog upon receipt of specific purchase orders closer to the requirement dates for delivery.

Air and Liquid Processing

Income (loss) from operations for 2010 and 2008 includes a charge for asbestos litigation of $19,980 and $51,018, respectively, relating to claims resulting from alleged personal injury from exposure to asbestos-containing equipment manufactured decades ago (see Note 17 to Consolidated Financial Statements). In addition, uninsured legal and case management and valuation costs associated with asbestos litigation approximated $173, $845 and $671 in 2010, 2009 and 2008, respectively. In 2009, due to uncertainties in the industry, including when business activity would return to historical levels, and excess capacity in the market place, we determined that the goodwill associated with one of the divisions of this segment was impaired and recorded a pre-tax charge of $2,694.

		2010		2009		2008
Net sales	**$**	**86,541**	$	107,861	$	111,579
Operating (loss) income	**$**	**(12,605)**	$	11,389	$	(41,020)
Backlog	**$**	**46,052**	$	32,811	$	54,843

Notwithstanding the additional charge for asbestos litigation in 2010 and 2008, sales and operating income for the segment for the current year decreased when compared to the two prior years. The lack of new-construction spending has adversely impacted all three divisions. With respect to Buffalo Pumps, sales and operating income for 2010 were less than 2009 due to a reduction in the volume of business activity particularly from power generation customers and U.S. Navy shipbuilders. The expected impact to operating income was minimized as a result of improved margins. While sales for 2010 were less than sales for 2008, operating income was comparable due to better margins and lower raw material costs. Regarding Aerofin, sales and operating income for the current year were less than each of the prior years attributable to a reduced volume of shipments, particularly to customers in the utility industry. Additionally, operating income for 2009 benefited from a shift in product mix with higher portion of shipments to electric utility customers offset by a reduction in lower-margin sales to original equipment manufacturers. For Buffalo Air Handling, sales and operating results for 2010 were less than that for 2009 and 2008 due to lower business activity. Construction projects for pharmaceutical companies and universities continue to be adversely impacted by the weak economy and lack of funding.

The improvement in backlog at December 31, 2010 against 2009 is principally attributable to Buffalo Air Handling (due to receipt of one large order for a customer in the medical industry) and Buffalo Pumps (due to additional orders for the U.S. Navy). When compared to December 31, 2008, backlog for Buffalo Pumps and Aerofin has been affected by conservative spending from its customers due to the weak economy and in anticipation of future energy policies by the U.S. Government. The majority of the year-end backlog is currently scheduled to ship in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows provided by operating activities for 2010 equaled $42,951 compared to $39,671 and $46,496 for 2009 and 2008, respectively. While the charges for asbestos litigation recorded in 2010 and 2008 reduced earnings, they did not impact cash flows for those years by those amounts. Instead, the asbestos liability, net of insurance recoveries, will be paid over a number of years and will be subject to tax benefits. Net asbestos-related payments equaled $5,129, $9,175 and $5,354 in 2010, 2009 and 2008, respectively, and are expected to approximate $7,000 in 2011. Also, the goodwill impairment charge recorded in 2009 does not impact net cash flows provided by operating activities. Contributions to our pension and other postretirement plans approximated $7,000 in 2010 (of which $5,000 were voluntary contributions), $12,000 in 2009 (of which $10,000 were voluntary contributions) and $10,000 in 2008 (of which $8,000 were voluntary contributions). While required minimum contributions to our pension and other postretirement plans are expected to approximate $4,349 in 2011, further voluntarily contributions may be made. Additionally, the estimated minimum contribution to the U.S. pension plan in 2011 may have been higher if voluntary contributions would not have been made to the plan.

Accounts receivable increased as of December 31, 2010 when compared to 2009 as a result of stronger fourth quarter sales. By comparison, accounts receivable decreased at the end of 2009 against 2008 due to weaker fourth quarter to fourth quarter sales. The increase in inventories at December 31, 2010 and 2009 against December 31, 2008 is principally associated with higher levels of raw materials (particularly steel scrap, ferroalloys and other commodities) associated with improved business

activity. The increase in accounts payable at year end 2010 against year end 2009 is attributable to timing of payments and outstanding amounts relating to purchases of equipment.

Net cash flows used in investing activities were $33,163, $50,200 and $24,886 in 2010, 2009 and 2008, respectively, the majority of which represents expenditures relating to the capital investment program for the Forged and Cast Rolls group. In 2010, UES-UK was awarded a governmental grant of up to $1,325 (£850) toward the purchase and installation of certain machinery and equipment of which $226 (£145) was received during the year. As of December 31, 2010, anticipated future capital expenditures are expected to approximate $12,423, the majority of which will be spent in 2011. During 2009, Union Electric Steel made its final contribution to the Chinese joint venture. Additionally, in 2009, monies were deposited in escrow and are being held as collateral for the outstanding foreign currency sales contracts of UES-UK. A portion of these monies were returned in 2010 and 2009 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. During 2010 and 2009, stock options were exercised resulting in proceeds from the issuance of common stock and excess tax benefits. No options were exercised during 2008.

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 $3,580 in 2010 and ended the year at $70,021 in comparison to $66,441 and $81,607 at December 31, 2009 and 2008, respectively. Funds on hand and funds generated from future operations are expected to be sufficient to finance the 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, 2010 was approximately $9,200 (including £3,000 in the U.K. and 400 in Belgium).

We had the following contractual obligations outstanding as of December 31, 2010:

		Payments Due by Period				
	Total	**<1 year**	**1 3 years**	**3 5 years**	**>5 years**	**Other**
Industrial Revenue Bond Debt[1]	**$ 13,311**	$	$	$	$ 13,311	$
Operating Lease Obligations	**3,134**	793	1,399	887	55	
Capital Expenditures	**12,423**	10,301	2,122			
Pension and Other Postretirement						
Benefit Obligations[2]	**60,308**	4,349	21,643	20,114	14,202	
Purchase Obligations[3]	**22,352**	10,086	7,562	4,704		
Unrecognized Tax Benefits[4]	**786**	33				753
Total	**$ 112,314**	$ 25,562	$ 32,726	$ 25,705	$ 27,568	$ 753

(1) *Amount 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 the 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 the 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 56% of anticipated needs to meet orders in backlog. See Note 11 to the 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 the 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 and have been named a Potentially Responsible Party at two third-party landfill sites. In addition, as a result of a sale of a segment, we retained the liability to remediate certain environmental contamination and have agreed to indemnify the buyer against third-party claims arising from the discharge of certain contamination, the cost for which was accrued at the time of sale. Environmental exposures are difficult to assess and estimate for numerous reasons including lack of reliable data, the multiplicity of possible solutions, the years of remedial and monitoring activity required and the identification of new sites. However, we believe the potential liability for all environmental proceedings of approximately $1,433 accrued at December 31, 2010 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, our subsidiaries and our divisions 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, we, our subsidiaries and our divisions are involved in multiple claims for alleged personal injury from exposure to asbestos-containing components used in certain 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).

EFFECTS OF INFLATION

While inflationary and market pressures on costs are likely to be experienced in 2011, it is anticipated that price adjustments, ongoing improvements in manufacturing efficiencies and cost savings efforts will mitigate the effects of inflation on 2011 operating results. 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. Additionally, long-term labor agreements exist at each of the key locations and commitments have been executed for natural gas usage to cover a significant portion of orders in the backlog.

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, environmental matters, 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 6% for our foreign plan to be reasonable. Actual returns on plan assets for 2010 and 2009, respectively, approximated 15.93% and 23.79% for our domestic plan and 10.27% and 17.44% 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 5.75% and 5.40% as of December 31, 2010 for our domestic and U.K. 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 $1,500. A 1/4 percentage point decrease in the discount rate would increase projected and accumulated benefit obligations by approximately $6,500. 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, 2010.

Litigation and loss contingency accruals are made when it is determined