OUR SHARED MISSION

The American Arbitration Association is dedicated to effective, efficient and economical methods of dispute resolution through education, technology, and solutions-oriented service.

OUR SHARED VISION

The American Arbitration Association will continue to be the global leader in conflict management – built on integrity, committed to innovation and embracing the highest standards of client service achievable in every action.

OUR SHARED COMMITMENT TO DIVERSITY

The American Arbitration Association is the global leader in conflict management with core values of integrity and service. Our integrity demands impartial and fair treatment of all people with whom we come in contact, regardless of gender, race, ethnicity, age, religion, sexual orientation, or other characterization. Our conflict management services put into practice our goal for the resolution of disputes between parties with different perspectives, experiences and backgrounds.

Because of the breadth of the Association’s work and the global reach of its services, we recognize the importance and contribution of a diverse work force, a diverse Roster of Neutrals and diverse Board and we commit to respect and increase diversity in all of our endeavors.
If there is a theme permeating this Annual Report, it is that change, positive change, is a function of the need to keep our promises to our customers. The promises that we have made are the same ones that have driven us since the American Arbitration Association’s birth in 1926: that we will engage in meaningful and continuous improvement to meet the needs of a growing number of alternative dispute resolution (ADR) users in a variety of fields, and infuse all of our actions with the steadfast drive to provide our clients with the highest level of service in a cost- and time-effective manner.

Keeping such promises in the climate of perpetual change in which the world of dispute resolution seems to exist is never easy, but 2012 brought extra change and challenges to the AAA/ICDR. A search committee consisting of AAA Board Members was formed to find a new President and CEO for the organization—a task that had not been undertaken for almost 20 years. The search and the transition to new leadership were carried out in a deliberate and patient manner and the subsequent response—both internally and externally—to the Committee’s decision has been nothing short of overwhelming. For this, I, the officers and senior team, Board, and all of the staff, are extremely grateful.

The transition has been smooth, yet dynamic and energizing at the same time. For many months, I interviewed staff at all levels of the AAA, Board Members, past Board Members, end-users, lawyers, and our arbitrators and mediators. I discovered that while there is a real sense of pride in the AAA/ICDR as an institution, there is also a sense of need for transformation in very specific areas: elevating the skill level of our staff, re-establishing our local presence around the country, extending the reach of our marketing and advertising, placing greater emphasis on our international...
arm—the ICDR, and refining our strategies for the future. Fortunately, all of these areas are within our ability to not only improve, but to elevate to new levels of success … which is what we intend to do.

The changeover in leadership aside, last year was an enormously busy one for the AAA. In March 2012, we launched an entirely redesigned website, www.adr.org, to an exceedingly positive response. The site has been visited nearly 920,000 times since March with more than 3 million page views tallied. Visitors from 200 countries and territories spent more than 58,000 hours viewing the site—the equivalent of 2,441 days!

We launched ClauseBuilder, a new online tool to help people build customized arbitration clauses and not just roll over legacy clauses they have in their files or on their computers. We created it to make it easy to construct dispute resolution processes that are efficient and appropriate for a range of transactions, and also to educate users along the way.

We secured our offices for the next 15 years here in New York City: a hearing facility in Midtown, and another office located downtown in the Financial District that will house additional hearing and election facilities, and our headquarters’ staff. Both will have state of the art technology and conference capabilities as well as smartly configured staff space and productivity solutions.

We saved hundreds of thousands of dollars annually with the installation of a state of the art, internet-based telephone system that enables staff to transfer calls from one city to another as well as optimize internal conference calling without having to use outside conference services.

The work on our new case management software platform, called PRISM, continued and we expect to launch it this Fall. It will make the case management staff much more productive and give them time to better focus on clients’ needs. We also began designing our new mediation platform, www.mediation.org, and commenced recruitment efforts to find a dynamic new leader for our mediation effort.

In response to client concerns about fees and the talent that the AAA correspondingly deploys to handle their cases and needs, the senior team and our Human Resources department undertook a comprehensive examination of these concerns. Addressing our case management competency and talent issues became a priority, with the result that vice presidents are now directly engaged in the oversight of large complex cases among others. As a result, our employees with the highest level of dispute resolution expertise are increasingly interacting with parties and their attorneys to expedite the arbitration process, remove obstacles, and assist in resolving any problems that may arise.

We established a new approach to our budgeting process that should enable us to address talent and compensation issues. With this new approach, we can now see where best to deploy or reallocate our resources. We can identify the sources of our funding and make necessary adjustments. We have raised some fees to make particular caseloads more self-sustaining, since we cannot rely on one caseload to support another unrelated caseload, or expect some users to pay the costs of other users’ cases. Such a framework was not only unfair, it was clearly high-risk in times of recession when fewer cases are filed.

2012 also brought significantly improved financial health to the AAA compared to the prior year, as is reflected in the substantial increase in the AAA’s net assets.

To put the aforementioned into perspective, all of the AAA’s funding comes from just a few sources:

- B2B and Labor/Management caseloads
- No-Fault State Insurance caseloads from New York and Minnesota
- Employment and consumer caseloads
- Occasional special claims programs
- AAA education and training fees
- Unique opportunities, such as our partnership with Bahrain

Literally and figuratively, the AAA is on the move. “Progress” underlies our every action. While we continue to address our core business—the daily facilitation of ADR processes, chiefly arbitration and mediation—we are actively engaged in reinventing ourselves to ensure that our service delivery offers substantive value and fulfills our promises to the range of individuals and organizations that use our services.

We plan to report back to you next year about a great many successes. But, perhaps more importantly, we wish for you to be “along for the ride” during this entire transformative process and, well before next year, weigh in with your ideas and suggestions about our many initiatives.
SERVICES OVERVIEW
Case filings increased in the employment area. There were 1,857 employment arbitration cases filed in 2012, a nearly 5% increase over 2011’s filings. This reflects a boost in both Employment Plan cases and Individually Negotiated Contract cases.

In 2012, the Labor, Employment, Elections Division continued to focus on the AAA’s promise to optimize speed and economy in every undertaking. In addition to conducting several Arbitrator Continuing Education (ACE) courses focusing on methodologies by which the time and costs of conducting an arbitration can be controlled, the division rolled out two additional programs: “Are You Really Running an Efficient Hearing?” and “What We Have Here is a Failure to Communicate.”

The former was geared at streamlining the arbitration hearing and reducing cost. The latter highly rated and interactive program combined best practices and case-specific client feedback. Both programs were featured at the AAA’s Neutral’s Conference, were subsequently offered throughout the year, and reached more than 300 neutrals.

Ensuring the quality of the National Roster of Neutrals throughout the country remains a fundamental component of the AAA’s efforts to improve client engagement. The National Recruitment Review Committee, established in late 2011, was re-configured and improved to better continue its oversight of the application and recruitment process of potential arbitrators.

Last year, the AAA was selected to oversee the annual election for a large union of state and local government employees. The size of the election was historic, involving more than 4,500 delegates. A highly skilled and experienced, cross-divisional AAA team coordinated and oversaw the voting process. On election day, the 40+ member team was in place and ready to verify delegate eligibility and issue the appropriate number of assigned ballots. The accuracy of the tabulation was verified using both scanning and manual verification at the site. At the conclusion of the voting process, the AAA successfully tabulated approximately 1.2 million votes within an eight-hour period.

ENSURING THE QUALITY OF THE NATIONAL ROSTER OF NEUTRALS THROUGHOUT THE COUNTRY REMAINS A FUNDAMENTAL COMPONENT OF THE AAA’S EFFORTS TO IMPROVE CLIENT ENGAGEMENT.

STATE INSURANCE CASELOADS

The New York Insurance programs continued to experience rapid growth to reach another record volume of case filings in 2012. There were 143,000 filings in the No-Fault program, a 50% increase over 2011 and more than double the volume of 2010. The AAA engaged and trained 31 new full-time arbitrators for this caseload during the second half of 2012 and also increased support staff to meet caseload needs. The Supplementary Uninsured/Underinsured Motorist (SUM) program experienced growth of 4% in 2012, to nearly 2,500 cases. Due to computerization, the paperless hearings in No Fault, and other efficiencies, total AAA administrative costs (not including arbitrator compensation) in 2012 were lower than such costs had been in 2007 for a much smaller volume of cases.

In Minnesota, the AAA was reappointed by the Minnesota Supreme Court as the administrator for the state’s No-Fault arbitration caseload for the next four years. The appointment resulted from the Supreme Court’s 2012 request for proposal for an arbitration organization for the no-fault process under Minnesota Statute 65B.525. The AAA was one of a number of provider organizations that responded to the RFP.
COMMERCIAL

In 2012, the Commercial Division built a technology platform and designed the service delivery model for the AAA’s administration of an Independent Review Program, which is a function of the Copyright Alert System developed by the Center for Copyright Information in Washington, D.C. The Program allows subscribers of the five largest Internet Service Providers in the U.S. to appeal allegations of illegal file sharing of copyrighted material via peer-to-peer computer networks.

The AAA joined with the American Bar Association in 2012 to promote women as arbitrators and mediators. The Association published a special edition of the Dispute Resolution Journal, entitled “Women’s Voices in ADR,” which featured substantive articles on ADR written by women. The special edition was issued to coincide with the release of the ABA Section of Dispute Resolution’s magazine devoted to women in the ADR profession.

Based on our successful management of previous foreclosure mediation programs, in August 2012 the AAA, in conjunction with the University of South Florida Conflict Resolution Collaborative, was appointed by Florida’s 12th Judicial Circuit Court to manage their Residential Mortgage Mediation Program. The program provides court-ordered and voluntary residential mortgage foreclosure mediation for homes located in Sarasota, Manatee, and Desoto Counties. The AAA has provided targeted training and resources for lenders, law firms, local mediators, and the public, and manages from 350-400 cases per month.

CONSTRUCTION

As concerns continue throughout the construction industry about managing the cost and time of arbitration, in 2012 the AAA’s National Construction Dispute Resolution Committee (NCDRC) undertook a comprehensive effort to provide arbitration parties, advocates and neutrals with additional metrics to help them evaluate their cases against those of their peers. The metrics included cases that were graded on a scale of A to F. The top 10% of cases with the shortest time from filing to award received an A grade. The metrics also compared how completing a case within the 10% timeframe affects the cost of the arbitration. Representatives of the NCDRC member Associations concluded that construction arbitration cases could progress in a more expeditious manner by implementing certain techniques that include:

• Simultaneously conducting mediation while preparing for the arbitration
• The use of a chess clock by arbitrators to keep presentation of evidence on track

The NCDRC also has committed to expanding its member groups to be more inclusive of industry constituents. In particular, the involvement of more industry professionals and owner groups such as the Construction Users Roundtable (CURT) will provide more meaningful insight into the issues the construction industry faces as it recovers from the economic downturn.

The Construction Division was the groundbreaker as the AAA launched its first social media group on LinkedIn. The AAA Construction Neutrals Group is open only to active construction panel members. It provides an easily accessible platform for the AAA and construction neutrals to share ideas, feedback, and discuss topics of interest. The group currently has more than 300 members and is growing.

ROBERT MATLIN (mat)
Senior Vice President

DWIGHT JAMES (jim)
Senior Vice President
Case filings at the ICDR reached an all-time high of 996, of which approximately 10% are mediations. This figure constitutes the largest number of new case filings of any international arbitral institution. The growth in mediations reflects growing recognition of the benefits of the process by parties in many regions of the world.

The 10th Annual ICDR Miami Program, held September 9th-11th, was conducted in partnership with the International Bar Association and attracted 150 attendees. The simultaneously translated program was conducted using the hallmark conferencing techniques of past events, including “Tertulias” and rapid-fire discussions.

The Fifth Annual ICDR Practice Moot and Seminar, held March 2, 2012 at the AAA’s corporate offices in New York City, was the largest to date, consisting of 14 teams from the United States, Europe and China, the latter participating via video conferencing. The practice moot is an educational event to help student teams prepare for the Willem C. Vis International Commercial Arbitration Moot (Vis Moot) held each year in Vienna. Judge Judith Kaye and then-president of the AAA, William K. Slate II, opened the proceedings. ICDR staff members also were coaches for four university teams at the subsequent 2012 Vis Moot. Also of note was the participation of an ICDR case manager as a team coach in the 2nd Annual Latin American Moot conducted in Washington, D.C.
ACCOMPLISHMENTS

2012
The American Arbitration Association was the first alternative dispute resolution services provider to have a website back in 1996. Since then, a lot has changed on the Internet—especially the number of people using it.

On March 10, 2012, the AAA launched a new and improved ADR.org. As mentioned in last year’s Annual Report, the visual appeal, navigation, and searchability have all been enhanced. In addition, this site is powered by a robust content management system that gives us the ability to keep this website up-to-date with greater ease and on a more timely basis.

Here are some statistics from the new ADR.org:

- 920,000 Visited over 920,000 times
- 3,000,000 Pages viewed
- 58,000 Over 58,000 hours spent by visitors on the site; the equivalent of 2,441 days!
- 200 Visited by people from over 200 countries and territories
- 46,000 Accessed over 46,000 times from mobile devices

DIANA N. DIDIA
Senior Vice President, Chief Information Officer

On June 13, 2012, the AAA launched its first mobile app designed to streamline access to vital information about arbitration and mediation. Available for free in iTunes and the Android Play Store, this app provides easy reference to AAA Rules, Codes and Protocols, and AAA contact information.

Users can instantly find AAA arbitration and mediation rules for Commercial; Construction, Real Estate & Environmental; Government & Consumer; International; and Labor & Employment. Similarly, AAA due process protocols for an array of critical disciplines are within two taps on your device.
ClauseBuilder, an online arbitration and mediation tool that assists individuals and organizations in drafting clear, effective arbitration and mediation agreements, was successfully launched on December 4, 2012. The development of ClauseBuilder arose out of the AAA’s ongoing strategic initiatives aimed at simplifying the process of inserting AAA arbitration and mediation clauses into contracts. This tool enables users to draft customized arbitration agreements through a self-guided process that starts with the AAA’s standard arbitration agreement and then allows parties to choose options, such as the number and method of selecting arbitrators, locale, governing law, duration of the proceedings, remedies, and choice of law. The current version of ClauseBuilder is oriented toward commercial, business-to-business disputes; in 2013, additional functionality will be added that is specific to construction, employment, and international disputes.

ClauseBuilder also is a reflection of the success of the AAA’s Internal Investment Initiative, whereby AAA staff are encouraged to suggest new opportunities for the AAA and receive the backing of investment dollars and the support of senior management. The impetus for the ClauseBuilder Tool was the submission of a proposal for the creation of a “Dispute Resolution Clauses Writer,” by an AAA employee. The idea was referred to an AAA strategic initiative team, and then developed.

AAA STAFF ARE ENCOURAGED TO SUGGEST NEW OPPORTUNITIES FOR THE AAA AND RECEIVE THE BACKING OF INVESTMENT DOLLARS AND THE SUPPORT OF SENIOR MANAGEMENT.

ERIC P. TUCHMANN
General Counsel & Corporate Secretary
AAA INTRODUCES A NEW ADR SERVICE

AAA JUDICIAL SETTLEMENT CONFERENCE SERVICE

On August 15, 2012, the AAA introduced a new ADR service for disputing parties. Called AAA Judicial Settlement Conference Service (JSCS), this non-binding process is conducted in a highly evaluative manner by a former judge that mirrors the settlement conferences conducted in the court environment. New procedures, a specialized panel, and a new web presence were developed for the service. The panel is composed exclusively of former federal and state judges selected for their strong settlement skills, and for the first time AAA differentiated a panel of its neutrals by posting their names and locations on www.adr.org. The panel augmented their resumes by highlighting their settlement experience and completed a training orientation program created for the new service.

Educational conferences were held to help launch the JSCS in Miami and Los Angeles—two communities where budget pressures on the court system have reduced judicial resources and elevated interest in a private settlement conference service of the type designed to resolve or narrow issues in large, complex cases prior to or during litigation. Supported by print advertising in both markets, these in-person conferences introduced the local members of the Judicial Settlement Conference panel. Of the JSCS service, Timothy K. Lewis, a former judge on the U.S. Court of Appeals for the Third Circuit commented, “As an active ADR practitioner and a member of the AAA Board of Directors, I am pleased to participate in the Judicial Settlement Conference service, which will provide indispensable cost savings while allowing litigants creative means of resolving difficult disputes. This cutting-edge approach, with Panel members who have vast and unique experience in dealing with the most difficult commercial cases, is offered at a time when companies are increasingly looking beyond traditional ADR paradigms in addressing disputes.”

“I am pleased to participate in the Judicial Settlement Conference Service, which will provide indispensable cost savings while allowing litigants creative means of resolving difficult disputes.”

TIMOTHY K. LEWIS
Former Judge, Third Circuit Court of Appeals

PRISM

Last year was an important year in the development of our multi-tiered case management software. We have completed many of the buildouts that will make our case management staff more effective and efficient.

These include:
• Intuitive navigation designed for greater automation, access to case information and improved productivity
• Party accessibility to on-line case management, documents and information
• Improved billing, invoices, statements and email communications
• Enhanced ability to customize for unique or special caseloads
• Paperless document management
• Increased capability to obtain metrics and analytics

Also, to get ahead of the learning curve, we developed and conducted Super User training with staff from all around the country. To help continue the educational process for PRISM, we also built several training modules to help our staff understand PRISM and all of its new features.

SETTLEMENT
FLEXIBLE FEE SCHEDULE

In 2012, the AAA responded to increasing interest for additional pricing options and economic challenges affecting businesses and organizations worldwide by offering parties to arbitrations the choice of two fee schedules to initiate these cases. The options — the Standard Fee Schedule and the Flexible Fee Schedule — are available for some types of claims using the AAA’s Commercial (excluding Consumer cases), Construction, International and Employment Rules. To provide parties with further choices, each party to a case may file claims and counterclaims under the same or different fee schedules: one party may use the Flexible Fee Schedule while the other utilizes the Standard Fee Schedule, or both may opt for the same schedule.

The differences: under the Standard Fee Schedule, the filing party pays a large share of the administrative fee at the time the demand is filed, and a smaller additional fee near the time that the hearing takes place. With the Flexible Fee Schedule, a party is permitted to file for arbitration with a reduced filing fee, followed by two additional payment stages.
The AAA has many initiatives that are in process that we will be reporting on in greater detail in the future. However, two important initiatives are already well underway.
On April 4, 2013, the AAA launched a new division, Mediation.org, to further expand the Association’s focus on the mediation component of the ADR field. Harold Coleman, Jr., Esq., an arbitrator and mediator with 26 years of experience, and former member of the AAA’s Board of Directors, was appointed as Mediation.org’s Executive Director and Mediator.

Mediation.org is a web-based tool that will serve every aspect of the mediation community via an array of specialized services, including a database of best-practice knowledge, an extensive listing of mediation experts, and a comprehensive educational module. The directory will feature both AAA and non-AAA mediators from around the country so that those in need of mediation services can find a mediation professional with the precise background and needed skills to handle their cases.

HAROLD COLEMAN, JR.
Executive Director and Mediator, Mediation.org
The AAA has, on many occasions, partnered successfully with various states to administer insurance claims programs on their behalf. The programs provide a non-adversarial mediation process to facilitate the effective, fair and timely resolution of disputed insurance claims through the use of the AAA’s proprietary information and case management systems. With large numbers of insurance claims outstanding, case volume estimates range from several thousand to tens of thousands in each state.
DIVERSITY AND INCLUSION
AAA HIGGINBOTHAM FELLOWS PROGRAM

Now in its fifth year, the AAA Higginbotham Fellows Program was established in 2009 to address one of the challenges that the AAA has identified as discouraging diversity in ADR: the dearth of opportunities for diverse professionals to become future ADR leaders. The Fellows Program is a one-year program that offers the full breadth of AAA/ICDR resources to participants to enhance their knowledge and skills in the field of ADR. Its foundation is built upon a week-long intensive training program that is conducted at the AAA’s New York headquarters in the spring and consists of seminars on a variety of dispute resolution topics as well as participation in mock arbitrations and mediations taught by leading ADR professionals. AAA Higginbotham Fellows are afforded additional training and networking opportunities throughout the year and the Fellows are provided with mentors in their field of interest.

In 2012, the AAA selected 10 Fellows from around the country with substantive expertise in commercial, government, labor and employment and international practices. The training program took place April 30-May 4, 2012 to coincide with the week of the Annual Meeting of the Board of Directors, which provided the Fellows with an opportunity to attend the luncheon and the Discussion of Initiatives.

THE MISSION OF THE AAA DIVERSITY COMMITTEE IS TO PROMOTE THE INCLUSION OF THOSE INDIVIDUALS WHO HISTORICALLY HAVE BEEN EXCLUDED FROM MEANINGFUL AND ACTIVE PARTICIPATION IN THE ALTERNATIVE DISPUTE RESOLUTION FIELD.

PROGRAMS WITH BAR ASSOCIATIONS AND OTHER ORGANIZATIONS

The AAA Diversity Committee continues to work with national, minority and local bar associations and other organizations to provide training and other opportunities for diverse practitioners. These groups include the American Bar Association, the National Bar Association, the New York City Bar Association, the National Asian Pacific American Bar Association, the New York State Bar Association, and other organizations around the country. In connection with this work, AAA staff authored an article providing guidance and advice to assist minority and women neutrals in advancing their careers in ADR. The article, “Increasing Diversity Among Arbitrators: A Guideline for What the New Arbitrator and ADR Community Should Be Doing to Achieve this Goal,” was published in the January 2012 edition of the New York State Bar Association Law Journal and has received wide circulation.
AWARDS AND RECOGNITION

The AAA presented its Outstanding Director award was to Teresa E. McCaslin, Executive Vice President, Chief Human Resources and Administrative Officer of Continental Grain Company. In addition, the President’s Award for Living the Values, presented each year to an AAA staff member who exemplifies the Association’s core values, was awarded to Paul Dompier of the AAA’s Minneapolis, Minnesota office.
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  Abascal, Segovia & Asociados
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New York, NY

Howard J. Aibel, Esq.
Weston, CT

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Houston, TX

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Bouckaert Ormen Passemard Sportes
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American Arbitration Association
New York, NY

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Hanesbrands Inc.
Winston-Salem, NC

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Geneva, Switzerland

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New York, NY

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Case Western Reserve University
Cleveland, OH

**| John J. Kerr, Jr., Esq.
Simpson Thacher & Bartlett LLP
New York, NY

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Hayya Rashed Al Khalifa, Attorneys at Law & Legal Consultants
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Fazleghani Advocates
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February 7, 2013: AAA Executive Committee Meeting
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Athens, GA

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Coral Gables, FL

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University of Georgia School of Law
Athens, GA

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Continental Grain Company
New York, NY

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Debevoise & Plimpton
New York, NY

Christi L. Underwood, Esq.
Christi L. Underwood, P.A.
Winter Park, FL

**| Hon. Michael B. Mukasey
Debevoise & Plimpton
New York, NY

Teresa Wynn Roseborough
Home Depot
Atlanta, GA

Dr. Claus von Wobeser
Von Wobeser y Sierra S.C.
México City, México

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Sullivan & Cromwell
New York, NY

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Washington, D.C.

James J. Seifert
Ecolab
St. Paul, MN

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Milbank, Tweed, Hadley & McCloy
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Stephen E. Smith, Esq.
Sherman & Howard L.L.C.
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Boston, MA

**+ Edna Sussman, Esq.
Sussman ADR LLC
Scarsdale, NY

Albert P. Parker II, Esq.
General Counsel Legal Advisors LLC
Radnor, PA

**+ Christi L. Underwood, Esq.
Christi L. Underwood, P.A.
Winter Park, FL
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  Murphy King  
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  Chanel  
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  Hogan Lovells US LLP  
  Minneapolis, MN
- John A. Sherrill, Esq.  
  Seyfarth Shaw LLP  
  Atlanta, GA

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- Harold Coleman, Jr.  
  Senior Vice President
- John J. Kerr, Jr.  
  Chairperson of the Executive Committee  
  of the Board of Directors
- Diana N. Didia  
  Senior Vice President,  
  Chief Information Officer
- India Johnson  
  President and Chief Executive Officer
- Dwight James  
  Senior Vice President
- Francesco Rossi  
  Chief Financial Officer and Treasurer
- Robert Matlin  
  Senior Vice President
- Eric P. Tuchmann  
  General Counsel and Corporate Secretary
- Richard W. Naimark  
  Senior Vice President
- Mark E. Appel  
  Senior Vice President
- Christine L. Newhall  
  Senior Vice President

* 2012-2013 Executive Committee Members  |  ** 2013-2014 Executive Committee Members  |  + Past Presidents, Chairpersons of the Board, or Honorary Members of the Board
# VICE PRESIDENTS

<table>
<thead>
<tr>
<th>Name</th>
<th>City, State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steven Andersen</td>
<td>Salt Lake City, UT</td>
</tr>
<tr>
<td>John English</td>
<td>San Diego, CA</td>
</tr>
<tr>
<td>Ted Pons</td>
<td>New York, NY</td>
</tr>
<tr>
<td>P. Jean Baker</td>
<td>Washington, D.C.</td>
</tr>
<tr>
<td>Christopher Fracassa</td>
<td>Providence, RI</td>
</tr>
<tr>
<td>Michael Powell</td>
<td>Los Angeles, CA</td>
</tr>
<tr>
<td>Molly Bargenquest</td>
<td>Dallas, TX</td>
</tr>
<tr>
<td>Jeffrey Garcia</td>
<td>Fresno, CA</td>
</tr>
<tr>
<td>James Reynolds</td>
<td>New York, NY</td>
</tr>
<tr>
<td>Andrew Barton</td>
<td>San Antonio, TX</td>
</tr>
<tr>
<td>Janice Holdinski</td>
<td>Detroit, MI</td>
</tr>
<tr>
<td>Morag Rollins</td>
<td>New York, NY</td>
</tr>
<tr>
<td>Linda Beyea</td>
<td>Atlanta, GA</td>
</tr>
<tr>
<td>Karen Jalkut</td>
<td>Boston, MA</td>
</tr>
<tr>
<td>Michelle Skipper</td>
<td>Charlotte, NC</td>
</tr>
<tr>
<td>John Bishop</td>
<td>Atlanta, GA</td>
</tr>
<tr>
<td>Interna Khutorsky</td>
<td>New York, NY</td>
</tr>
<tr>
<td>Kathryn Stifter</td>
<td>Minneapolis, MN</td>
</tr>
<tr>
<td>Ryan Boyle</td>
<td>Voorhees, NJ</td>
</tr>
<tr>
<td>Maureen Kurdziel</td>
<td>New York, NY</td>
</tr>
<tr>
<td>Rebecca Storrow</td>
<td>Miami, FL</td>
</tr>
<tr>
<td>Sasha Carbone</td>
<td>New York, NY</td>
</tr>
<tr>
<td>Serena Lee</td>
<td>San Francisco, CA</td>
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<tr>
<td>Gerald Strathmann</td>
<td>Boston, MA</td>
</tr>
<tr>
<td>Neil Carmichael</td>
<td>Charlotte, NC</td>
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<td>Michael Marra</td>
<td>Philadelphia, PA</td>
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<tr>
<td>Lance Tanaka</td>
<td>Denver, CO</td>
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<tr>
<td>Michael Clark</td>
<td>New York, NY</td>
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<tr>
<td>Luis Martinez</td>
<td>New York, NY</td>
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<tr>
<td>Rodney Toben</td>
<td>Dallas, TX</td>
</tr>
<tr>
<td>William Considine</td>
<td>New York, NY</td>
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<tr>
<td>S. Pierre Paret</td>
<td>Washington, D.C.</td>
</tr>
<tr>
<td>Kelly Turner</td>
<td>Chicago, IL</td>
</tr>
<tr>
<td>David Cox</td>
<td>Phoenix, AZ</td>
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<tr>
<td>Sandra Partridge</td>
<td>New York, NY</td>
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<tr>
<td>Thomas Ventrone</td>
<td>New York, NY</td>
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<tr>
<td>Neil Currie</td>
<td>Los Angeles, CA</td>
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<tr>
<td>Debra Pastore</td>
<td>New York, NY</td>
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<tr>
<td>Jeffrey Zaino</td>
<td>New York, NY</td>
</tr>
<tr>
<td>Kenneth John Egger</td>
<td>Philadelphia, PA</td>
</tr>
<tr>
<td>Elizabeth Patrocinio</td>
<td>New York, NY</td>
</tr>
</tbody>
</table>
AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARY

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
<table>
<thead>
<tr>
<th>Index</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditor’s Report</td>
<td>3</td>
</tr>
<tr>
<td>Consolidated Balance Sheets</td>
<td>4</td>
</tr>
<tr>
<td>December 31, 2012 and 2011</td>
<td></td>
</tr>
<tr>
<td>Consolidated Statements of Operations and Changes in Net Assets</td>
<td>5</td>
</tr>
<tr>
<td>Years Ended December 31, 2012 and 2011</td>
<td></td>
</tr>
<tr>
<td>Consolidated Statements of Cash Flows</td>
<td>6</td>
</tr>
<tr>
<td>Years Ended December 31, 2012 and 2011</td>
<td></td>
</tr>
<tr>
<td>Notes to Consolidated Financial Statements</td>
<td>7-18</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR’S REPORT

TO THE BOARD OF DIRECTORS
AMERICAN ARBITRATION ASSOCIATION, INC.

We have audited the accompanying consolidated financial statements of American Arbitration Association, Inc. and Subsidiary (the “Association”), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2012 and 2011, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

New York, New York
April 18, 2013

[Signature]
# CONSOLIDATED BALANCE SHEETS
## DECEMBER 31, 2012 AND 2011

## ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$538,000</td>
<td>$3,740,000</td>
</tr>
<tr>
<td>Investments, at fair value (Note 2)</td>
<td>97,952,000</td>
<td>94,161,000</td>
</tr>
<tr>
<td>Administration fees receivable, net of allowances for cancellations and uncollectable accounts of $578,000 in 2012 and $674,000 in 2011</td>
<td>8,997,000</td>
<td>9,386,000</td>
</tr>
<tr>
<td>Other receivables, net of allowances for uncollectable accounts of $122,000 in 2012 and $139,000 in 2011</td>
<td>1,274,000</td>
<td>223,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,617,000</td>
<td>2,545,000</td>
</tr>
<tr>
<td>Internal use software development in progress and construction in progress (Note 3)</td>
<td>7,915,000</td>
<td>8,103,000</td>
</tr>
<tr>
<td>Furnishings, equipment, technology and leasehold improvements, net (Note 3)</td>
<td>5,141,000</td>
<td>4,144,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$ 124,434,000</strong></td>
<td><strong>$ 122,302,000</strong></td>
</tr>
</tbody>
</table>

## LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Liabilities:</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued expenses (Notes 4 and 5)</td>
<td>$62,595,000</td>
<td>$65,842,000</td>
</tr>
<tr>
<td>Accrued postretirement medical costs (Note 4)</td>
<td>8,156,000</td>
<td>8,507,000</td>
</tr>
<tr>
<td>Accrued pension liability (Note 4)</td>
<td>7,682,000</td>
<td>8,797,000</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>1,043,000</td>
<td>1,906,000</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>1,727,000</td>
<td>1,964,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>81,203,000</strong></td>
<td><strong>87,016,000</strong></td>
</tr>
<tr>
<td>Commitments and contingencies (Note 5)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Unrestricted net assets</td>
<td>43,231,000</td>
<td>35,286,000</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td><strong>$ 124,434,000</strong></td>
<td><strong>$ 122,302,000</strong></td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011

### OPERATING REVENUES

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration fees earned:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>$38,727,000</td>
<td>$42,923,000</td>
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<tr>
<td>State insurance</td>
<td>15,253,000</td>
<td>13,907,000</td>
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<tr>
<td>Labor</td>
<td>4,849,000</td>
<td>5,283,000</td>
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<tr>
<td>Elections</td>
<td>3,472,000</td>
<td>4,135,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>62,301,000</td>
<td>66,248,000</td>
</tr>
<tr>
<td>Publications and education</td>
<td>1,887,000</td>
<td>1,974,000</td>
</tr>
<tr>
<td>Other operating income</td>
<td>373,000</td>
<td>355,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>64,561,000</td>
<td>68,557,000</td>
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</tbody>
</table>

### OPERATING EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration of tribunals</td>
<td>53,622,000</td>
<td>60,738,000</td>
</tr>
<tr>
<td>Elections</td>
<td>3,446,000</td>
<td>3,909,000</td>
</tr>
<tr>
<td>Publications and education</td>
<td>2,226,000</td>
<td>2,496,000</td>
</tr>
<tr>
<td>General and administration</td>
<td>4,170,000</td>
<td>4,229,000</td>
</tr>
<tr>
<td>Loss on impairment of internal use software development in progress (Note 3)</td>
<td>1,402,000</td>
<td>1,478,000</td>
</tr>
<tr>
<td>Net loss on write-off of office leases (Note 5)</td>
<td>388,000</td>
<td>594,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>65,254,000</td>
<td>73,444,000</td>
</tr>
</tbody>
</table>

**Net Operating Loss**

(693,000)       (4,887,000)

### NON OPERATING INCOME AND EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends on investments, net of fees (Note 2)</td>
<td>2,852,000</td>
<td>1,942,000</td>
</tr>
<tr>
<td>Net realized and unrealized gains / (losses) on investments</td>
<td>5,047,000</td>
<td>(326,000)</td>
</tr>
<tr>
<td>Loss on disposal of assets (Note 3)</td>
<td>(113,000)</td>
<td>(78,000)</td>
</tr>
</tbody>
</table>

**CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER CHANGES IN NET ASSETS**

7,093,000       (3,349,000)

Pension liability adjustment (Note 4) | 814,000 | (4,404,000) |
Postretirement medical obligation adjustment (Note 4) | 38,000 | (171,000) |

**CHANGE IN UNRESTRICTED NET ASSETS**

7,945,000       (7,924,000)

**UNRESTRICTED NET ASSETS, BEGINNING OF YEAR**

35,286,000       43,210,000

**UNRESTRICTED NET ASSETS, END OF YEAR**

$43,231,000       $35,286,000

See notes to consolidated financial statements.
# Consolidated Statements of Cash Flows

**Years Ended December 31, 2012 and 2011**

## Cash Flows from Operating Activities

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in unrestricted net assets</td>
<td>$7,945,000</td>
<td>$(7,924,000)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$2,494,000</td>
<td>$2,353,000</td>
</tr>
<tr>
<td>Bad debt and change in provisions for uncollectible accounts</td>
<td>301,000</td>
<td>$1,746,000</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>$(863,000)</td>
<td>$(482,000)</td>
</tr>
<tr>
<td>Net realized and unrealized (gains) / losses on investments</td>
<td>$(5,047,000)</td>
<td>$326,000</td>
</tr>
<tr>
<td>Loss on impairment of internal-use software development in progress</td>
<td>$1,402,000</td>
<td>$1,478,000</td>
</tr>
<tr>
<td>Loss on write-off of office leases</td>
<td>$388,000</td>
<td>$594,000</td>
</tr>
<tr>
<td>Loss on disposal of assets</td>
<td>$113,000</td>
<td>$78,000</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in administration fees receivable</td>
<td>$88,000</td>
<td>$33,000</td>
</tr>
<tr>
<td>Increase in other receivables</td>
<td>$(1,051,000)</td>
<td>$(104,000)</td>
</tr>
<tr>
<td>Increase in prepaid expenses</td>
<td>$(72,000)</td>
<td>$(9,000)</td>
</tr>
<tr>
<td>(Decrease)/increase in accounts payable and accrued expenses</td>
<td>$(3,635,000)</td>
<td>$422,000</td>
</tr>
<tr>
<td>Decrease in accrued postretirement medical costs</td>
<td>$(351,000)</td>
<td>$(77,000)</td>
</tr>
<tr>
<td>(Decrease)/increase in accrued pension liability</td>
<td>$(1,115,000)</td>
<td>$2,750,000</td>
</tr>
<tr>
<td>Decrease in deferred revenue</td>
<td>$(237,000)</td>
<td>$(375,000)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$360,000</td>
<td>$809,000</td>
</tr>
</tbody>
</table>

## Cash Flows from Investing Activities

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of furnishings, equipment, technology and leasehold improvements</td>
<td>$(3,604,000)</td>
<td>$(469,000)</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>$49,010,000</td>
<td>$19,917,000</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>$(47,754,000)</td>
<td>$(17,602,000)</td>
</tr>
<tr>
<td>Internal use software development in progress and construction in progress</td>
<td>$(1,214,000)</td>
<td>$(6,746,000)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>$(3,562,000)</td>
<td>$(4,900,000)</td>
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</tbody>
</table>

## Net Decrease in Cash and Cash Equivalents

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Decrease in Cash and Cash Equivalents</td>
<td>$(3,202,000)</td>
<td>$(4,091,000)</td>
</tr>
</tbody>
</table>

## Cash and Cash Equivalents, Beginning of Year

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents, Beginning of Year</td>
<td>$3,740,000</td>
<td>$7,831,000</td>
</tr>
</tbody>
</table>

## Cash and Cash Equivalents, End of Year

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents, End of Year</td>
<td>$538,000</td>
<td>$3,740,000</td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements.*
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business and principles of consolidation:
The accompanying consolidated financial statements include the financial position and operating activities of the American Arbitration Association, Inc. (“AAA”) and the Subsidiary it controls, American Arbitration Association-ICDR Ltd. All inter-company accounts and transactions have been eliminated in consolidation. As used herein, the “Association” includes the American Arbitration Association, Inc. and Subsidiary.

AAA is a not-for-profit organization that provides administrative, educational and development services for the widespread use of dispute resolution procedures both domestically and internationally.

Administration fees:
The initial filing fee for commercial cases, which are subject to a minimum fee, is billed at the commencement of the dispute resolution process. Over the next 60 days, which is the time period for refund eligibility, a portion of the refundable initial filing is recognized as revenue as services are performed. Under certain limited circumstances the 60-day time period for refund eligibility is extended for arbitration cases that utilize the AAA’s mediation services. Based on analysis of current trends, the Association recorded a provision for deferred revenue in 2012 and 2011 of $129,000 and $214,000, respectively, which is included in the accompanying consolidated balance sheets and represents the estimated amount of future refunds.

A case service fee is payable in advance prior to the first scheduled hearing. The case service fee is refundable at the conclusion of the case if no hearings have occurred. Case service fee revenue is recognized, net of estimated refunds, as case administration services are provided. Deferred case service fee revenue of $1,585,000 and $1,682,000 as of December 31, 2012 and 2011, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

Registration fees for education programs may be payable in advance prior to an education program event. Deferred education program registration fees of $13,000 and $68,000 as of December 31, 2012 and 2011, respectively, are included in the deferred revenue in the accompanying consolidated balance sheets.

Cash and cash equivalents:
The Association considers all highly liquid investments with maturities of three months or less on the date of purchase to be cash equivalents.

Concentrations of credit risk:
Financial instruments, which potentially subject the Association to concentrations of credit risk, include cash and cash equivalents, administration fees receivable, other receivables, and investments (see Note 2). The Association maintains cash and cash equivalents in bank deposit and other accounts, the balances of which exceeded Federally insured limits by $8,366,000 and $12,551,000 as of December 31, 2012 and 2011, respectively. The Association places its cash and
Concentrations of credit risk (concluded):  
cash equivalents with creditworthy, high-quality financial institutions. Credit risk with respect to  
administration fees receivable is also limited because the Association deals with a large number  
of customers in a wide geographic area. The Association closely monitors the extension of credit  
to its customers while maintaining allowances for potential credit losses. On a periodic basis, the  
Association evaluates its administration fees receivable and establishes an allowance for doubtful  
accounts, based on a history of past write-offs and collections and current credit considerations.

Investments:  
Investments are reported at fair value. Cash equivalents included in investments are held for  
investment purposes. Changes in unrealized investment gains or losses are reported in the  
consolidated statements of operations and changes in net assets.

Furnishings, equipment, technology and leasehold improvements:  
Furnishings, equipment, technology and leasehold improvements are stated at cost less  
accumulated depreciation and amortization. Depreciation and amortization are computed using  
the straight-line method over the estimated useful lives of the individual asset or the lease term, if  
shorter than the useful life. The cost of maintenance and repairs is charged to expense as incurred.

Capitalization of software developed for internal use:  
The Association capitalizes costs incurred for the development of software for internal use. The  
Association began a project in 2008 to design and develop new case management  
applications and is currently engaged in several projects related to website upgrades and  
educational applications. The cost of development will be amortized over the useful lives of  
the underlying applications, varying from three to ten years, once the new software is placed in  
service, which is expected to occur in phases in 2013.

Use of estimates:  
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 certain reported amounts and disclosures. Accordingly, actual results  
could differ from those estimates.

Income taxes:  
The AAA is exempt from Federal income tax under the provisions of Section 501(c)(3) of the  
Internal Revenue Code; therefore, no provision for income taxes is included in the Association's  
consolidated financial statements. The Association has no unrecognized tax benefits at December  
31, 2012 and 2011. The Association's U.S. Federal and state income tax returns prior to fiscal year  
2009 are closed and management continually evaluates expiring statutes of limitations, audits,  
proposed settlements, changes in tax law and new authoritative rulings.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED):

Fair value of financial instruments:
The carrying amounts of cash and cash equivalents, administration fees receivable, other receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of the items.

Deferred rent:
Certain of the Association’s lease agreements provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than initial occupancy. Provision has been made for the excess of operating lease rental expense, computed on a straight-line basis over the lease term, over cash rentals paid.

Subsequent events:
The Association has evaluated subsequent events through April 18, 2013, which is the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS:

Investments at December 31, 2012 and 2011 consist of the following:

<table>
<thead>
<tr>
<th>Investments</th>
<th>2012</th>
<th>2011</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Bond funds</td>
<td>$ 18,221,000</td>
<td>$ 18,054,000</td>
<td>$ 27,375,000</td>
<td>$ 26,992,000</td>
</tr>
<tr>
<td>Intermediate Term Bond funds</td>
<td>20,220,000</td>
<td>21,255,000</td>
<td>21,104,000</td>
<td>21,537,000</td>
</tr>
<tr>
<td>Inflation-Protected Bond funds</td>
<td>10,573,000</td>
<td>12,548,000</td>
<td>10,108,000</td>
<td>11,741,000</td>
</tr>
<tr>
<td>High Yield Bond funds</td>
<td>3,643,000</td>
<td>3,693,000</td>
<td>6,419,000</td>
<td>7,303,000</td>
</tr>
<tr>
<td>Emerging Markets Bond funds</td>
<td>3,661,000</td>
<td>4,085,000</td>
<td>3,247,000</td>
<td>3,124,000</td>
</tr>
<tr>
<td>Index Equities funds</td>
<td>7,192,000</td>
<td>7,697,000</td>
<td>11,687,000</td>
<td>12,795,000</td>
</tr>
<tr>
<td>International Equities funds</td>
<td>9,383,000</td>
<td>9,813,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>U.S. Equities funds</td>
<td>8,912,000</td>
<td>9,194,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Emerging Markets Equities funds</td>
<td>5,135,000</td>
<td>5,816,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Real Estate Investment Trust funds</td>
<td>4,394,000</td>
<td>4,970,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Cash/Money Market funds</td>
<td>827,000</td>
<td>827,000</td>
<td>10,669,000</td>
<td>10,669,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 92,161,000</td>
<td>$ 97,952,000</td>
<td>$ 90,609,000</td>
<td>$ 94,161,000</td>
</tr>
</tbody>
</table>

Interest and dividends on investments are reported net of investment management fees and bank charges of $892,000 and $744,000 in 2012 and 2011, respectively.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - INVESTMENTS (CONCLUDED):

The Association values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority level to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Financial assets carried at fair value at December 31, 2012 and 2011 are classified as Level 1.

Investments in mutual funds, which account for all of the Association’s investment holdings at December 31, 2012 and 2011, are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets.

The Association recognizes transfers between levels in the fair value hierarchy at the end of each year. There were no such transfers during the years ended December 31, 2012 and 2011.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.
Furnishings, equipment, technology and leasehold improvements consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furnishings and equipment</td>
<td>$14,061,000</td>
<td>$12,514,000</td>
</tr>
<tr>
<td>Software developed for internal use</td>
<td>6,643,000</td>
<td>5,466,000</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>11,478,000</td>
<td>11,773,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$32,182,000</strong></td>
<td><strong>$29,753,000</strong></td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(27,041,000)</td>
<td>(25,609,000)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$5,141,000</strong></td>
<td><strong>$4,144,000</strong></td>
</tr>
</tbody>
</table>

In 2012 and 2011, the Association recognized a net loss of approximately $113,000 and $78,000 relating to the disposal of certain assets with original costs totaling $412,000 and $2,758,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of $6,643,000 and $5,466,000 as of December 31, 2012 and 2011, respectively. Related accumulated amortization as of December 31, 2012 and 2011 was $5,290,000 and $5,312,000, respectively.

In-progress internal-use software development costs totaled $7,521,000 and $8,103,000 in 2012 and 2011, respectively. When placed into service, these in-progress software development costs will be included in capital assets and amortized over a period of ten years. During 2012, software development costs in progress for the ADR.org website, the AAAU.org website and the ClauseBuilder.org website were placed into service with values totaling $1,737,000. There were no software development costs in progress placed in service during 2011.

The Association recognized losses relating to the impairment of internal use software development in progress of approximately $1,402,000 and $1,478,000 in 2012 and 2011, respectively. These amounts represent the portion of software development costs previously capitalized between 2009 and 2011 that are no longer expected to provide substantive value to the capabilities, functions, or uses of the software due to changes in the technical design and architecture of the underlying applications being developed. The in-progress internal-use software development assets totaling $7,521,000 and $8,103,000 at December 31, 2012 and 2011, respectively, have accordingly been reduced by the amount of the impairment.

Additionally, the Association had construction-in-progress totaling approximately $394,000 in 2012. These costs are primarily associated with leasehold improvements for three new office leases in New York City which will be placed in service in 2013. When placed in service, the construction-in-progress costs are included in capital assets and amortized over the lives of the underlying leases. No such costs were incurred in 2011.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS:

The Association maintains a noncontributory, qualified defined benefit pension plan covering all eligible employees. Effective December 31, 2006 the defined benefit pension plan was frozen and no additional benefits will be accrued by employees for future years of service. Accordingly, at December 31, 2012 and 2011 the projected benefit obligation and accumulated benefit obligation are equal.

The Association makes contributions to the plan based on actuarial calculations. Total employer contributions required for the fiscal year beginning January 1, 2013 are zero; therefore the Association expects to make no contributions to the plan during 2013.

The Association also provides certain healthcare benefits for substantially all of its retirees. The Association is required to accrue the estimated cost of these retiree benefit payments during the employees' active service period. The Association pays the cost of the postretirement benefits as incurred.

Employees hired on or after July 1, 2003 are not eligible for retiree healthcare coverage. Prior to a plan amendment in December 2008, active employees hired on or before June 30, 2003 were eligible for retiree healthcare coverage upon retirement with at least 10 years of service after age 45. Effective December 31, 2008 eligibility for retiree medical was changed to require 15 years of service after the age of 45. However, exceptions were made for employees who would be eligible for retiree healthcare coverage as of December 31, 2008 under the previous eligibility rules of having at least 10 years of service after age 45, for employees who have at least 15 years of service as of December 31, 2008 and who were within 2 years of eligibility under the previous rules, and for a small group of senior executives. Employees who qualify under those exceptions will maintain the previous eligibility provision. The change in this benefit also limits the Association's annual net subsidy for retiree healthcare coverage to twice the 2008 net subsidy provided for all participants.

The pension plan provides a benefit equal to the sum of (a) for each year of benefit accrual service (or any fractional part thereof) credited on or before January 1, 1997, 1.75% of earnings in effect on January 1, 1997, and (b) for each year of benefit accrual service credited after January 1, 1997 and through December 31, 2006, 1.75% of earnings in effect on January 1 of such year.

Estimated future benefit payments in each of the five years subsequent to December 31, 2012 and in the aggregate for the five years beginning in 2018 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Pension Benefits</th>
<th>Healthcare Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$2,272,000</td>
<td>$365,000</td>
</tr>
<tr>
<td>2014</td>
<td>2,247,000</td>
<td>383,000</td>
</tr>
<tr>
<td>2015</td>
<td>2,213,000</td>
<td>388,000</td>
</tr>
<tr>
<td>2016</td>
<td>2,276,000</td>
<td>396,000</td>
</tr>
<tr>
<td>2017</td>
<td>2,285,000</td>
<td>422,000</td>
</tr>
<tr>
<td>Years 2018 to 2022</td>
<td>11,931,000</td>
<td>2,436,000</td>
</tr>
</tbody>
</table>
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PENSION AND OTHER POSTRETIRED BENEFIT PLANS (CONTINUED):

For the defined benefit and the healthcare benefit plan, the following tables set forth each plan's funded status and amounts recognized in the Association's financial statements at December 31, 2012 and 2011:

| | Pension Benefits | Healthcare Benefits |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Benefit obligation at December 31 | $ 41,886,000 | $ 40,385,000 | $ 8,156,000 | $ 8,507,000 |
| Fair value of plan assets at December 31 | 34,204,000 | 31,588,000 | - | - |
| Net unfunded status of the plan | $ (7,682,000) | $ (8,797,000) | $ (8,156,000) | $ (8,507,000) |

Amounts recognized in the consolidated balance sheets consists of the following at:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td>-</td>
<td>-</td>
<td>$ 365,000</td>
<td>$ 360,000</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>$ 7,682,000</td>
<td>$ 8,797,000</td>
<td>7,791,000</td>
<td>8,147,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 7,682,000</td>
<td>$ 8,797,000</td>
<td>$ 8,156,000</td>
<td>$ 8,507,000</td>
</tr>
</tbody>
</table>

Components of net periodic benefit cost and other amounts recognized in other changes in net assets:

Net periodic benefit cost:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>-</td>
<td>-</td>
<td>$ 170,000</td>
<td>$ 160,000</td>
</tr>
<tr>
<td>Interest cost</td>
<td>$ 1,761,000</td>
<td>$ 1,900,000</td>
<td>375,000</td>
<td>440,000</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(2,300,000)</td>
<td>(2,285,000)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>-</td>
<td>-</td>
<td>(432,000)</td>
<td>(432,000)</td>
</tr>
<tr>
<td>Amortization of net actuarial loss</td>
<td>1,238,000</td>
<td>832,000</td>
<td>15,000</td>
<td>34,000</td>
</tr>
<tr>
<td>Net periodic benefit cost at December 31</td>
<td>$ 699,000</td>
<td>$ 447,000</td>
<td>$ 128,000</td>
<td>$ 202,000</td>
</tr>
</tbody>
</table>

Unrecognized net loss (gain) included in net assets:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 16,233,000</td>
<td>$ 17,047,000</td>
<td>$ (812,000)</td>
<td>$ (774,000)</td>
<td></td>
</tr>
<tr>
<td>Employer's contribution</td>
<td>1,000,000</td>
<td>2,100,000</td>
<td>441,000</td>
<td>452,000</td>
</tr>
<tr>
<td>Plan participants' contributions</td>
<td>-</td>
<td>-</td>
<td>48,000</td>
<td>52,000</td>
</tr>
<tr>
<td>Net periodic benefit costs</td>
<td>699,000</td>
<td>447,000</td>
<td>128,000</td>
<td>202,000</td>
</tr>
<tr>
<td>Subsidies received</td>
<td>-</td>
<td>-</td>
<td>38,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(2,041,000)</td>
<td>(2,331,000)</td>
<td>(526,000)</td>
<td>(541,000)</td>
</tr>
</tbody>
</table>

Amounts recognized in other changes in net assets in the statements of operations and changes in net assets consist of:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior service credit</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net actuarial (gain) / loss</td>
<td>(814,000)</td>
<td>4,404,000</td>
</tr>
</tbody>
</table>

Weighted-average assumptions to determine the benefit obligation as of December 31:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>3.75%</td>
<td>4.50%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>7.50%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Weighted-average assumptions to determine the net benefit cost for the year ended December 31:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.50%</td>
<td>5.25%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>7.50%</td>
<td>N/A</td>
</tr>
</tbody>
</table>
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED):

The overall objective of these allocations is to provide for long-term growth while maintaining an acceptable level of risk. The expected long-term rate of return on assets is 7.5%. The assumption is based on future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class. All investments are chosen with prudence and due diligence by investment managers to ensure that results over time meet the objectives of the Association’s Pension Investment Objectives and Policies Statement.
The fair values of the Association’s pension plan assets at December 31, by asset category are as follows:

<table>
<thead>
<tr>
<th>2012 Asset Category</th>
<th>Quoted Prices in Active Markets (Level 1)</th>
<th>Significant Observable Inputs (Level 2)</th>
<th>Unobservable Inputs (Level 3)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Mutual Funds</td>
<td>$16,811,000</td>
<td>–</td>
<td>–</td>
<td>$16,811,000</td>
</tr>
<tr>
<td>U.S. Equities Mutual Funds</td>
<td>9,338,000</td>
<td>$1,768,000</td>
<td>–</td>
<td>11,106,000</td>
</tr>
<tr>
<td>International Equities Mutual Funds</td>
<td>6,287,000</td>
<td>–</td>
<td>–</td>
<td>6,287,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$32,436,000</td>
<td>$1,768,000</td>
<td>–</td>
<td>$34,204,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2011 Asset Category</th>
<th>Quoted Prices in Active Markets (Level 1)</th>
<th>Significant Observable Inputs (Level 2)</th>
<th>Unobservable Inputs (Level 3)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Mutual Funds</td>
<td>$16,390,000</td>
<td>–</td>
<td>–</td>
<td>$16,390,000</td>
</tr>
<tr>
<td>U.S. Equities Mutual Funds</td>
<td>8,183,000</td>
<td>$1,524,000</td>
<td>–</td>
<td>9,707,000</td>
</tr>
<tr>
<td>International Equities Mutual Funds</td>
<td>5,382,000</td>
<td>–</td>
<td>–</td>
<td>5,382,000</td>
</tr>
<tr>
<td>Group Annuity Contract</td>
<td>–</td>
<td>–</td>
<td>$109,000</td>
<td>109,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$29,555,000</td>
<td>$1,524,000</td>
<td>$109,000</td>
<td>$31,588,000</td>
</tr>
</tbody>
</table>
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONCLUDED):

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2012 and 2011.

Mutual Funds are valued at the net value of shares held by the plan at year end (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active markets involving identical assets. A portion of U.S. Equities Mutual Funds is based on a modeled bid evaluation pricing estimate for comparable instruments (Level 2). The Group Annuity Contract is valued utilizing the net asset valuations provided by the underlying administrator (Level 3).

The Association recognizes transfers between levels in the fair value hierarchy at the end of each year. There were no such transfers during the years ended December 31, 2012 and 2011.

As of December 31, 2012, all assets held under the Group Annuity Contract were depleted. The contract is no longer an asset for the plan and the liabilities were fully assumed by the issuer of the contract.

Changes in assets measured at fair value using Level 3 inputs for the year ended December 31, 2012 and 2011 are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 Group Annuity Contract, at fair market value</td>
<td>$ 109,000</td>
<td>$ 6,000</td>
<td>-</td>
<td>$(115,000)</td>
<td>-</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 Group Annuity Contract, at fair market value</td>
<td>$ 349,000</td>
<td>$(8,000)</td>
<td>$ 2,000</td>
<td>$(234,000)</td>
<td>$ 109,000</td>
<td>$(13,000)</td>
</tr>
</tbody>
</table>

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("DIMA") introduced a prescription drug benefit under Medicare, as well as a Federal subsidy to sponsors of retiree medical benefit plans that provide a benefit that is similar to Medicare. The Association elected to recognize the effects of DIMA on its retiree medical benefits expense in 2005. Due to the inclusion of DIMA, the plan's benefit obligation was reduced by $1,318,000 and $1,388,000 as of December 31, 2012 and 2011, respectively.
Lease commitments:
The Association conducts all of its activities from leased office space and is currently a party to various leases that expire between 2013 and 2028. Most of the leases provide for future escalation charges relating to real estate taxes and other building operating expenses. Rental expenses charged to operations amounted to $9,319,000 and $10,412,000, for the years ended December 31, 2012 and 2011, respectively. In addition, the Association leases certain computer and office equipment under various operating leases, all of which expire over the next one to three years.

Minimum non-cancelable lease commitments for office facilities, equipment and software, exclusive of any future escalation charges, due in each of the five years subsequent to December 31, 2012 and thereafter are as follows:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 4,794,000</td>
</tr>
<tr>
<td>2014</td>
<td>7,491,000</td>
</tr>
<tr>
<td>2015</td>
<td>6,539,000</td>
</tr>
<tr>
<td>2016</td>
<td>5,965,000</td>
</tr>
<tr>
<td>2017</td>
<td>4,768,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>37,045,000</td>
</tr>
<tr>
<td>Total</td>
<td>$ 66,602,000</td>
</tr>
</tbody>
</table>

Due to the consolidation of certain offices, the Association recorded expenses of $388,000 and $594,000 for 2012 and 2011, respectively, which accounted for future lease payments and related costs for those leased offices, offset by expected future net sublease income. These expenses are included in the net loss on write-off of office leases in the accompanying consolidated statements of operations and changes in net assets. The related liability amounts of $388,000 and $594,000 for 2012 and 2011, respectively, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets at December 31, 2012 and 2011, respectively.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONCLUDED):

Contingencies:
The Association is a defendant in certain lawsuits arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against the Association cannot be predicted with certainty, the Association does not expect that those matters will have a material adverse effect on its consolidated financial position.

The Association bills and collects amounts in advance for unearned arbitrators’ compensation. At December 31, 2012 and 2011, advance deposits collected totaled $55,618,000 and $56,805,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

As of December 31, 2012, pursuant to various office space leases, the Association has letter of credit agreements totaling $3,170,000. These agreements guarantee operating lease rental obligations and are secured by the investment portfolio. There were no payments drawn against these letters of credit by any of the beneficiaries during 2012 and 2011.