

AMPCO PITTSBURGH CORP

Form 10-K/A

June 01, 2005

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

Washington, D.C. 20549

**FORM 10-K/A**

(Amendment No. 1)

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

For the fiscal year ended December 31, 2004

Commission File Number 1-898

**AMPCO-PITTSBURGH CORPORATION**

**Pennsylvania**  
(State of Incorporation)

**25-1117717**  
I.R.S. Employer ID No.

**600 Grant Street, Suite 4600**

**Pittsburgh, PA 15219**  
(Address of principal executive offices)

**(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

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Common stock, \$1 par value

New York Stock Exchange  
Philadelphia Stock Exchange

Series A Preference Stock  
Purchase Rights

New York Stock Exchange  
Philadelphia Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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 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/A or any amendment to this Form 10-K/A.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting stock of Ampco-Pittsburgh Corporation held by non-affiliates on June 30, 2004 (based upon the closing price of the Registrant's Common stock on the New York Stock Exchange (the "NYSE") on that date) was approximately \$87 million.

As of May 31, 2005, 9,757,497 common shares were outstanding.

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**EXPLANATORY NOTE**

Ampco-Pittsburgh Corporation (the Corporation) is filing this Form 10-K/A for the year ended December 31, 2004 to reflect the restatement of its consolidated financial statements for the years ended December 31, 2004 and 2003. The restatement pertains to a change in the classification of auction-rate securities from cash equivalents to short-term marketable securities and Industrial Revenue Bond debt from a long-term liability to a current liability and to reflect purchases and sales of auction-rate securities as cash flows from investing activities in the consolidated statements of cash flows.

This Form 10-K/A has not been updated except as required to reflect the effects of the restatement. This restatement includes changes to Items 6, 7, 8, 9A and 15. This Form 10-K/A does not purport to provide an update or a discussion of any other developments subsequent to the original filing.

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	Year Ended December 31,				
	2004 <sup>(1)(5)</sup>	2003 <sup>(2)(5)</sup>	2002 <sup>(3)(5)</sup>	2001 <sup>(4)(5)</sup>	2000 <sup>(5)</sup>
<i>(dollars, except per share amounts,</i>					
<i>and shares outstanding in thousands)</i>					
Net sales	\$ 202,861	\$ 180,233	\$ 187,756	\$ 191,843	\$ 192,486
(Loss) income from continuing operations	(2,599)	2,908	6,291	(446)	15,375
Net (loss) income	(2,599)	(2,190)	2,590	(586)	16,192
Total assets	237,944	234,148	236,462	241,571	244,464
Shareholders' equity	128,517	145,630	150,747	157,804	162,477
Basic and diluted earnings per common share:					
(Loss) income from continuing operations	(0.27)	0.30	0.65	(0.05)	1.60
Net (loss) income	(0.27)	(0.23)	0.27	(0.06)	1.68
Per common share:					
Cash dividends declared	0.40	0.40	0.40	0.40	0.40
Shareholders' equity	13.19	15.08	15.65	16.42	16.92
Market price at year end	14.60	13.67	12.16	10.75	12.00
Weighted average common shares outstanding	9,708	9,637	9,625	9,605	9,601
Number of shareholders	744	842	891	929	1,027
Number of employees	1,252	1,152	1,207	1,355	1,470

<sup>(1)</sup> (Loss) income from continuing operations includes pre-tax litigation costs of \$990 and pre-tax professional fees of \$1,000 in support of its efforts to meet the requirements of Sarbanes-Oxley.

<sup>(2)</sup> (Loss) income from continuing operations includes pre-tax litigation costs of \$2,393.

<sup>(3)</sup> (Loss) income from continuing operations includes pre-tax litigation costs of \$670 and net (loss) income includes the after-tax write-off of goodwill of \$2,894.

<sup>(4)</sup> (Loss) income from continuing operations includes pre-tax restructuring and other charges of \$7,280 and pre-tax litigation costs of \$2,378.

<sup>(5)</sup> Restated see Note 22 to Consolidated Financial Statements.

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

*(in thousands, except per share amounts)*

Subsequent to the issuance of the Corporation's consolidated financial statements for the year ended December 31, 2004, the Corporation concluded:

(1) Based on supplemental accounting interpretation recently issued, that auction-rate securities did not meet the definition of cash equivalents and should therefore be classified as short-term marketable securities, and

(2) Its outstanding Industrial Revenue Bond debt should be classified as a current liability, despite principal not beginning to become due until 2020, since the bonds can be put back to the Corporation on short notice if, although considered remote by the Corporation, the bonds are unable to be remarketed and bondholders seek reimbursement from the letters of credit which serve as collateral for the bonds. Any payments under the letters of credit are required to be repaid by the Corporation immediately.

The effect of changing the classification of its investments in auction-rate securities from cash and cash equivalents to short-term marketable securities and its Industrial Revenue Bond debt from a long-term liability to a current liability on the consolidated balance sheets as of December 31, 2004 and 2003 and the consolidated statements of cash flows for the years ended December 31, 2004 and 2003, is indicated below. The Corporation did not invest in auction-rate securities prior to 2003.

	2004		2003	
	As		As	
	Previously Reported	As Restated	Previously Reported	As Restated
<b>Consolidated Balance Sheets as of December 31:</b>				
Cash and cash equivalents	\$ 36,795	\$ 11,340	\$ 35,739	\$ 15,489
Short-term marketable securities		25,455		20,250
Total current liabilities	41,170	54,481	34,042	47,353
Long-term debt obligations	13,311		13,311	

	2004		2003	
	As		As	
	Previously Reported	As Restated	Previously Reported	As Restated
<b>Consolidated Statements of Cash Flows for the Year Ended:</b>				
Purchases of short-term marketable securities	\$	\$ (48,635)	\$	\$ (51,250)
Proceeds from the sale of short-term marketable securities		43,430		31,000

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Net cash flows (used in) provided by investing activities	(5,111)	(10,316)	6,863	(13,387)
Net increase (decrease) in cash and cash equivalents	1,056	(4,149)	7,950	(12,300)
Cash and cash equivalents at beginning of period	35,739	15,489	27,789	27,789
Cash and cash equivalents at end of period	36,795	11,340	35,739	15,489

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to this restatement.

### EXECUTIVE OVERVIEW

Ampco-Pittsburgh Corporation (the Corporation) currently 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), the world's largest manufacturer of forged hardened steel rolls with its principal operations in Pennsylvania and Indiana, and Davy Roll Company Limited (Davy Roll), a manufacturer of cast rolls which has manufacturing facilities in England. Rolls are supplied to the metals industry principally to steel producers throughout the world. More than half of the annual sales are shipped to destinations outside the segment's own domestic borders.

The Air and Liquid Processing segment consists of Aerofin Corporation (Aerofin), Buffalo Air Handling Company (Buffalo Air Handling) and Buffalo Pumps, Inc. (Buffalo Pumps). Aerofin and Buffalo Air Handling have operations in Virginia and Buffalo Pumps is located in New York. Aerofin produces heat exchange coils for a variety of users including HVAC, power generation, industrial process and other manufacturing industries. Buffalo Air Handling produces custom designed air handling systems for commercial, institutional and industrial

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building markets. Buffalo Pumps manufactures centrifugal pumps for the defense, refrigeration and power generation industries. The segment distributes a significant portion of its products through a common independent group of sales offices located throughout the U.S.

During 2004, the Forged and Cast Rolls segment benefited from resurgence in the global steel industry and the weaker dollar which improved export business particularly with China, India and other growing economies and, by year end, produced the largest order backlog in the history of the segment. Unfortunately, the operations continued to be impacted by increased costs of natural gas and unprecedented escalation in the cost of raw materials which, in part, were not recovered in pricing as a result of fixed price contracts. In addition, significant losses were incurred by Davy Roll. Production at the Carnegie, Pennsylvania forged roll finishing plant was disrupted, including loss of sales, by flooding caused by the remnants of Hurricane Ivan. The Corporation expects to settle a business interruption insurance claim in the first part of 2005. The outlook for 2005 is for expected improvement in the latter part of the year as the segment progressively works through its backlog and increased pricing and raw material and energy surcharges flow through to operating results. New machinery brought on-line late in 2004 at Davy Roll will also begin to contribute to operational improvements and add needed capacity. The curtailment of the U.K. defined benefit plan as of December 31, 2004, which was replaced with a defined contribution plan, is expected to contain growth in pension liabilities and stabilize employer contributions.

The Air and Liquid Processing segment generally lags any downturn in the economy; accordingly, the segment was not affected by the weak economy until 2003, which continued through 2004. Similarly, any recovery will not immediately improve operating results. In particular, demand for lube oil pumps is expected to remain at low levels for the foreseeable future due to an oversupply of gas turbines. The segment is also being impacted by higher material costs, the slowdown in the construction industry particularly related to the pharmaceutical, institutional and health care markets, and the resulting decline in margins following aggressive pricing by competitors as a reduced level of potential business is pursued. Product offerings have been expanded but no significant improvement is expected until capital spending by the manufacturing sector improves.

While management continues to spend a significant amount of time defending the Corporation against claims for personal injury alleged to result from asbestos-containing product manufactured as many as sixty years ago, out-of-pockets costs have decreased from previous years as a larger portion of such costs are covered by insurance. Although certain coverages are currently subject to challenge in the courts (see Note 18 to Consolidated Financial Statements), the Corporation believes substantially all of the claims will continue to be covered. In addition to a significant amount of internal resources, approximately \$1,000 in professional fees was spent during the year in support of the Corporation's efforts to meet the requirements of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley).

**CONSOLIDATED RESULTS OF OPERATIONS OVERVIEW**

Consolidated sales and operating income for 2004, 2003 and 2002 are indicated below. A full discussion of the operating results for each of the segments is reviewed later in this section.

**The Corporation**

	<u>2004</u>		<u>2003</u>		<u>2002</u>	
Net Sales:						
Forged and Cast Rolls	\$ 126,162	62%	\$ 110,431	61%	\$ 95,901	51%
Air and Liquid Processing	76,699	38%	69,802	39%	91,855	49%

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Total	<b>\$ 202,861</b>	<b>100%</b>	\$ 180,233	100%	\$ 187,756	100%
<b>(Loss) Income from Operations:</b>						
Forged and Cast Rolls	<b>\$ (1,208)</b>		\$ 6,343		\$ 4,093	
Air and Liquid Processing	<b>4,819</b>		3,504		11,547	
Corporate costs	<b>(5,835)</b>		(4,786)		(4,606)	
Total	<b>\$ (2,224)</b>		\$ 5,061		\$ 11,034	
<b>Backlog:</b>						
Forged and Cast Rolls	<b>\$ 138,729</b>	<b>84%</b>	\$ 83,757	74%	\$ 72,158	71%
Air and Liquid Processing	<b>26,252</b>	<b>16%</b>	29,166	26%	28,764	29%
Total	<b>\$ 164,981</b>	<b>100%</b>	\$ 112,923	100%	\$ 100,922	100%



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Sales for 2004 improved over the prior year for each of the segments. The Forged and Cast Rolls segment continued to benefit from increased volume, particularly in foreign markets. Sales for the Air and Liquid Processing group remain at less than historical levels.

Operating results deteriorated further in 2004. The decrease is principally due to higher raw material costs and flooding at the Carnegie, Pennsylvania forged roll finishing plant which resulted in uninsured costs and lost sales. Pension costs increased by approximately \$908 due primarily to higher interest and service costs particularly for the Corporation's U.K. plan. Although legal and case management costs associated with personal injury claims and insurance recovery litigation related to asbestos-containing product and indemnity payments not expected to be recovered from insurance carriers decreased from the prior year by approximately \$1,403, the Corporation incurred approximately \$1,000 of professional fees in support of its efforts to meet the requirements of Sarbanes-Oxley.

The decrease in operating income in 2003 from 2002 is partially attributable to lower volumes for the Air and Liquid Processing group, depressed pricing, higher employee benefit costs, and increased costs of raw materials and natural gas particularly for the Forged and Cast Rolls group. Additionally, legal and case management costs associated with personal injury claims and insurance recovery litigation related to asbestos-containing product and indemnity payments not expected to be recovered from insurance carriers increased \$1,723 and pension costs increased \$1,136 principally due to unfavorable performance of plan assets in 2002 resulting in actuarial losses a portion of which are amortized to future pension expense. Also included in 2002 is a net gain of \$603 on the disposition of assets and businesses arising primarily from the sale of the remaining land and building of the Belgian roll-making facility, which was closed in 2001, offset by the loss on the 2002 sale of Formet Ltd., the Corporation's small metals forging business in the U.K.

The increase in backlog (unfilled orders on hand) at December 31, 2004 against December 31, 2003 and 2002 is attributable to the Forged and Cast Rolls segment and is indicative of the increase in global demand and inclusion of surcharges and price increases to cover the escalation in raw material and energy costs.

Gross margin, excluding depreciation, as a percentage of net sales approximated 16.3% for 2004, 21.4% for 2003 and 22.6% for 2002. The decrease in 2004 from the previous years is attributable to unprecedented increases in the cost of steel scrap, ferro alloys and energy which also put certain U.K. sales commitments in a loss position resulting in an additional charge to earnings; product mix including a higher content of export sales some of which have lower margins; and uninsured costs resulting from flood damage.

Selling and administrative expenses totaled \$28,825 (14.2% of net sales), \$27,210 (15.1% of net sales) and \$25,831 (13.8% of net sales) for 2004, 2003 and 2002, respectively. Expenses for 2004 include approximately \$1,000 of costs associated with the Corporation's efforts to comply with the requirements of Sarbanes-Oxley and \$990, \$2,393 and \$670 for each of the respective years for legal and case management costs associated with personal injury claims and insurance recovery litigation related to asbestos-containing product and indemnity payments not expected to be recovered from insurance carriers (see Note 18 to Consolidated Financial Statements).

The gain on the disposition of assets and businesses in 2002 of \$603 is comprised primarily of the gain on the sale of the remaining land and building of the Belgian roll-making facility, which was closed in 2001, of approximately \$917 offset by the loss on the sale of Formet Ltd. of approximately \$240.

Restructuring and other charges of \$(46) in 2002 represent the net of a restructuring provision of \$616 for costs incurred relating to the reduction of manning levels at several of the Corporation's operations and the reversal of approximately \$662 of the 2001 restructuring and other charges provision no longer needed. The 2002 restructuring provision arose as a result of weak economic conditions across each of the segments of the Corporation including a depressed steel industry, reduced demand for power generation equipment and a slowdown in construction and capital

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spending. Annual savings arising from the 2002 and 2001 restructurings approximated \$3,500 in 2004 and 2003 principally attributable to reduced labor costs. The corresponding impact on earnings is not evident due to changes in product mix and higher costs of raw materials, natural gas and employee benefits.

Interest expense was \$312, \$332 and \$407 for 2004, 2003 and 2002, respectively. While interest expense in 2004 approximated that of 2003, the decrease from 2002 is due to lower interest rates. Other (expense) income equaled \$(47), \$(87) and \$354 for 2004, 2003 and 2002, respectively. The net expense in 2004 and 2003 is a result of foreign exchange losses arising from the weakening of the U.S. dollar against foreign currencies, particularly the Euro, versus gains in 2002.

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The 1% effective income tax rate for continuing operations in 2004 is in lieu of a statutory rate of approximately 35% due to losses for the U.K. operations for which no income tax benefit is provided and minimal taxable income for domestic operations due to permanent tax benefits. The effective income tax rate for continuing operations was 37.4% and 42.7% for 2003 and 2002, respectively; the decrease also attributable to higher losses for the U.K. operations for which no tax benefit is provided.

The Corporation sold the stock of the New Castle Industries, Inc. group of companies constituting its Plastics Processing Machinery segment on August 15, 2003. The transaction was recorded as a discontinued operation and presented net of income tax in the accompanying consolidated financial statements. A loss on disposal of approximately \$4,600 was recognized comprised of a loss on sale of \$2,000, curtailment and settlement of existing pension obligations of \$500 and a provision for environmental remediation of \$2,100 (see Note 19 to Consolidated Financial Statements). Results of operations for this segment approximated \$(730) for 2003 through the date of disposition and \$(1,189) for 2002 and net sales approximated \$15,002 and \$24,620 for the respective periods.

Effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets resulting in an after-tax write-off of goodwill of \$2,894 specific to the now-sold Plastics Processing Machinery segment. The write-off was recorded as a cumulative effect of change in accounting, net of income tax, in the accompanying consolidated statements of operations. The impairment arose from the severe downturn in the plastics processing industry resulting in reduced selling prices and a significant reduction in demand.

As a result of the above, the Corporation incurred a net loss of \$ (2,599) or \$(0.27) per common share for 2004 in comparison to net loss of \$(2,190) or \$(0.23) per common share for 2003 and net income of \$2,590 or \$0.27 per common share for 2002.

**Forged and Cast Rolls**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales	<b>\$ 126,162</b>	\$ 110,431	\$ 95,901
Operating (loss) income	<b>\$ (1,208)</b>	\$ 6,343	\$ 4,093
Backlog	<b>\$ 138,729</b>	\$ 83,757	\$ 72,158

During 2004, the Forged and Cast Rolls segment benefited from resurgence in the global steel industry and the weaker dollar which improved export business particularly with China, India and other growing economies. The U.K. operations benefited in 2004 from the sale of inventory it acquired from a now-liquidated competitor and from the sale of cast roll technology to a Chinese roll producer which began in 2003 and continued partway through 2004.

The improvement to operating income from the additional volume was more than offset by higher natural gas, steel scrap and ferro alloy costs which also put certain U.K. sales contracts in a loss position and resulted in an additional charge to earnings. Operating results were also negatively impacted by uninsured costs and lost sales arising from flood damage caused by the remnants of Hurricane Ivan. The improvement in 2003 from 2002 was attributable primarily to higher volumes and the sale of technology by Davy Roll to a cast roll producer in China. In addition, segment earnings for 2004 and 2003 would have been lower had it not been for reductions in labor costs arising from the 2002 and 2001 restructurings.

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Earnings for 2002 benefited from a credit of \$250 representing the net of restructuring charges of \$412 for severance costs associated with the permanent reduction in U.K. manning levels offset by the reversal of unused restructuring provisions of \$441 and a foreign currency adjustment credit of \$221 relating to closure of the Belgian plant in 2001. In addition, in 2002, the Belgian facilities were sold at a gain of \$917 and the Formet Ltd. operations were sold at a loss of \$240.

Order backlogs have continued to improve in 2004 from 2003 and 2002 and are indicative of the increase in global demand and inclusion of surcharges and price increases to cover the escalation in raw material and energy costs. Approximately \$12,000 of the December 31, 2004 backlog is scheduled for shipment beyond 2005.

### Air and Liquid Processing

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales	<b>\$ 76,699</b>	\$ 69,802	\$ 91,855
Operating income	<b>\$ 4,819</b>	\$ 3,504	\$ 11,547
Backlog	<b>\$ 26,252</b>	\$ 29,166	\$ 28,764

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Sales for each of the companies were virtually the same for 2004 and 2003 with the exception of Buffalo Air Handling which benefited from a \$6 million airport project. Competition remained fierce for the air handling operation causing gross margins to be squeezed, and when added to the high cost of raw materials, particularly for steel, minimized the improvement to earnings. Legal and case management costs associated with personal injury claims and insurance recovery litigation related to asbestos-containing product and indemnity payments not expected to be recovered from insurance carriers decreased by approximately \$1,313 in 2004 for this segment.

For 2003, shipments and operating income were lower for each of the operating units against 2002 with each being severely impacted by the fragile economy. Specifically, a dramatic reduction in demand for lube oil pumps for use with gas turbines by the power generation industry negatively affected Buffalo Pumps' sales and operating income in 2003. Sales and operating income decreased for Buffalo Air Handling due to lack of industrial and construction spending. Additionally, lack of business activity created additional competition as companies bid on work outside their typical niches. For Aerofin, sales and operating income for 2003 were negatively impacted by the economy resulting in customers delaying spending on equipment and upgrades. In 2002, Aerofin benefited from heightened demand from the utility markets for heat exchange coils which offset the effects of the recession-weakened industrial sector; however, this increased demand did not carry over into 2003. Legal and case management costs associated with personal injury claims and insurance recovery litigation related to asbestos-containing product and indemnity payments not expected to be recovered from insurance carriers also increased by approximately \$1,721 in 2003 from 2002 for this segment.

Operating income for 2002 also includes restructuring charges of \$204 for severance costs associated with the permanent reduction in manning levels. Segment earnings for 2004 and 2003 would have been lower had it not been for reductions in labor costs arising from the 2002 restructuring.

Backlog as of December 31, 2004 is lower than that at December 31, 2003 and 2002 due to the lack of capital spending in the markets served. Approximately \$1,600 of the December 31, 2004 backlog is scheduled for shipment beyond 2005.

## **LIQUIDITY AND CAPITAL RESOURCES**

Net cash flows provided by operating activities were positive for 2004, 2003 and 2002 at \$9,408, \$4,101 and \$21,333, respectively. The fluctuation between the years is primarily as a result of changes in working capital including stronger collections on outstanding receivables in 2004 and higher sales in the fourth quarter of 2003 against fourth quarter 2002.

Net cash flows used in investing activities were \$10,316, \$13,387 and \$3,010 in 2004, 2003 and 2002, respectively. The fluctuation is due primarily to net purchases of short-term marketable securities of \$5,205 and \$20,250 in 2004 and 2003, respectively. In connection with the 2003 sale of the Plastics Processing Machinery segment the Corporation received proceeds of \$500 in 2004 and \$15,600 in 2003. In 2002, the Corporation sold the net assets of its small metals forging business for approximately \$1,308, the balance of the proceeds of \$83 was paid in June 2003, and the remaining assets of the Belgian facility for \$1,447. Cash outflows relate primarily to capital expenditures which approximated \$7,151 (of which \$1,498 of governmental grants was subsequently received by the Davy Roll operations), \$8,525, and \$4,184 in 2004, 2003 and 2002, respectively. Investing activities for the discontinued operations relate primarily to capital expenditures. As of December 31, 2004, future capital expenditures totaling \$2,410 have been approved. Funds on hand, funds generated from future operations and available lines of credit are expected to be sufficient to finance capital expenditure requirements. In addition, the Corporation continues to evaluate potential acquisitions.

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Net cash outflows used in financing activities include quarterly dividends of \$0.10 per common share for each of the three years. Proceeds from the issuance of common stock under the Corporation's stock option plan amounted to \$978, \$216 and \$238 in 2004, 2003 and 2002, respectively. Financing activities of the discontinued operation represent repayment of \$1,350 of industrial revenue bonds in 2002.

The change in the value of the Euro and the British pound against the dollar impacted cash and cash equivalents by \$(340), \$624 and \$766 for 2004, 2003 and 2002, respectively.

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As a result of the above, cash and cash equivalents decreased by \$4,149 in 2004 and ended the year at \$11,340 in comparison to \$15,489 and \$27,789 at December 31, 2003 and 2002, respectively. The Corporation maintains short-term lines of credit in excess of the cash needs of its businesses. The total available at December 31, 2004 was approximately \$9,300 (including £2,500 in the U.K. and 400 in Belgium).

The Corporation has the following contractual obligations outstanding as of December 31, 2004:

	Payments due by Period				
	Total	< 1 year	1 3 years	3 5 years	> 5 years
Industrial Revenue Bond Debt <sup>(1)</sup>	\$ 13,311	\$	\$	\$	\$ 13,311
Operating Lease Obligations	5,323	777	1,269	890	2,387
Capital Expenditures	946	946			
Pension and Other Postretirement Benefit Obligations <sup>(2)</sup>	21,622	1,690	3,371	3,402	13,159
<b>Total</b>	<b>\$ 41,202</b>	<b>\$ 3,413</b>	<b>\$ 4,640</b>	<b>\$ 4,292</b>	<b>\$ 28,857</b>

<sup>(1)</sup> Interest on Industrial Revenue Bond Debt is variable and ranged between 1.33% and 1.51% in the current year. See Note 7 to the Consolidated Financial Statements.

<sup>(2)</sup> Represents estimated contributions to the unfunded pension and other postretirement benefit plans and the Davy Roll defined benefit plan. No contributions are required in 2005 to the U.S. defined benefit plan and amounts to be contributed in the future, if any, are currently not known. See Note 8 to the Consolidated Financial Statements.

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 four third-party landfill sites. In addition, as a result of the sale of the Plastics Processing Machinery segment, the Corporation retained the liability to remediate certain environmental contamination at two of the sold locations and has agreed to indemnify the buyer against third-party claims arising from the discharge of certain contamination from one of these locations at a cost estimate of \$2,100 which will be paid over several years and was provided for in 2003. 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 (see Note 19 to Consolidated Financial Statements).

The nature and scope of the Corporation's business brings it into regular contact with a variety of persons, businesses and government agencies in the ordinary course of business. Consequently, the Corporation and its subsidiaries from time to time are named in various legal actions. The Corporation does not anticipate that its financial condition or liquidity will be materially affected by the costs of known, pending or threatened litigation (see Note 18 to Consolidated Financial Statements).

**EFFECTS OF INFLATION**

While inflationary and market pressures on costs are likely to be experienced in 2005, it is anticipated that ongoing improvements in manufacturing efficiencies and cost savings efforts will mitigate the effects of inflation on 2005 operating results.

#### **APPLICATION OF CRITICAL ACCOUNTING POLICIES**

The Corporation has identified critical accounting policies that are important to the presentation of the Corporation's 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 and goodwill, environmental matters and income taxes.

Accounting for pensions 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 the Corporation's actuary is evaluated and extensive use is made of assumptions about inflation, long-term rate of return on plan assets, mortality, turnover and discount rates.



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Specifically, 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 out 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 historical rates of return.

For the domestic plans, the average rates of return earned on the market-related value of plan assets by the Corporation averaged 6.0% for the five-year period of 2000–2004, and 12.0% for the ten-year period of 1995–2004. Accordingly, the Corporation believes the expected long-term rate of return of 8.5% for its domestic plans as of December 31, 2004 to be reasonable. The foreign plan was formed in connection with the acquisition of the U.K. operations with plan assets transferred from the seller's plan to the newly-created plan in October 2001. As a result, similar historical experience for rates of return specific to the plan is not available. Instead, the expected long-term rate of return for the foreign plan is estimated based on the historical average returns earned by each of the asset classes in the plan. The Corporation believes the assumed long-term rate of return of 7.18% as of December 31, 2004 to be reasonable.

The discount rates utilized 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 Corporation believes the assumed rates of 6% and 5.25% as of December 31, 2004 for its domestic and U.K plans, respectively, to be reasonable.

The Corporation believes 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 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 \$4,600 (see Note 8 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 as outlined in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". 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. The Corporation believes the amounts recorded in the accompanying consolidated financial statements for property, plant and equipment are recoverable and are not impaired as of December 31, 2004.

Goodwill is no longer amortized but tested for impairment at the reporting unit level at least annually in connection with the Corporation's strategic planning process. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. Fair value is estimated using discounted cash flow methodologies and market comparable information and represents the amount at which the asset could be bought or sold in a current transaction between willing parties. Estimates of future cash flows are based on expected market conditions, pricing and volume. Actual results may differ from these assumptions. The Corporation believes the amount recorded in the accompanying consolidated financial statements for goodwill of \$2,694 is recoverable and is not impaired as of December 31, 2004.

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. The Corporation believes the potential liability for all environmental proceedings based on information known to date has been adequately reserved (see Note 19 to Consolidated Financial Statements).

The Corporation provides for income taxes based on management's evaluation of the underlying accounts, permanent and temporary differences, its tax filing positions and interpretations of existing tax law (see Notes 1 and 14 to Consolidated Financial Statements).

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### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs* which confirms that accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) be recognized as current period charges and that allocation of fixed production overheads to inventories be based on normal capacity of the production facilities. The provisions of SFAS No. 151 will become effective for the Corporation on January 1, 2006 and are not expected to have a significant effect on its financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets* which amends previously issued guidance by eliminating the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges which do not have commercial substance. The provisions of SFAS No. 153 will become effective for the Corporation on July 1, 2005. Until the Corporation enters into such transactions, the standard will not impact the Corporation's financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (R), *Shared-Based Payment* which requires companies to recognize compensation cost for stock options and other stock-based awards based on their fair value and companies will no longer be permitted to follow the intrinsic value accounting method. The provisions of SFAS No. 123 (R) become effective for the Corporation on July 1, 2005 and the Corporation will adopt the standard prospectively. Until the Corporation issues additional stock options, the standard will not impact the Corporation's financial condition or results of operations.

### **FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Corporation. Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Form 10-K/A as well as the consolidated financial statements and notes thereto contain forward-looking statements that reflect the Corporation's current views with respect to future events and financial performance.

Forward-looking statements are identified by the use of the words *believe, expect, anticipate, estimate, 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. In addition, there may be events in the future that the Corporation is not able to accurately predict or control which may cause actual results to differ materially from expectations expressed or implied by forward-looking statements. The Corporation undertakes no obligation to update any forward-looking statement, whether as a result of new information, events or otherwise. These forward-looking statements shall not be deemed incorporated by reference by any general statement incorporating by reference this Form 10-K/A into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 and shall not otherwise be deemed filed under such Acts.

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

	December 31,	
	2004*	2003*
<i>(in thousands, except par value)</i>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,340	\$ 15,489
Short-term marketable securities	25,455	20,250
Receivables, less allowance for doubtful accounts of \$956 in 2004 and \$543 in 2003	37,496	38,802
Inventories	54,319	48,260
Other	8,337	11,550
<b>Total current assets</b>	<b>136,947</b>	<b>134,351</b>
Property, plant and equipment, at cost:		
Land and land improvements	4,292	4,219
Buildings	25,170	25,149
Machinery and equipment	135,058	130,015
	<b>164,520</b>	159,383
Accumulated depreciation	<b>(95,088)</b>	(89,885)
<b>Net property, plant and equipment</b>	<b>69,432</b>	69,498
Prepaid pensions	25,140	24,104
Goodwill	2,694	2,694
Other noncurrent assets	3,731	3,501
	<b>\$ 237,944</b>	<b>\$ 234,148</b>
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 15,446	\$ 11,178
Accrued payrolls and employee benefits	8,715	7,933
Industrial Revenue Bond debt	13,311	13,311
Other	17,009	14,931
<b>Total current liabilities</b>	<b>54,481</b>	47,353
Employee benefit obligations	28,872	16,692
Deferred income taxes	18,843	19,471
Other noncurrent liabilities	7,231	5,002
<b>Total liabilities</b>	<b>109,427</b>	<b>88,518</b>
Commitments and contingent liabilities (Note 9)		
Shareholders Equity:		

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Preference stock-no par value; authorized 3,000 shares; none issued		
Common stock-par value \$1; authorized 20,000 shares; issued and outstanding 9,747 shares in 2004, 9,654 shares in 2003	9,747	9,654
Additional paid-in capital	<b>104,204</b>	103,211
Retained earnings	<b>34,163</b>	40,649
Accumulated other comprehensive loss	<b>(19,597)</b>	(7,884)
<b>Total shareholders equity</b>	<b>128,517</b>	145,630
	<b>\$ 237,944</b>	<b>\$ 234,148</b>

\* *Restated see Note 22*

*See Notes to Consolidated Financial Statements.*

**Table of Contents****CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For The Year Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<i>(in thousands, except per share amounts)</i>			
Net sales	<b>\$ 202,861</b>	\$ 180,233	\$ 187,756
Operating costs and expenses:			
Costs of products sold (excluding depreciation)	<b>169,824</b>	141,739	145,377
Selling and administrative	<b>28,825</b>	27,210	25,831
Depreciation	<b>6,273</b>	6,214	6,163
Loss (gain) on disposition of assets and businesses	<b>163</b>	9	(603)
Restructuring and other charges			(46)
	<b>205,085</b>	175,172	176,722
(Loss) income from operations	<b>(2,224)</b>	5,061	11,034
Other (expense) income:			
Interest expense	<b>(312)</b>	(332)	(407)
Other net	<b>(47)</b>	(87)	354
	<b>(359)</b>	(419)	(53)
(Loss) income from continuing operations before income taxes	<b>(2,583)</b>	4,642	10,981
Income tax provision	<b>16</b>	1,734	4,690
(Loss) income from continuing operations	<b>(2,599)</b>	2,908	6,291
Discontinued operations:			
Loss from operations, including loss on disposal of \$4,600 in 2003		(5,330)	(1,189)
Income tax benefit		232	382
		(5,098)	(807)
(Loss) income before cumulative effect of change in accounting for goodwill	<b>(2,599)</b>	(2,190)	5,484
Cumulative effect of change in accounting for goodwill, net of income taxes of \$ 1,558			(2,894)
Net (loss) income	<b>\$ (2,599)</b>	\$ (2,190)	\$ 2,590
Basic and diluted earnings per common share:			
(Loss) income from continuing operations	<b>\$ (0.27)</b>	\$ 0.30	\$ 0.65
(Loss) from discontinued operations		(0.53)	(0.08)
Cumulative effect of change in accounting for goodwill			(0.30)
Net (loss) income	<b>(0.27)</b>	(0.23)	0.27
Weighted average number of common shares outstanding	<b>9,708</b>	9,637	9,625

*See Notes to Consolidated Financial Statements.*

**Table of Contents****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

	Common Stock			Accumulated Other Comprehensive Loss	Total
	Stated Capital	Additional Paid-in Capital	Retained Earnings		
<i>(in thousands, except per share amounts)</i>					
Balance January 1, 2002	\$ 9,609	\$ 102,791	\$ 47,957	\$ (2,553)	\$ 157,804
Comprehensive loss:					
Net income 2002			2,590		2,590
Other comprehensive loss <sup>(a)</sup>				(6,034)	(6,034)
Comprehensive loss					(3,444)
Issuance of common stock	23	215			238
Cash dividends (\$0.40 per share)			(3,851)		(3,851)
Balance December 31, 2002	9,632	103,006	46,696	(8,587)	150,747
Comprehensive loss:					
Net loss 2003			(2,190)		(2,190)
Other comprehensive income <sup>(a)</sup>				703	703
Comprehensive loss					(1,487)
Issuance of common stock	22	205			227
Cash dividends (\$0.40 per share)			(3,857)		(3,857)
Balance December 31, 2003	9,654	103,211	40,649	(7,884)	145,630
Comprehensive loss:					
Net loss 2004			(2,599)		(2,599)
Other comprehensive loss <sup>(a)</sup>				(11,713)	(11,713)
Comprehensive loss					(14,312)
Issuance of common stock	93	993			1,086
Cash dividends (\$0.40 per share)			(3,887)		(3,887)
Balance December 31, 2004	<b>\$ 9,747</b>	<b>\$ 104,204</b>	<b>\$ 34,163</b>	<b>\$ (19,597)</b>	<b>\$ 128,517</b>

<sup>(a)</sup> The following table summarizes the components of other comprehensive income (loss) and accumulated other comprehensive loss, net of income tax where appropriate:

	Foreign Currency Translation Adjustments	Minimum Pension Liability	Derivatives	Unrealized Holding Gains (Losses) on Securities	Accumulated Other Comprehensive Loss
Balance at January 1, 2002	\$ (1,937)	\$ (806)	\$ (100)	\$ 290	\$ (2,553)
Reclassification adjustments	228		49	(32)	245



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Changes in 2002	2,287	(7,766)	(521)	(279)	(6,279)
Balance at December 31, 2002	578	(8,572)	(572)	(21)	(8,587)
Reclassification adjustments			744	(3)	741
Changes in 2003	3,435	(1,510)	(2,096)	133	(38)
Balance at December 31, 2003	4,013	(10,082)	(1,924)	109	(7,884)
Reclassification adjustments			349		349
Changes in 2004	2,142	(12,549)	(1,812)	157	(12,062)
Balance at December 31, 2004	<b>\$ 6,155</b>	<b>\$ (22,631)</b>	<b>\$ (3,387)</b>	<b>\$ 266</b>	<b>\$ (19,597)</b>

*See Notes to Consolidated Financial Statements.*

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(in thousands)</i>	<b>For The Year Ended December 31,</b>		
	<b>2004*</b>	<b>2003*</b>	<b>2002</b>
Cash flows from operating activities:			
(Loss) income from continuing operations	\$ (2,599)	\$ 2,908	\$ 6,291
Adjustments to reconcile (loss) income from continuing operations to net cash flows from operating activities:			
Depreciation	6,273	6,214	6,163
Deferred income taxes	(60)	1,689	2,824
Pension and other postretirement benefits	(499)	(1,824)	(2,445)
Provision for restructuring and other charges			(46)
Provision for bad debts and inventory write-downs	546	745	337
Provision for adverse sales contracts	948		
Provision for warranties	545	(7)	(132)
Other net	157	11	(1,065)
Operating activities of discontinued operations		345	2,666
Changes in assets/liabilities, net of effects from business acquisitions and divestitures:			
Receivables	1,959	(4,617)	6,814
Inventories	(5,116)	(1,684)	162
Other assets	(2,263)	(5,452)	2,494
Accounts payable	3,954	660	(2,119)
Accrued payrolls and employee benefits	1,666	1,749	(961)
Other liabilities	3,897	3,364	350
<b>Net cash flows provided by operating activities</b>	<b>9,408</b>	<b>4,101</b>	<b>21,333</b>
Cash flows from investing activities:			
Purchases of property, plant and equipment	(7,151)	(8,525)	(4,184)
Purchases of short-term marketable securities	(48,635)	(51,250)	
Proceeds from the sale of short-term marketable securities	43,430	31,000	
Proceeds from the sale of businesses	500	15,600	1,225
Proceeds from the sale of assets	42		1,470
Proceeds from U.K. governmental grants	1,498		
Investing activities of discontinued operations		(212)	(1,465)
Other			(56)
<b>Net cash flows used in investing activities</b>	<b>(10,316)</b>	<b>(13,387)</b>	<b>(3,010)</b>
Cash flows from financing activities:			
Dividends paid	(3,879)	(3,854)	(3,848)
Proceeds from the issuance of common stock	978	216	238
Financing activities of discontinued operations			(1,350)
<b>Net cash flows used in financing activities</b>	<b>(2,901)</b>	<b>(3,638)</b>	<b>(4,960)</b>
Effect of exchange rate changes on cash and cash equivalents	(340)	624	766
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(4,149)</b>	<b>(12,300)</b>	<b>14,129</b>

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Cash and cash equivalents at beginning of year	<b>15,489</b>	27,789	13,660
Cash and cash equivalents at end of year	<b>\$ 11,340</b>	\$ 15,489	\$ 27,789
Supplemental information:			
Income tax payments	\$ 583	\$ 253	\$ 2,517
Interest payments	<b>302</b>	334	359
Supplemental non-cash information:			
Recognition of funding deficit (Note 8)	<b>\$ (11,725)</b>	\$ (646)	\$ (8,552)
Note receivable from sale of businesses (Note 3)		500	83

\* *Restated see Note 22*

*See Notes to Consolidated Financial Statements.*

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(in thousands, except per share amounts)*

**Description of Business**

Ampco-Pittsburgh Corporation (the Corporation) is in two business segments that manufacture and sell primarily custom-engineered equipment. The Forged and Cast Rolls segment, consisting of Union Electric Steel and Davy Roll, located in England, manufactures and sells forged hardened steel rolls and cast rolls (iron and steel) to the metals industry. The Air and Liquid Processing segment consists of Aerofin-heat exchange coils, Buffalo Air Handling-air handling systems, and Buffalo Pumps-centrifugal pumps, all of which sell to a variety of commercial and industrial users.

**NOTE 1 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A summary of the significant accounting policies followed by the Corporation is presented below.

Certain amounts for preceding periods have been reclassified for comparability with the 2004 presentation.

**Consolidation**

All subsidiaries are wholly owned and are included in the consolidated financial statements. Intercompany accounts and transactions are eliminated.

**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. 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 primarily determined 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 5 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 may not be recoverable. Proceeds from governmental grants are recorded as a reduction in purchase price of the underlying assets and amortized against depreciation over the lives of the related assets.

## **Goodwill**

Goodwill is tested for impairment at the reporting unit level at least annually in conjunction with the Corporation's strategic planning process. The Corporation's reporting units are the major product lines comprising its reportable business segments. Fair value is estimated using discounted cash flow methodologies and market comparable information. The Corporation does not have any other material intangible assets.

## **Short-Term Marketable Securities**

Short-term marketable securities consist primarily of auction-rate securities (ARS), which are securities whose short-term interest rates reset every 7 to 35 days. The Corporation accounts for ARS in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. The securities are considered available for sale and

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are carried at par value which approximates fair value. The Corporation expects to sell these securities in the next twelve months and, accordingly, classifies the investments as a current asset.

## **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 minimum pension liability, changes in the fair value of derivatives designated and effective as cash flow hedges and unrealized holding gains and losses on securities designated as available for sale. 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 (loss) income, or transactions which no longer qualify as a cash flow hedge. Foreign currency translation adjustments are included in net (loss) income upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity; unrealized holding gains (losses) on securities are included in net (loss) income when the underlying security is sold and changes in the fair value of derivatives are included in net (loss) income when the projected sale occurs. Changes in minimum pension liabilities are not included in net (loss) income and therefore do not have corresponding reclassification adjustments.

## **Revenue Recognition**

Revenue from sales is recognized when title to the product passes to the customer, which is generally when goods are shipped. 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.

## **Product Warranty**

Provisions for product warranties are recognized based on historical experience as a percentage of sales adjusted for potential claims when a liability is probable and for known claims.

## **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 loss until the entity is sold or substantially liquidated.

## **Financial Instruments**

Derivative instruments which include forward exchange and futures contracts are recorded in the consolidated balance sheets 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, the change in fair value previously deferred in accumulated other comprehensive income (loss) is reclassified to earnings (net sales) and subsequent changes in fair value are 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 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). The Corporation does not enter into derivative transactions for speculative purposes and, therefore, holds no derivative instruments for trading purposes.

## **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 carry forwards. 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. The Corporation regularly evaluates the likelihood of assessments in each of its taxing jurisdictions and establishes tax accruals where deemed necessary. Once established, tax accruals are adjusted based on current information and estimates.

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### **Stock-Based Compensation**

The Corporation accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. Under the intrinsic value method, compensation expense is generally recognized only to the extent the market price of the common stock exceeds the exercise price of the stock option at the date of the grant.

### **Earnings Per Common Share**

Basic earnings per common share are computed by dividing (loss) income from continuing operations, loss from discontinued operations, cumulative effect of change in accounting for goodwill, and net (loss) 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. There was no assumption of exercise of stock options in 2004 because the effect would have been anti-dilutive. The weighted average number of common shares outstanding assuming exercise of the stock options was 9,693,459 for 2003 and 9,656,176 for 2002.

### **Recently Issued Accounting Pronouncements**

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs which confirms that accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) be recognized as current period charges and that allocation of fixed production overheads to inventories be based on normal capacity of the production facilities. The provisions of SFAS No. 151 will become effective for the Corporation on January 1, 2006 and are not expected to have a significant effect on its financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets which amends previously issued guidance by eliminating the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges which do not have commercial substance. The provisions of SFAS No. 153 will become effective for the Corporation on July 1, 2005. Until the Corporation enters into such transactions, the standard will not impact the Corporation's financial condition or results of operations.

In December 2004, the FASB issued SFAS No. 123 (R), Shared-Based Payment which requires companies to recognize compensation cost for stock options and other stock-based awards based on their fair value and companies will no longer be permitted to follow the intrinsic value accounting method. The provisions of SFAS No. 123 (R) become effective for the Corporation on July 1, 2005 and the Corporation will adopt the standard prospectively. Until the Corporation issues additional stock options, the standard will not impact the Corporation's financial condition or results of operations.

NOTE 2 FLOOD DAMAGE:



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In September 2004, the Carnegie, Pennsylvania plant of the Corporation's Union Electric Steel subsidiary was damaged by flooding as a result of the remnants of Hurricane Ivan. The plant is the larger of the two forged hardened steel roll finishing operations and was back to full production in early November. The Corporation expects to settle a business interruption insurance claim in the first part of 2005. Through December 31, 2004, the Corporation received a \$3,000 advance toward its clean up costs, repairs to machinery and recovery of certain fixed expenses. Uninsured costs approximated \$375 and are recorded in costs of products sold in the accompanying consolidated statement of operations.

### NOTE 3 ACQUISITIONS/DIVESTITURES:

The Corporation sold the stock of the New Castle Industries, Inc. group of companies constituting its Plastics Processing Machinery segment (NCII) on August 15, 2003 and is reflected as discontinued operations in the accompanying consolidated financial statements. The sales price approximated \$16,100 of which \$15,600 was received in 2003 and the balance in 2004. A loss on disposal of approximately \$4,600 was recognized comprised of a loss on sale of \$2,000, curtailment and settlement of existing pension obligations of \$500 and a provision for environmental remediation of \$2,100 (see Note 19). Results of operations for this segment approximated \$(730) for 2003 through the date of disposition and \$(1,189) for 2002 and net sales approximated \$15,002 and \$24,620 in 2003 and 2002, for the respective periods.

In June 2002, the Corporation sold the net assets, excluding primarily trade receivables and payables, of Formet Ltd., its small metals forging business in the U.K., for approximately its net book value or \$1,308. A loss of approximately \$240 was recognized relating primarily to the release of foreign currency translation losses previously recorded as a component of accumulated other comprehensive loss.

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The Corporation continues to evaluate potential acquisitions to ensure that long-term objectives of achieving maximum shareholder value are met.

## NOTE 4 INVENTORIES:

	<u>2004</u>	<u>2003</u>
Raw materials	\$ 13,984	\$ 11,803
Work-in-progress	25,717	23,392
Finished goods	8,320	7,894
Supplies	6,298	5,171
	<u>\$ 54,319</u>	<u>\$ 48,260</u>

The LIFO reserve at December 31, 2004 and 2003 approximated \$(3,900) and \$61, respectively, and approximately 64% and 70% of the inventory was valued using the LIFO method in 2004 and 2003, respectively.

## NOTE 5 GOODWILL:

The Corporation tested the goodwill attributable to each of its reporting units for impairment as of January 1, 2002. As a result, \$4,452 of goodwill specific to the heat-transfer rolls unit of the now-sold Plastics Processing Machinery segment was written off and recorded as a cumulative effect of change in accounting, net of income tax, in the accompanying consolidated statements of operations. The impairment arose from the severe downturn in the plastics processing industry resulting in reduced selling prices and a significant reduction in demand. The Corporation tested remaining goodwill which relates to the Air and Liquid Processing segment as of December 31, 2004 and 2003 and no impairment existed.

## NOTE 6 OTHER CURRENT LIABILITIES:

	<u>2004</u>	<u>2003</u>
Customer-related liabilities	\$ 5,991	\$ 5,674
Other	11,018	9,257
	<u>\$ 17,009</u>	<u>\$ 14,931</u>

Included in customer-related liabilities are costs expected to be incurred with respect to product warranties. The following summarizes changes in the liability for product warranty claims for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Balance at the beginning of the year	\$ 3,435	\$ 3,209
Satisfaction of warranty claims	(2,115)	(1,921)
Provision for warranty claims	2,660	1,914
Other, primarily impact from changes in foreign currency exchange rates	170	233
	<u>          </u>	<u>          </u>
Balance at the end of the year	<u>\$ 4,150</u>	<u>\$ 3,435</u>

NOTE 7 BORROWING ARRANGEMENTS:

The Corporation maintains short-term lines of credit of approximately \$9,300 (including £2,500 in the U.K. and 400 in Belgium). No amounts were outstanding under these lines of credit as of December 31, 2004 and 2003. In February 2005, the U.K. line of credit was temporarily increased to £3,000 through March 31, 2005; unless otherwise negotiated, the line of credit will reduce to £2,100 thereafter.

As of December 31, 2004, 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 1.33% during the current year; (2) \$7,116 taxable IRB maturing in 2027, interest at a floating rate which averaged 1.51% during the current year and (3) \$2,075 tax-exempt IRB maturing in 2029, interest at a floating rate which averaged 1.36% during the current year. The IRBs are secured by letters of credit of equivalent amounts. Despite principal not beginning to become due until 2020, the IRBs are able to be put back to the Corporation on short notice if, although considered remote by the Corporation, the bonds are unable to be remarketed and bondholders seek reimbursement from the letters of credit. Accordingly, the IRBs are classified as a current liability. The letters of credit 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, 2004.

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**Table of Contents****NOTE 8 PENSION AND OTHER POSTRETIREMENT BENEFITS:****Pension Plans**

The Corporation has defined benefit pension plans covering substantially all of its U.S. employees. Generally, the benefits are based on years of service multiplied by either a fixed amount or a percentage of compensation. For its U.S. pension plans 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. Because these plans are fully funded, no additional contributions have been required for many years or are expected to be required in 2005. Estimated benefit payments for subsequent years are \$6,428 for 2005, \$6,551 for 2006, \$6,724 for 2007, \$6,966 for 2008, \$7,291 for 2009 and \$41,197 for 2010 - 2014.

Employees of Davy Roll participate in a contributory defined benefit plan that was curtailed effective December 31, 2004 and replaced with a defined contribution plan which was made available to new employees in 2003. The Davy Roll plans are non-U.S. plans and therefore are not covered by ERISA. Instead, contributions are based on local regulations. Employer contributions will continue to be made in accordance with local regulations. Contributions to the contributory defined benefit plan approximated \$1,225, \$1,211 and \$845 in 2004, 2003 and 2002, respectively, and are expected to approximate \$577 in 2005. As of December 31, 2004 and 2003, the accumulated benefit obligations exceeded the fair value of the plan assets; accordingly, the unfunded accumulated benefit obligation of \$15,037 and \$2,194, respectively, was recognized as an additional minimum pension liability. No additional contributions are expected to be required as a result of the additional minimum pension liability. Estimated benefit payments for subsequent years are \$483 for 2005, \$537 for 2006, \$585 for 2007, \$631 for 2008, \$702 for 2009 and \$4,846 for 2010 - 2014. Contributions to the defined contribution plan approximated \$20 and \$10 in 2004 and 2003, respectively, and are expected to approximate \$665 in 2005.

The Corporation also maintains a nonqualified defined benefit plan to provide supplemental retirement benefits for selected executives in addition to benefits provided under the Corporate sponsored pension plans. The assets of the trust are held in a grantor tax trust known as a Rabbi trust; accordingly, the assets of the trust 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 2002 - 2004 and none are expected in 2005. The fair market value of the trust at December 31, 2004 and 2003, which is included in other noncurrent assets, was \$2,506 and \$2,268, 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. Estimated benefit payments for subsequent years are approximately \$130 each year for 2005 - 2009 and \$718 for 2010 - 2014, assuming normal retirement of the participants.

Employees at one location participate in a multi-employer plan in lieu of the defined benefit pension programs. The Corporation contributed approximately \$140, \$120 and \$114 in 2004, 2003, and 2002, respectively, to this plan.

**Other Postretirement Benefits**

The Corporation provides postretirement health care benefits principally to the bargaining groups of one subsidiary (the Plan). 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

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postretirement health care and life insurance plans are unfunded. Estimated benefit payments for subsequent years are approximately \$978 for 2005, \$954 for 2006, \$931 for 2007, \$914 for 2008, \$906 for 2009 and \$4,421 for 2010 - 2014.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act provides a prescription drug benefit and a federal subsidy to sponsors of a retiree health care benefit plan which offers a benefit that is at least actuarially equivalent to Medicare D . The effect of the Act was to reduce the accumulated benefit obligation for other postretirement benefits by approximately \$465 as of December 31, 2004 and benefit costs by \$65 for 2004. The impact on future benefit payments is not significant.

**Table of Contents****Reconciliations**

The following provides a reconciliation of projected benefit obligations, plan assets, the funded status of the plans and the amounts recognized in the 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 Benefits		Foreign Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003	2004	2003
<b>Change in projected benefit obligations:</b>						
Projected benefit obligations at January 1	\$ 109,078	\$ 108,796	\$ 33,206	\$ 23,379	\$ 12,960	\$ 12,453
Service cost	2,040	2,148	1,111	800	277	218
Interest cost	6,662	6,804	1,858	1,357	772	781
Foreign currency exchange rate changes			2,531	2,808		
Effects of plan curtailment			(2,529)			
Plan amendments	76	1,247				
Actuarial loss	2,921	1,985	7,661	5,532	159	565
Transfer of projected benefit obligations		(6,578)				
Participant contributions			594	541	510	493
Benefits paid from plan assets	(5,338)	(5,214)	(1,145)	(1,211)		
Benefits paid by the Corporation	(34)	(110)			(1,356)	(1,550)
Projected benefit obligations at December 31	\$ 115,405	\$ 109,078	\$ 43,287	\$ 33,206	\$ 13,322	\$ 12,960
Accumulated benefit obligations at December 31	\$ 108,910	\$ 103,032	\$ 43,287	\$ 25,518	\$ 13,322	\$ 12,960
<b>Change in plan assets:</b>						
Fair value of plan assets at January 1	\$ 117,948	\$ 114,630	\$ 23,324	\$ 17,407	\$	\$
Actual return on plan assets	5,823	15,110	2,571	3,430		
Transfer of plan assets		(6,578)				
Foreign currency exchange rate changes			1,681	1,946		
Corporate contributions	34	110	1,225	1,211	846	1,057
Participant contributions			594	541	510	493
Gross benefits paid	(5,372)	(5,324)	(1,145)	(1,211)	(1,356)	(1,550)
Fair value of plan assets at December 31	\$ 118,433	\$ 117,948	\$ 28,250	\$ 23,324	\$	\$
<b>Funded status of the plans:</b>						
Fair value of plan assets at December 31	\$ 118,433	\$ 117,948	\$ 28,250	\$ 23,324	\$	\$
Less projected benefit obligations	115,405	109,078	43,287	33,206	13,322	12,960
Funded status	3,028	8,870	(15,037)	(9,882)	(13,322)	(12,960)
Unrecognized actuarial loss	12,379	4,950	22,611	17,750	3,507	3,497
Unamortized prior service cost (benefit)	6,057	6,569			(557)	(1,106)
Unrecognized net transition obligation		3				
	\$ 21,464	\$ 20,392	\$ 7,574	\$ 7,868	\$ (10,372)	\$ (10,569)

**Amounts recognized in the balance sheets:**

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Prepaid pension costs	\$ 25,140	\$ 24,104	\$	\$	\$	\$
Accumulated other comprehensive loss			22,611	10,062		
Minimum pension liability			(15,037)	(2,194)		
Accrued benefit cost	(3,676)	(3,712)			(10,372)	(10,569)
	<u>\$ 21,464</u>	<u>\$ 20,392</u>	<u>\$ 7,574</u>	<u>\$ 7,868</u>	<u>\$ (10,372)</u>	<u>\$ (10,569)</u>

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The 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. The fluctuation in plan assets is attributable to benefit payments, contributions to the plans and returns on plan assets which were approximately 5% for 2004 and 14% for 2003 for the domestic plans and approximately 10% and 18%, respectively, for the foreign plan. In connection with the 2003 sale of the Plastics Processing Machinery group, plan assets and liabilities associated with those participants of \$6,578, were transferred to the buyer's plan.

The following summarizes target asset allocations as of December 31, 2004 and major asset categories as of December 31, 2004 and 2003:

	U.S. Pension Benefits			Foreign Pension Benefits				
	Target Allocation		Percentage of Plan Assets		Target Allocation		Percentage of Plan Assets	
	Dec. 31, 2004	2004	2003	Dec. 31, 2004	2004	2003		
Equity Securities	70	80%	<b>80%</b>	79%	70	80%	<b>73%</b>	75%
Fixed Income Securities	20	30%	<b>15%</b>	20%	20	30%	<b>24%</b>	23%
Other (primarily cash and cash equivalents)	0	10%	<b>5%</b>	1%			<b>3%</b>	2%

As required by the investment policy of the U.S. plans, investments in equity securities are primarily in common stocks of publicly traded U.S. companies, the majority of which pay dividends on a regular basis. No individual common stock is to comprise more than 5% of the equity security category and the portfolio is to diversify among numerous industries. Investments in fixed income securities are typically A-rated or better bonds with maturities of less than ten years, preferred stocks and convertible bonds. In January 2005, the Investment Committee of the Corporation approved the transfer of approximately 67% of the Plan assets to two additional investment managers with the objective of improving the overall performance of the asset portfolio. In connection with the transfer, the Investment Committee revised the investment policy to require a long-term asset allocation of 65% - 75% in equity securities, 25% - 35% in fixed income securities, and up to 10% in hedge and absolute return funds. Similar limitations on investments described above remain in effect.

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 return on plan assets is used. Differences between the actual return on plan assets and the expected return on plan assets become a component of unrecognized actuarial gains or losses. When these gains or losses exceed 10% of the greater of the projected benefit obligations or the market-related value of plan assets, they are amortized to net periodic pension costs over the average remaining service period of employees expected to receive benefits under the plans. As a result of favorable investment returns on plan assets since the early 1990s and a fully funded status, the domestic plans generate income. The foreign plan generates expense because the plan is not fully funded and service and interest costs exceed the expected return on plan assets.

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		
2004	2003	2002	2004	2003	2002	2004	2003	2002



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Service cost	\$ 2,040	\$ 2,148	\$ 1,984	\$ 1,111	\$ 800	\$ 972	\$ 277	\$ 218	\$ 173
Interest cost	6,662	6,804	6,815	1,858	1,357	1,409	772	781	748
Expected return on plan assets	(10,197)	(10,819)	(11,102)	(1,753)	(1,346)	(1,429)			
Amortization of prior service cost (benefit)	591	550	614				(548)	(548)	(548)
Actuarial (gain) loss	(134)	(4)	(881)	779	559	531	148	54	7
Net (income) cost	\$ (1,038)	\$ (1,321)	\$ (2,570)	\$ 1,995	\$ 1,370	\$ 1,483	\$ 649	\$ 505	\$ 380

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Assumptions are reviewed on an annual basis. In determining the expected long-term rate of return on plan assets for both the U.S. and foreign plans, the Corporation evaluates the long-term returns earned by the plans, the mix of investments that comprise plan assets and expectations of future long-term investment returns. The following assumptions were used to determine the benefit obligations as of December 31:

	U.S.		Foreign		Other Postretirement	
	Pension Benefits		Pension Benefits		Benefits	
	2004	2003	2004	2003	2004	2003
Discount rate	6.00%	6.25%	5.25%	5.50%	6.00%	6.25%
Rate of increases in compensation	3.00%	3.00%		3.25%		

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

	U.S.			Foreign			Other Postretirement		
	Pension Benefits			Pension Benefits			Benefits		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Discount rate	6.25%	6.50%	7.25%	5.50%	5.75%	6.25%	6.25%	6.50%	7.25%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.50%	7.18%	7.50%	7.50%			
Rate of increases in compensation	3.00%	3.00%	3.00%	3.25%	2.75%	2.80%			

In addition, the assumed health care cost trend rate at December 31, 2004 for other postretirement benefits is 9% for 2005, gradually decreasing to 4.75% in 2009. In selecting rates for current and long-term health care assumptions, the Corporation considers known health care costs 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, 2004 and the annual benefit expense for 2004 by approximately \$1,400 and \$150, respectively.

**NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES:**

Outstanding standby letters of credit as of December 31, 2004 approximated \$18,247, the majority of which serve as collateral for the Corporate IRBs.

In connection with the sale of NCII, the Corporation provided typical warranties to the buyer (such as those relating to income taxes, intellectual property, legal proceedings, product liabilities and title to property, plant and equipment) which primarily expire with the statutes of limitations. Losses suffered by the buyer as a result of the Corporation's breach of warranties are reimbursable by the Corporation up to approximately

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\$2,000. Based on experience while owning the segment, the Corporation believes no amounts will become due.

During 2004, the Davy Roll operations received \$1,498 (£800) of U.K. governmental grants toward the purchase and installation of certain machinery and equipment with approximately an additional \$400 (£200) available upon achievement of other milestones. Under the agreement, the grants are repayable if certain conditions are not met including achieving and maintaining a targeted level of employment through March 2009.

See Note 18 regarding litigation and Note 19 for environmental matters.

### NOTE 10 AUTHORIZED AND ISSUED SHARES:

Under the Corporation's Shareholder Rights Plan, each outstanding share of common stock carries one Preference Share Purchase Right (a Right). Under certain circumstances, each Right entitles the shareholder to buy 1/100 of a share of Series A Preference Stock at a \$45.00 exercise price. The Rights are exercisable only if a party acquires, or commences a tender offer to acquire, beneficial ownership of 20% or more of the Corporation's common stock without the approval of the independent directors on the Corporation's Board of Directors.

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After the Rights become exercisable, if anyone acquires 30% or more of the Corporation's stock or assets, merges into the Corporation or engages in certain other transactions, each Right may be used to purchase shares of the Corporation's common stock (or, under certain conditions, the acquirer's common stock) worth twice the exercise price. The Corporation may redeem the Rights, which expire in November 2008, for one cent per Right under certain circumstances. At December 31, 2004, there are 3,000,000 shares of unissued preference stock, of which 150,000 shares have been designated as Series A Preference Stock for issuance in connection with these Rights.

## NOTE 11 STOCK OPTION PLAN:

Under the terms of the 1997 Stock Option Plan, as amended, options may be granted to selected employees to purchase, in the aggregate, up to 600,000 shares of the common stock of the Corporation. Options may be either incentive or non-qualified and are subject to terms and conditions, including exercise price and timing of exercise, as determined by the Stock Option Committee of the Board of Directors. The options vest at date of grant and have a ten-year life. To date, options have been granted at an exercise price equivalent to the market price on the date of grant; accordingly, no stock-based compensation costs have been recorded in net (loss) income. All shares under options were exercisable during 2002-2004.

Stock option activity during 2002-2004 was as follows:

	Shares Under Options	Exercise Price	Weighted Average Exercise Price
Balance at January 1, 2002	528,600		\$ 10.43
Exercised during 2002	(23,600)	\$ 10.12	
Balance at December 31, 2002	505,000		\$ 10.44
Exercised during 2003	(21,000)	\$ 10.58	
Balance at December 31, 2003	484,000		\$ 10.44
<b>Exercised during 2004</b>	<b>(94,000)</b>	<b>\$ 10.30</b>	
<b>Balance at December 31, 2004</b>	<b>390,000</b>		<b>\$ 10.47</b>

No stock options were granted during the three year period ended December 31, 2004; accordingly, there would be no effect on net (loss) income or earnings per common share for these years had the Corporation applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

Stock options outstanding as of December 31, 2004 were as follows:

Weighted Average Shares Under Options	Weighted Average Exercise Price Per Share	Remaining Contractual Life in Years
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167,500	\$	10.00	4.0
217,500		10.81	5.3
5,000		11.13	6.0
<b>390,000</b>	<b>\$</b>	<b>10.47</b>	<b>4.8</b>

NOTE 12 OTHER COMPREHENSIVE LOSS:

Certain components of other comprehensive loss are presented net of income tax. 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. Tax expense associated with changes in the minimum pension liability on the U.S. plans in 2002 was \$(423); there was no similar minimum pension liability in 2004 and 2003. With respect to the foreign pension plan, a full valuation allowance has been provided against the deferred income tax asset arising from the changes in minimum pension liability since it is more likely than not the asset will not be realized. The tax benefit associated with changes in the fair value of derivatives was approximately \$1,126, \$1,375 and \$281 for 2004, 2003 and 2002, respectively, and approximately \$247, \$401 and \$26 for 2004, 2003 and 2002, respectively, for the reclassification adjustments. The tax (expense) benefit associated with changes in the unrealized holding gains and losses on securities was \$(82), \$(72) and \$151 for 2004, 2003 and 2002, respectively, and \$0, \$(2), and \$(17) for 2004, 2003 and 2002, respectively, for the reclassification adjustments.

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### NOTE 13 FINANCIAL INSTRUMENTS:

#### **Forward Foreign Exchange and Futures Contracts**

Certain of the Corporation's operations are subject to risk from exchange rate fluctuations in connection with sales in foreign currencies. To minimize this risk, forward foreign exchange contracts are purchased which are designated as fair value or cash flow hedges. As of December 31, 2004, approximately \$59,249 of anticipated foreign denominated sales have been hedged with the underlying contracts settling at various dates beginning in 2005 through December 2009. As of December 31, 2004, the fair value of contracts expected to settle within the next 12 months which is recorded in other current liabilities approximated \$1,881 and the fair value of the remaining contracts which is recorded in other noncurrent liabilities approximated \$4,766. The change in the fair value of the contracts designated as cash flow hedges is recorded as a component of accumulated other comprehensive income (loss) and approximated \$(3,662), net of income taxes, as of December 31, 2004. The change in fair value will be reclassified into earnings when the projected sales occur with approximately \$(1,004) expected to be released to earnings in 2005. Approximately \$(1,588), \$(1,306) and \$0 was released to pre-tax earnings in 2004, 2003 and 2002, respectively. Additionally, approximately \$(270) was ineffective in 2004 and released to pre-tax earnings.

Gains (losses) on foreign exchange transactions approximated \$(296), \$(206) and \$264 for 2004, 2003 and 2002, respectively.

In addition, one of the Corporation's subsidiaries is subject to risk from increases in the price of a commodity (copper) used in the production of inventory. To minimize this risk, futures contracts are entered into which are designated as cash flow hedges. At December 31, 2004, approximately 100% or \$2,440 of anticipated commodity purchases over the next 12 months are hedged. The fair value of the contracts expected to be settled within the next 12 months approximated \$430 and the fair value of the remaining contracts approximated \$9 as of December 31, 2004. The change in the fair value of the contracts designated as cash flow hedges is recorded as a component of accumulated other comprehensive income (loss) and approximated \$275, net of income taxes, as of December 31, 2004. The change in fair value will be reclassified into earnings when the projected sales occur with approximately \$270 expected to be released to earnings in 2005. Approximately \$909, \$107, \$(145) was released to pre-tax earnings in 2004, 2003 and 2002, respectively.

#### **Fair Value of Financial Instruments**

The fair market value of forward 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 other financial instruments classified as current assets or current liabilities approximates their carrying values due to the short-term maturity of these instruments. The fair value of the variable rate IRB debt approximates its carrying value.

### NOTE 14 INCOME TAXES:

At December 31, 2004, the Corporation had foreign tax credit carry forwards of \$638 which expire in 2010, foreign net operating loss carry forwards of \$12,788 which carry forward indefinitely, state net operating loss carry forwards of \$27,234 which begin to expire in 2005 through 2025 and capital loss carry forwards of \$10,802 which expire in 2008.



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(Loss) income from continuing operations before income taxes was comprised of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Domestic	\$ 1,911	\$ 3,724	\$ 11,605
Foreign	(4,494)	918	(624)
	<u>\$ (2,583)</u>	<u>\$ 4,642</u>	<u>\$ 10,981</u>

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Current:</b>			
Federal	\$ 87	\$ (359)	\$ 1,785
State	(115)	113	75
Foreign	104	291	6
	<u>76</u>	<u>45</u>	<u>1,866</u>
<b>Deferred:</b>			
Federal	(49)	1,433	2,430
State	(11)	256	394
Foreign			
	<u>(60)</u>	<u>1,689</u>	<u>2,824</u>
	<u>\$ 16</u>	<u>\$ 1,734</u>	<u>\$ 4,690</u>

Deferred income tax assets and liabilities were comprised of the following:

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Employment-related liabilities	\$ 4,999	\$ 5,394
Pension liability foreign	6,973	3,171
Depreciation foreign		307
Liabilities related to discontinued operations and restructurings	1,267	1,682
Net operating loss foreign	3,836	2,772
Net operating loss state	1,683	1,263
Capital loss carry forward	4,092	3,514
Mark-to-market adjustment-derivatives	2,161	1,283
Other	4,014	3,727



Gross deferred income tax assets	<u>29,025</u>	<u>23,113</u>
Valuation allowance	<u>(16,778)</u>	<u>(13,073)</u>
	<u>12,247</u>	<u>10,040</u>
<b>Liabilities</b>		
Depreciation	<u>(15,570)</u>	<u>(14,484)</u>
Prepaid pensions	<u>(9,563)</u>	<u>(9,642)</u>
Other	<u>(620)</u>	<u>(1,059)</u>
Gross deferred income tax liabilities	<u>(25,753)</u>	<u>(25,185)</u>
Net deferred income tax liability	<u>\$ (13,506)</u>	<u>\$ (15,145)</u>

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

	2004	2003	2002
	<u>          </u>	<u>          </u>	<u>          </u>
Computed at statutory rate	\$ (904)	\$ 1,625	\$ 3,843
Foreign income taxes	104	291	6
State income taxes	(89)	235	305
Valuation allowance	1,276	18	901
Extraterritorial income regime	(313)	(200)	(200)
Meals and entertainment	137	128	123
Tax-exempt income	(63)	(33)	(7)
Dividend received deduction	(57)	(18)	
Tax credits	(104)	(280)	
Other permanent items net	29	(32)	(281)
	<u>          </u>	<u>          </u>	<u>          </u>
	\$ 16	\$ 1,734	\$ 4,690
	<u>          </u>	<u>          </u>	<u>          </u>

## NOTE 15 OPERATING LEASES:

The Corporation leases certain factory and office space and certain office equipment. Operating lease expense was \$779 in 2004, \$776 in 2003 and \$897 in 2002. Operating lease payments for subsequent years are \$777 for 2005, \$696 for 2006, \$573 for 2007, \$473 for 2008, \$417 for 2009 and \$2,387 thereafter.

## NOTE 16 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 \$750 annually for 2004, 2003 and 2002.

## NOTE 17 RELATED PARTIES:

The Corporation purchased industrial supplies from a subsidiary of The Louis Berkman Investment Company (LB Co) in the ordinary course of business. Certain directors of the Corporation are either officers, directors and/or shareholders of LB Co. Purchases approximated \$1,604 in 2004, \$1,432 in 2003 and \$1,420 in 2002. In addition, LB Co paid the Corporation approximately \$198 in 2004, \$242 in 2003 and \$235 in 2002 for certain administrative services. At December 31, 2004 and 2003, the net amount payable to LB Co approximated \$113 and \$91, respectively.

## NOTE 18 LITIGATION: (claims not in thousands)

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The Corporation and its 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 of certain of the Corporation's subsidiaries. Those subsidiaries, and in some cases, the Corporation, are defendants (among a number of defendants, typically over 50 and often over 100) in cases filed in various state and federal courts. The following table reflects information about these cases:

	2004	2003	2002
Approximate open claims at end of period	<b>24,700</b>	18,000	16,339
Gross settlement and defense costs (in 000's)	<b>\$ 4,821</b>	\$ 2,335	\$ 420
Approximate claims settled or dismissed during period	<b>600</b>	250	20

Of the 24,700 claims pending as of December 31, 2004, over 15,000 were made in six lawsuits filed in Mississippi in 2002. Substantially all settlement and defense costs in the above table were paid by insurers.

On February 7, 2003, Utica Mutual Insurance Company ( Utica ) filed a lawsuit in the Supreme Court of the State of New York, County of Oneida ( Oneida County Litigation ) against the Corporation and certain of the subsidiaries named in the underlying asbestos actions (the Policyholder Defendants ) and three other insurance carriers that provided primary coverage to the Corporation (the Insurer Defendants ). In the lawsuit, Utica disputed certain coverage obligations to the Policyholder Defendants and asserted that the Insurer Defendants also had defense and indemnity obligations to the Policyholder Defendants.

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As of November 24, 2003, the Policyholder Defendants and Utica had settled the Oneida County Litigation as among themselves, although the Oneida County Litigation remained pending because settlement had not been reached with all of the Insurer Defendants. Pursuant to the settlement, Utica accepted financial responsibility, subject to the limits of its policies and based on fixed defense percentages and specified indemnity allocation formulas, for a substantial majority of the asbestos personal injury claims arising out of exposure to alleged asbestos-containing components in products distributed by the Policyholder Defendants that are subsidiaries of the Corporation. Utica's agreed share of such defense and indemnification costs varies depending upon the alleged asbestos-containing product at issue, whether Utica's primary or umbrella policies are responsible for the claims and, for indemnification costs only, the years of the claimant's exposure to asbestos.

On January 23, 2004, Utica sought the court's approval to file an amended complaint seeking additional relief against the Policyholder Defendants that is substantially identical to the relief Utica seeks against those defendants in a separate lawsuit filed by Howden Buffalo, Inc. (Howden) in the United States District Court for the Western District of Pennsylvania (the Pennsylvania Litigation) that is described below. Utica also sought to add Howden as a defendant in the Oneida County Litigation.

On November 25, 2003, Howden filed the Pennsylvania Litigation against the Corporation, Utica and two of the Insurer Defendants (with Utica, the Howden Insurer Defendants). Howden alleges that (1) Buffalo Forge Company, a former subsidiary of the Corporation, or its predecessors (collectively or individually, Buffalo Forge) had rights in certain policies issued by the Howden Insurer Defendants; (2) those rights were transferred in the 1993 transaction whereby the Corporation sold all of the capital stock of Buffalo Forge to Howden Group America, Inc. and Howden Group Canada, Ltd.; and (3) those rights currently reside in Howden, as successor to Buffalo Forge. In the lawsuit, Howden is seeking a judicial determination of the rights and duties of the Corporation and the Howden Insurer Defendants under those policies with respect to asbestos-related personal injury claims asserted against Howden arising from the historical operations of Buffalo Forge, as well as monetary damages from Utica as a result of its denial of Howden's rights under policies it issued that allegedly covered Buffalo Forge. The Corporation intends to defend the lawsuit vigorously. If Howden is successful in this lawsuit and obtains coverage from the Howden Insurer Defendants, however, any insurance recovery obtained by Howden under those policies could erode, in whole or in part, the applicable coverage limits, which would reduce or eliminate coverage amounts that otherwise may be available to the Corporation under those policies.

As one of the Howden Insurer Defendants, Utica has filed a cross-claim against the Corporation, and a third-party complaint against two of its subsidiaries, seeking a declaratory judgment that, to the extent Utica has defense or indemnity obligations to Howden: (1) Utica is entitled to contribution, subrogation and reimbursement from the Corporation or its subsidiaries with respect to defense and indemnity payments paid on behalf of the Corporation or its subsidiaries; and (2) the Corporation and its subsidiaries have no rights under the insurance contracts issued by Utica to Buffalo Forge. The Corporation believes that Utica's cross-claim and third party claims, as well as the similar relief Utica now seeks in the Oneida County Litigation, are barred by a release provided in the settlement of the Oneida County Litigation and is otherwise without merit, and intends to assert that position in this lawsuit. If Utica is successful in obtaining the declaratory relief it seeks, it could eliminate insurance coverage provided to the Corporation by Utica.

The Corporation believes it has meritorious defenses to the Howden lawsuit and Utica's cross claims. In addition, based on the Corporation's claims experience to date with the underlying asbestos claims, the available insurance coverage and the identity of the subsidiaries that are named in the cases, the Corporation believes that the pending legal proceedings will not have a material adverse effect on its consolidated financial condition or liquidity. The outcome of particular lawsuits, however, could be material to the consolidated results of operations of the period in which the costs, if any, are recognized.

There can be no assurance that the Corporation or certain of its subsidiaries will not be subjected to significant additional claims in the future or that the Corporation's or its subsidiaries' ultimate liability with respect to these claims will not present significantly greater and longer lasting financial exposure than presently contemplated. The Corporation has made an accrual in its financial statements to reflect its estimated share of costs for pending asbestos claims, based on deductible and similar features of its relevant insurance policies. In addition, the Corporation incurred uninsured legal costs in connection with advice on certain matters pertaining to these asbestos cases including insurance litigation, case management and other issues. These costs amounted to \$990, \$2,393 and \$670 in 2004, 2003 and 2002, respectively.

NOTE 19 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 four third-party landfill sites. In addition, as a result of the sale of the Plastics Processing Machinery segment, the Corporation retained the liability to remediate certain environmental contamination at two of the sold locations and has agreed to indemnify the buyer against third-party claims arising from the discharge of certain contamination from one of these

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locations at a cost estimate of \$2,100 which will be paid over several years and was provided for in 2003. 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.

**NOTE 20 RESTRUCTURING AND OTHER CHARGES:**

In 2002, the Corporation made permanent reductions in manning levels at several of its operations. The pre-tax restructuring charge approximated \$616 primarily for employee severance costs for the 64 employees terminated is offset by the reversal of the outstanding restructuring and other charges provisions of \$662 at December 31, 2001 relating to the 2001 closure of the Belgian facility, resulting in a net restructuring credit of \$46. Annual savings arising from the restructurings approximated \$3,500 in 2004 and 2003 resulting primarily from reduced labor costs; however, the corresponding impact on earnings is not evident due primarily to product mix and higher costs of raw materials, energy and employee benefits.

The remaining assets of the Belgium facility were sold in July 2002 resulting in a gain of approximately \$917.

**NOTE 21 BUSINESS SEGMENTS:**

The Corporation organizes its business into two operating segments. Summarized financial information concerning the Corporation's reportable segments is shown in the following tables. Corporate assets included under Identifiable Assets represent cash and cash equivalents, deferred income tax assets, prepaid pensions 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 increase in 2004 is due primarily to \$1,000 of professional fees incurred in support of the Corporation's efforts to meet the requirements of Sarbanes-Oxley. The accounting policies are the same as those described in Note 1.

	Net Sales			(Loss) Income from Continuing Operations Before Income Taxes		
	2004	2003	2002	2004	2003	2002
Forged and Cast Rolls	\$ 126,162	\$ 110,431	\$ 95,901	\$ (1,208)	\$ 6,343	\$ 4,093
Air and Liquid Processing <sup>(1)</sup>	76,699	69,802	91,855	4,819	3,504	11,547
<b>Total Reportable Segments</b>	<b>202,861</b>	<b>180,233</b>	<b>187,756</b>	<b>3,611</b>	<b>9,847</b>	<b>15,640</b>
Corporate costs, including other income (expense)				(6,194)	(5,205)	(4,659)
	<b>\$ 202,861</b>	<b>\$ 180,233</b>	<b>\$ 187,756</b>	<b>\$ (2,583)</b>	<b>\$ 4,642</b>	<b>\$ 10,981</b>

**Capital Expenditures**

**Depreciation Expense**

**Identifiable Assets**

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	2004	2003	2002	2004	2003	2002	2004	2003	2002
Forged and Cast Rolls	\$ 6,505	\$ 7,383	\$ 3,208	\$ 4,536	\$ 4,406	\$ 4,254	\$ 125,851	\$ 129,618	\$ 112,028
Air and Liquid Processing	566	1,124	936	1,696	1,766	1,866	47,457	42,045	44,647
Corporate	80	18	40	41	42	43	64,636	62,485	54,961
	7,151	8,525	4,184	6,273	6,214	6,163	237,944	234,148	211,636
Discontinued operations									24,826
	\$ 7,151	\$ 8,525	\$ 4,184	\$ 6,273	\$ 6,214	\$ 6,163	\$ 237,944	\$ 234,148	\$ 236,462

	Net Sales <sup>(3)</sup>			Long-Lived Assets			(Loss) Income from Continuing Operations Before Income Taxes		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
<b>Geographic Areas:</b>									
United States <sup>(2)</sup>	\$ 101,925	\$ 95,314	\$ 120,813	\$ 93,091	\$ 93,205	\$ 96,658	\$ 278	\$ 3,724	\$ 11,605
Foreign	100,936	84,919	66,943	7,906	6,547	2,343	(2,861)	918	(624)
	\$ 202,861	\$ 180,233	\$ 187,756	\$ 100,997	\$ 99,752	\$ 99,001	\$ (2,583)	\$ 4,642	\$ 10,981

(1) (Loss) income from continuing operations before income taxes for 2004, 2003 and 2002 was impacted by litigation costs of \$972, \$2,285 and \$564, respectively.

(2) (Loss) income from continuing operations before income taxes for 2004, 2003 and 2002 was impacted by litigation costs of \$990, \$2,393 and \$670, respectively.

(3) Net sales are attributed to countries based on location of customer.

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## NOTE 22 RESTATEMENT:

Subsequent to the issuance of the Corporation's consolidated financial statements for the year ended December 31, 2004, the Corporation concluded:

(1) Based on supplemental accounting interpretation recently issued, that auction-rate securities did not meet the definition of cash equivalents and should therefore be classified as short-term marketable securities, and

(2) Its outstanding Industrial Revenue Bond debt should be classified as a current liability, despite principal not beginning to become due until 2020, since the bonds can be put back to the Corporation on short notice if, although considered remote by the Corporation, the bonds are unable to be remarketed and bondholders seek reimbursement from the letters of credit which serve as collateral for the bonds. Any payments under the letters of credit are required to be repaid by the Corporation immediately.

The effect of changing the classification of its investments in auction-rate securities from cash and cash equivalents to short-term marketable securities and its Industrial Revenue Bond debt from a long-term liability to a current liability on the consolidated balance sheets as of December 31, 2004 and 2003 and the consolidated statements of cash flows for the years ended December 31, 2004 and 2003, is indicated below. The Corporation did not invest in auction-rate securities prior to 2003.

	2004		2003	
	As Previously Reported	As Restated	As Previously Reported	As Restated
<b>Consolidated Balance Sheets as of December 31:</b>				
Cash and cash equivalents	\$ 36,795	\$ 11,340	\$ 35,739	\$ 15,489
Short-term marketable securities		25,455		20,250
Total current liabilities	41,170	54,481	34,042	47,353
Long-term debt obligations	13,311		13,311	

	2004		2003	
	As Previously Reported	As Restated	As Previously Reported	As Restated
<b>Consolidated Statements of Cash Flows for the Year Ended:</b>				
Purchases of short-term marketable securities	\$	\$ (48,635)	\$	\$ (51,250)
Proceeds from the sale of short-term marketable securities		43,430		31,000
Net cash flows (used in) provided by investing activities	(5,111)	(10,316)	6,863	(13,387)
Net increase (decrease) in cash and cash equivalents	1,056	(4,149)	7,950	(12,300)
Cash and cash equivalents at beginning of period	35,739	15,489	27,789	27,789
Cash and cash equivalents at end of period	36,795	11,340	35,739	15,489





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Amounts differ from that previously reported in the applicable quarters Form 10-Q due to reversal of deferred income tax liabilities previously provided for interest receivable from the Corporation's U.K. subsidiary on intercompany debt.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	As	As	As	As	As	As	Not	
	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	
<i>(in thousands, except per share amounts)</i>								
<b>2004</b>								
Net sales	\$ 46,787	\$ 46,787	\$ 53,646	\$ 53,646	\$ 50,922	\$ 50,922	\$	51,506
Gross profit <sup>(a)</sup>	10,035	10,035	10,228	10,228	6,792	6,792		5,982
Net income (loss) <sup>(b)</sup>	1,209	1,309	839	938	(1,878)	(1,780)		(3,066)
Basic and diluted earnings per common share:								
Net income (loss)-basic <sup>(b)</sup>	0.12	0.14	0.09	0.10	(0.19)	(0.18)		(0.32)
Net income (loss)-dilutive <sup>(b)</sup>	0.12	0.13	0.09	0.10	(0.19)	(0.18)		(0.32)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	As	As	As	As	As	As	As	
	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated
<i>(in thousands, except per share amounts)</i>								
<b>2003</b>								
Net sales	\$ 43,530	\$ 43,530	\$ 45,496	\$ 45,496	\$ 43,358	\$ 43,358	\$ 47,849	\$ 47,849
Gross profit <sup>(a)</sup>	9,105	9,105	10,206	10,206	9,144	9,144	10,039	10,039
Net income (loss) <sup>(b)</sup>	197	285	391	479	(4,081)	(3,992)	944	1,038
Basic and diluted earnings per common share:								
Net income (loss) <sup>(b)</sup>	0.02	0.03	0.04	0.05	(0.42)	(0.41)	0.10	0.11

<sup>(a)</sup> Gross profit excludes depreciation.

<sup>(b)</sup> The reversal of deferred income tax liabilities improved net income (loss) by \$100, \$99 and \$98 for the first, second and third quarters in 2004, respectively, and basic and diluted earnings per common share by approximately \$0.01 per share for each of the same quarters in 2004 and improved net income (loss) by \$88, \$88, \$89 and \$94 for each of the respective quarters in 2003 and basic and diluted earnings per common share by approximately \$0.01 per share per quarter in 2003.

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**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, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the consolidated financial statements, on January 1, 2002, the Corporation changed its method of accounting for goodwill to adopt Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

As discussed in Note 22, the accompanying 2004 and 2003 consolidated financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2005 (May 31, 2005 as to the material weakness described in Management's Report on Internal Control Over Financial Reporting, as revised) presented on page 35 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an adverse opinion on the effectiveness of the Corporation's internal control over financial reporting because of a material weakness.

/s/ Deloitte & Touche, LLP

Pittsburgh, Pennsylvania

March 11, 2005 (May 31, 2005 as to the effects of the restatement discussed in Note 22)



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**Table of Contents****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 the 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. As a result of the material weakness described below which resulted in the restatement of the Corporation's consolidated balance sheets as of December 31, 2004 and 2003, as explained elsewhere in this Form 10-K/A, the principal executive officer and principal financial officer concluded that the Corporation's disclosure controls and procedures were not effective as of December 31, 2004.

*Management's Report on Internal Control Over Financial Reporting (as revised).* 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.

In the Corporation's 2004 annual report on Form 10-K/A, filed on March 11, 2005, management of the Corporation included Management's Report on Internal Control Over Financial Reporting, which expressed a conclusion by management that as of December 31, 2004, the Corporation's internal control over financial reporting was effective. As a result of the restatement of its consolidated financial statements, as discussed in Note 22 to the consolidated financial statements, management has concluded that a material weakness in internal control over financial reporting existed as of December 31, 2004, and accordingly, has revised its assessment of the effectiveness of the Corporation's internal control over financial reporting.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Due to the change in the classification of the Industrial Revenue Bond debt from a long-term liability to a current liability, as discussed in Note 22 to the consolidated financial statements, management has concluded that a material weakness existed in the Corporation's internal control over financial reporting as of December 31, 2004. Specifically, there were ineffective controls regarding the review of debt agreements for the identification and evaluation of relevant terms and conditions to determine the proper balance sheet classification of the related debt instruments. As a result, the Corporation improperly classified certain redeemable instruments that were subject to remarketing agreements as long term. This error resulted in the restatement of the consolidated balance sheets for the years ended December 31, 2004 and 2003.

In making this revised assessment, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on those criteria and management's revised assessment, management, including the principal executive officer and principal financial officer, concluded that the Corporation's internal control over financial reporting was not effective as of December 31, 2004, solely as a result of the change in classification of the Industrial Revenue Bond debt.

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

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*Changes in Internal Control.* There were no changes in our internal control over financial reporting during the quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Since December 31, 2004, management has made changes to remediate the material weakness described above. The Corporation's management, including the principal executive officer and principal financial officer, believe that the material weakness in the Corporation's internal control over financial reporting with respect to the review and evaluation debt agreements, including redeemable instruments that are subject to remarketing agreements, has been remediated. The remedial actions included:

Requiring all future debt agreements to be reviewed by the finance department for proper balance sheet classification.

Improving understanding of relevant personnel of the requirements of EITF D-61, Classification by the Issuer of Redeemable Instruments That Are Subject to Remarketing Agreements .

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting (as revised), that Ampco-Pittsburgh Corporation and subsidiaries (the Corporation) did not maintain effective internal control over financial reporting as of December 31, 2004, because of the effect of the material weakness identified in management's assessment 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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 report dated March 11, 2005, we expressed an unqualified opinion on management's assessment that the Corporation maintained effective internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting. As described in the following paragraph, the Corporation subsequently identified material misstatements in its 2004 and 2003 annual consolidated financial statements which caused such annual financial statements to be restated. These misstatements were determined to be the result of a material weakness as further discussed in the following paragraph. Accordingly, management subsequently revised its assessment about the effectiveness of the Corporation's internal control over financial reporting and our present opinion on the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2004 expressed herein is different from that expressed in our previous report.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's revised assessment: There were ineffective controls regarding the review of debt agreements for the identification and evaluation of relevant terms and conditions to determine the proper balance sheet classification of the related debt instruments. As a result, the Corporation improperly classified certain redeemable instruments that were subject to remarketing agreements as long term. This error resulted in the restatement of the consolidated balance sheets for the years ended

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December 31, 2004 and 2003. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2004 (as restated), of the Corporation and this report does not affect our report on such restated financial statements.

In our opinion, management's revised assessment that the Corporation did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of control criteria, the Corporation has not maintained effective internal control over financial reporting as of December 31, 2004, 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, 2004 (as restated) of the Corporation and our report dated March 11, 2005 (May 31, 2005 as to the effects of the restatement discussed in Note 22) expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the restatement discussed in Note 22 to the consolidated financial statements.

/s/ Deloitte & Touche, LLP

Pittsburgh, Pennsylvania

March 11, 2005 (May 31, 2005 as to the effect of the material weakness described in Management's Report on Internal Control Over Financial Reporting, as revised)

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**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 Shareholders' Equity

Consolidated Statements of Cash Flows

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/A. 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.

	<u>Schedule Number</u>	<u>Page Number</u>
<u>Index to Ampco-Pittsburgh Corporation Financial Data</u>		40
<u>Report of Independent Registered Public Accounting Firm</u>		41
<u>Valuation and Qualifying Accounts</u>	II	42

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 Quarterly Report on Form 10-Q for the quarter ended September 30, 1994; the Quarterly Report on Form 10-Q for the quarter ended March 31, 1996; the Quarterly Report on Form 10-Q for the Quarter ended June 30, 2001; and the Quarterly Report on Form 10-Q for the Quarter ended June 30, 2004.

(4) **Instruments defining the rights of securities holders**

a. Rights Agreement between Ampco-Pittsburgh Corporation and Chase Mellon Shareholder Services dated as of September 28, 1998.

Incorporated by reference to the Current Report on Form 8-K dated September 28, 1998.

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**(10) Material Contracts**

- a. 1988 Supplemental Executive Retirement Plan

Incorporated by reference to the Quarterly Report on Form 10Q for the quarter ended March 31, 1996.

- b. Severance Agreements between Ampco-Pittsburgh Corporation and certain officers and employees of Ampco-Pittsburgh Corporation.

Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended September 30, 1988; the Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, the Annual Report on Form 10-K/A for fiscal year ended December 31, 1994; the Quarterly Report on Form 10-Q for the quarter ended June 30, 1997; the Annual Report on Form 10-K/A for fiscal year ended December 31, 1998; and the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.

- c. 1997 Stock Option Plan

Incorporated by reference to the Proxy Statement dated March 14, 1997 and the Proxy Statement dated March 15, 2000.

**(21) Significant Subsidiaries**

**(23) Consent of Expert**

**Deloitte & Touche LLP**

- (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.**

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**SIGNATURE**

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.

**AMPCO-PITTSBURGH CORPORATION**

May 31, 2005

(Registrant)

By: /s/ MARLISS D. JOHNSON  
**Vice President,**

**Controller and Treasurer (Principal Financial Officer)**  
**Marliss D. Johnson**

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**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, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, and have issued our report thereon dated March 11, 2005 (May 31, 2005 as to the effects of the restatement discussed in Note 22) (which report expresses an unqualified opinion and includes explanatory paragraphs concerning the restatement discussed in Note 22 to the consolidated financial statements and the change in method of accounting for goodwill in 2002); such consolidated financial statements and report thereon are included in this Annual Report on Form 10-K/A. Our audits also included the consolidated financial statement schedule II, Valuation and Qualifying Accounts of the Corporation listed in Item 15. This 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 11, 2005 (May 31, 2005 as to the effects of the restatement discussed in Note 22)



**Table of Contents****SCHEDULE II****Ampco-Pittsburgh Corporation****Valuation and Qualifying Accounts***For the Years Ended December 31, 2004, 2003 and 2002*

Description	Balance at beginning of period	Charged to costs and expenses	Deductions describe	Balance at end of period
<b>Year ended December 31, 2004</b>				
Allowance for doubtful accounts	\$ 542,594	\$ 399,909	\$ 13,174 <sup>(1)</sup>	\$ 955,677
<b>Year ended December 31, 2003</b>				
Allowance for doubtful accounts	\$ 1,468,034	\$ 745,228	\$ (1,670,668) <sup>(2)</sup>	\$ 542,594
<b>Year ended December 31, 2002</b>				
Allowance for doubtful accounts	\$ 1,306,368	\$ 337,735	\$ (176,069) <sup>(2)</sup>	\$ 1,468,034

<sup>(1)</sup> Represents recovery of accounts receivable customer balances previously written off net of current year writeoff of accounts receivable customer balances.

<sup>(2)</sup> Represents primarily writeoff of accounts receivable customer balances.