

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

ALBANY INTERNATIONAL CORP /DE/  
Form 10-Q  
May 12, 2008  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended: March 31, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

14-0462060  
(IRS Employer Identification No.)

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

1373 Broadway, Albany, New York  
(Address of principal executive offices)

12204  
(Zip Code)

Registrant's telephone number, including area code 518-445-2200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports,) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The registrant had 26,444,784 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of March 31, 2008.

---

ALBANY INTERNATIONAL CORP.

TABLE OF CONTENTS

Page No.

Part I Financial information

Item 1. Financial Statements (unaudited)

Consolidated statements of operations - three months ended March 31, 2008 and 2007 1

Consolidated balance sheets - March 31, 2008 and December 31, 2007 2

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

Consolidated statements of cash flows - three months ended March 31, 2008 and 2007	3
Notes to consolidated financial statements	4 - 25
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26 - 37
Item 3. Quantitative and Qualitative Disclosures about Market Risk	38
Item 4. Controls and Procedures	39
Part II Other information	
Item 1. Legal Proceedings	40-42
Item 1A. Risk Factors	43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3. Defaults upon Senior Securities	43
Item 4. Submission of Matters to a Vote of Security Holders	43
Item 5. Other Information	43
Item 6. Exhibits	43

ALBANY INTERNATIONAL CORP.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands except per share data)  
(unaudited)

	Three Months Ended	
	March 31,	
	2008	2007
Net sales	\$273,208	\$250,614
Cost of goods sold	178,278	153,817
Gross profit	94,930	96,797
Selling, technical, general and research expenses	82,388	73,667
Restructuring and other, net	5,362	7,609
Operating income	7,180	15,521
Interest expense, net	4,319	3,265
Other (income), net	(274)	(327)
Income from continuing operations before income taxes	3,135	12,583
Income tax expense	4,551	3,172
(Loss)/Income before associated companies	(1,416)	9,411
Equity in (losses) of associated companies	(303)	(285)
(Loss)/income from continuing operations	(1,719)	9,126

Discontinued operations:

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

Income from operations of discontinued business	260	204
Income tax expense	33	25
Income from discontinued operations	227	179
Net (loss)/income	(\$1,492)	\$9,305
(Loss)/income from continuing operations:		
Basic	(\$0.06)	\$0.31
Diluted	(\$0.06)	\$0.30
Income from discontinued operations:		
Basic	\$0.01	\$0.01
Diluted	\$0.01	\$0.01
Net (loss)/income per share:		
Basic	(\$0.05)	\$0.32
Diluted	(\$0.05)	\$0.31
Dividends per share	\$0.11	\$0.10

The accompanying notes are an integral part of the financial statements.

1

ALBANY INTERNATIONAL CORP.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

	(unaudited) March 31, 2008	December 31, 2007
<b>ASSETS</b>		
Cash and cash equivalents	\$72,350	\$73,305
Accounts receivable, net	234,239	232,440
Inventories	236,201	247,043
Income taxes receivable and deferred	34,803	26,734
Prepaid expenses and other current assets	21,943	22,832
Current assets of discontinued operations	27,330	-
Total current assets	626,866	602,354
Property, plant and equipment, net	523,101	499,540
Investments in associated companies	5,365	5,373
Intangibles	10,903	11,217
Goodwill	206,552	194,660
Deferred taxes	104,939	100,604
Cash surrender value of life insurance policies	44,632	43,701
Other assets	71,014	69,528
Noncurrent assets of discontinued operations	7,172	-
Total assets	\$1,600,544	\$1,526,977
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Notes and loans payable	\$35,137	\$32,030
Accounts payable	80,192	82,157
Accrued liabilities	117,956	120,267

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

Current maturities of long-term debt	386	1,146
Income taxes payable and deferred	5,501	2,970
Current liabilities of discontinued operations	1,249	-
Total current liabilities	240,421	238,570
Long-term debt	472,331	446,433
Other noncurrent liabilities	203,703	188,621
Deferred taxes and other credits	57,911	53,682
Total liabilities	974,366	927,306
Commitments and Contingencies	-	-
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, par value \$5.00 per share; authorized 2,000,000 shares; none issued	-	-
Class A Common Stock, par value \$.001 per share; authorized 100,000,000 shares; issued 34,974,850 in 2008 and 34,865,744 in 2007.	35	35
Class B Common Stock, par value \$.001 per share; authorized 25,000,000 shares; issued and outstanding 3,236,098 in 2008 and 2007	3	3
Additional paid in capital	330,246	326,608
Retained earnings	539,477	544,228
Accumulated items of other comprehensive income:		
Translation adjustments	78,541	42,208
Pension liability adjustment	(58,647)	(55,953)
Derivative valuation adjustment	(4,454)	1,565
	885,201	858,694
Less treasury stock (Class A), at cost (8,530,066 shares in 2008 and 2007)	259,023	259,023
Total shareholders' equity	626,178	599,671
Total liabilities and shareholders' equity	\$1,600,544	\$1,526,977

The accompanying notes are an integral part of the financial statements.

**2**

ALBANY INTERNATIONAL CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Three Months Ended March 31,	
	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net (loss)/income	(\$1,492)	\$9,305
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Equity in losses of associated companies	303	285
Depreciation	14,788	14,187
Amortization	1,223	1,131
Provision for deferred income taxes, other credits and long-term liabilities	(2,322)	915

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

Provision for write-off of equipment	485	66
Increase in cash surrender value of life insurance	(931)	(902)
Unrealized currency transaction gains and losses	(2,272)	169
Shares contributed to ESOP	2,545	1,961
Stock option expense	42	200
Tax benefit of options exercised	(74)	(145)
Issuance of shares under long-term incentive plan	624	937
Changes in operating assets and liabilities:		
Accounts receivable	5,019	5,185
Inventories	(2,604)	(13,641)
Prepaid expenses	(366)	(2,446)
Accounts payable	(4,064)	(6,041)
Accrued liabilities	(5,877)	11,809
Income taxes payable	3,069	(4,727)
Other, net	(679)	(899)
Net cash provided by operating activities	7,417	17,349
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(31,649)	(23,206)
Purchased software	(3,903)	(2,683)
Net cash (used in) investing activities	(35,552)	(25,889)
FINANCING ACTIVITIES		
Proceeds from borrowings	28,596	10,532
Principal payments on debt	(2,857)	(10,437)
Proceeds from options exercised	354	603
Tax benefit of options exercised	74	145
Dividends paid	(3,252)	(2,919)
Net cash provided by/(used in) financing activities	22,915	(2,076)
Effect of exchange rate changes on cash flows	4,265	(1,195)
(Decrease) in cash and cash equivalents	(955)	(11,811)
Cash and cash equivalents at beginning of year	73,305	68,237
Cash and cash equivalents at end of period	\$72,350	\$56,426

The accompanying notes are an integral part of the financial statements.

**3**

---

ALBANY INTERNATIONAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of Presentation**

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of only normal, recurring adjustments, necessary for a fair presentation of results for such periods. The results for any interim period are not necessarily indicative of results for the full year. The preparation of financial statements for interim periods does not require all of the disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with financial statements and notes thereto for the year ended December 31, 2007.

4

### 2. Reportable Segment Data

In the first quarter of 2008, the Company modified its reportable segments to be consistent with changes in the Company's organizational structure. Prior year data has been modified to conform to the current year presentation. The following table shows data by reportable segment, reconciled to consolidated totals included in the financial statements:

(in thousands)	March 31, 2008	2007
<b>Net Sales</b>		
Paper Machine Clothing	\$ 183,015	\$ 178,631
Albany Door Systems	45,132	34,494
Engineered Fabrics	28,110	25,531
Engineered Composites	11,088	7,775
PrimaLoft® Products	5,863	4,183
Consolidated total	\$ 273,208	\$ 250,614
<b>Operating Income</b>		
Paper Machine Clothing	\$ 18,550	\$ 26,542
Albany Door Systems	2,836	1,732
Engineered Fabrics	5,569	4,424
Engineered Composites	(1,826)	(615)
PrimaLoft® Products	1,078	510
Research expense	(5,871)	(5,011)
Unallocated expenses	(13,156)	(12,061)
Operating income before reconciling items	7,180	15,521
<b>Reconciling items:</b>		
Interest expense, net	4,319	3,265
Other (income), net	(274)	(327)
Income from continuing operations before income taxes	\$ 3,135	\$ 12,583

5

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

The Company has incurred restructuring and other performance improvement costs in connection with significant restructuring of manufacturing facilities and administrative processes. The tables below present the amount of cost incurred by reportable segment.

(in thousands)	Three Months Ended March 31, 2008		
	Restructuring and other	Costs related to Idle capacity and Performance improvement initiatives	Total
Paper Machine Clothing	\$ 6,402	\$ 4,007	\$ 10,409
Albany Door Systems	-	135	135
Unallocated	(1,040)	3,948	2,908
Consolidated total	\$ 5,362	\$ 8,090	\$ 13,452

(in thousands)	Three Months Ended March 31, 2007		
	Restructuring and other	Costs related to Idle capacity and Performance improvement initiatives	Total
Paper Machine Clothing	\$ 6,664	\$ 182	\$ 6,846
Unallocated	945	1,524	2,469
Consolidated total	\$ 7,609	\$ 1,706	\$ 9,315

Except for the changes in reportable segments described above, there were no material changes in the total assets of the reportable segments during the three months ended March 31, 2008.

## 6

---

### 3. Pensions and Other Benefits

The Company sponsors defined benefit pension plans in various countries. The amount of contributions to the plans is based on several factors including the funding rules in each country. The Company expects to contribute approximately \$9,600,000 to its pension plans in 2008, compared to \$20,800,000 in 2007. The Company also provides certain medical, dental and life insurance benefits ( Other Benefits ) for retired United States employees that meet program qualifications. The Company currently funds this plan as claims are paid.

The components of net periodic benefit cost for the three months ended March 31, 2008 and 2007 are, as follows:



Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

(in thousands)	Pension Plans		Other Postretirement Benefits	
	2008	2007	2008	2007
Service cost	\$ 2,167	\$ 1,898	\$ 509	\$ 713
Interest cost	6,453	5,269	1,550	1,592
Expected return on plan assets	(5,195)	(5,390)	-	-
Amortization:				
Transition obligation	-	8	-	-
Prior service cost/(credit)	194	226	(952)	(1,241)
Net actuarial loss	619	1,365	889	1,191
Curtailed loss/(gain)	226	-	(1,649)	-
Net periodic benefit costs	\$ 4,464	\$ 3,376	\$ 347	\$ 2,255

The 2008 curtailment and special termination benefits are related to restructuring activities in North America. Additionally, the Company expects to recognize an additional curtailment gain of \$1,505,000 over the second and third quarters of 2008, related to the effect of these restructuring activities on the other postretirement benefits plan. That portion of the curtailment gain was deferred because final settlement had not occurred as of March 31, 2008.

In September 2006, the FASB issued FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS No. 158). The initial impact of this Standard, adopted by the Company in the fourth quarter of 2006, was the recognition in the balance sheet of the funded status of each defined benefit and other postretirement benefit plan. Effective December 31, 2008, FAS No. 158 will require plan assets and benefit obligations to be measured at December 31. The Company currently performs this measurement at September 30 for its retirement plan. In addition, beginning in the fourth quarter of 2007, the Standard eliminated the use of a three-month lag period when recognizing the impact of curtailments or settlements, and instead, recognize these amounts in the period in which they occur.

7

#### 4. Restructuring

The Company has ongoing restructuring activities principally related to the reduction of manufacturing capacity in North America and reorganization of certain administrative functions.

The following table summarizes charges reported in the Statement of Operations under *Restructuring and other* for the first three months of 2008:

(in thousands)	Total restructuring costs incurred	Termination and other costs	Benefit plan curtailment
Paper Machine Clothing	\$ 6,402	\$ 6,402	\$ -
Corporate Headquarters	(1,040)	383	(1,423)
Total	\$ 5,362	\$ 6,785	(\$1,423)

All of the actions taken in the PMC segment are in response to the continuing consolidation within the paper industry and the need to balance the Company's paper machine clothing manufacturing capacity with anticipated paper mill demand, as well as improving administrative efficiency.

The Company expects that substantially all of its accruals for restructuring liabilities will be paid out within one year. The table below presents a year to date summary of changes in restructuring liabilities:

(in thousands)	Restructuring charges accrued December 31, 2007	Restructuring accruals in 2008	Payments	Currency translation/other	Restructuring charges accrued March 31, 2008
Termination costs	\$ 10,408	\$ 4,930	(\$5,662)	\$ 70	\$ 9,746
Other restructuring costs	301	-	(113)	-	188
<b>Total</b>	<b>\$ 10,709</b>	<b>\$ 4,930</b>	<b>(\$5,775)</b>	<b>\$ 70</b>	<b>\$ 9,934</b>

**8**

---

**5. Other (Income)/Expense, Net**

Other (income)/expense, net consists of the following:

(in thousands)	Three Months Ended	
	March 31, 2008	2007
Currency transactions	(\$287)	(\$493)
Debt costs	545	387
Other miscellaneous expense	(532)	(221)
<b>Total</b>	<b>(\$274)</b>	<b>(\$327)</b>

**9**

---

## 6. Discontinued Operations

On May 4, 2008, the Company announced that it had entered into an agreement to sell its Filtration Technologies business for \$45 million, subject to contractual closing adjustments. Filtration Technologies' principal operations are in Gosford, Australia, and Zhangjiagang, China. In the first quarter of 2008, net sales were \$10.5 million.

In evaluating the business, the Company concluded that it met the definition of a discontinued operation, as defined in Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (FAS 144) and, accordingly, the results of operations of this business have been reclassified for all periods presented, reported separately as a component of income from discontinued operations. The consolidated balance sheets reflect the reclassification; however, pursuant to FAS 144, the consolidated statements of cash flows are not required to reflect the reclassification, and as such are combined with cash flows from continuing operations.

## 10

---

## 7. Income Taxes

The effective first quarter income tax rate on continuing operations before discrete tax items was 20 percent in 2008 and 25 percent in 2007. The reduction in the effective tax rate was primarily due to a change in the distribution of income (loss) amongst countries. Included in the first-quarter 2008 income tax expense are approximately \$3,905,000 of discrete increases in the gross amount of unrecognized tax benefits related to prior years, that, if recognized in the future, would effect the effective tax rate.

The company currently expects that the consolidated effective tax rate on continuing operations for 2008 will remain at approximately 20 percent before discrete items. However, there is no assurance that this will not change in future periods.

## 11

---

## 8. Earnings Per Share

Earnings per share are computed using the weighted average number of shares of Class A Common Stock and Class B Common Stock outstanding during the period. Diluted earnings per share include the effect of all potentially dilutive securities.

The amounts used in computing earnings per share, including the effect on income and the weighted average number of shares of potentially dilutive securities, are as follows:

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

(in thousands, except market price data)	Three Months Ended March 31,	
	2008	2007
Net (loss)/income available to common shareholders	(\$1,492)	\$ 9,305
<b>Weighted average number of shares:</b>		
Weighted average number of shares used in calculating basic earnings per share	29,612	29,265
<b>Effect of dilutive stock-based compensation plans:</b>		
Stock options	-	369
Long-term incentive plan	-	38
Weighted average number of shares used in calculating diluted earnings per share	29,612	29,672
Average market price of common stock used for calculation of dilutive shares	\$ 34.89	\$ 33.88
<b>Net (loss)/income per share:</b>		
Basic	(\$0.05)	\$ 0.32
Diluted	(\$0.05)	\$ 0.31

As of March 31, 2008 and 2007, there was no dilution resulting from the convertible debt instrument, purchased call option, and warrant that are described in Note 11.

For the three months ended March 31, 2008, the Company has excluded 356,000 potentially dilutive shares from its calculation of diluted earnings per share because to do so would have been antidilutive.

The following table presents the number of shares issued and outstanding:

	Class A Shares	Class B Shares	Less: Treasury Shares	Net shares Outstanding
December 31, 2007	34,865,744	3,236,098	(8,530,066)	29,571,776
March 31, 2008	34,974,850	3,236,098	(8,530,066)	29,680,882

12

---

**9. Inventories**

Inventories consist of the following:

(in thousands)	March 31, 2008	December 31, 2007
Finished goods	\$ 119,993	\$ 119,141
Work in process	62,472	67,374
Raw material and supplies	53,736	60,528
Total inventories	\$ 236,201	\$ 247,043

Inventories are stated at the lower of cost or market and are valued at average cost, net of reserves. The Company records a provision for obsolete inventory based on the age and category of the inventories.

## 13

---

### 10. Goodwill and other Intangible Assets

The Company accounts for goodwill and other intangible assets under the provisions of Statement of Financial Accounting Standards No. 142 (FAS 142), Goodwill and Other Intangible Assets. FAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually.

The Company performs the test for goodwill impairment during the second quarter of each year. As a result of the test performed in the second quarter of 2007, no impairment provision was required. Goodwill and other long-lived assets are reviewed for impairment whenever events, such as significant changes in the business climate, plant closures, changes in product offerings, or other circumstances indicate that the carrying amount may not be recoverable.

The Company is continuing to amortize certain patents, trade names, customer contracts and technology assets that have finite lives. For purposes of applying FAS 142, the Company has determined that the reporting units are the Americas, Europe, and Asia Pacific businesses within the Paper Machine Clothing segment, the Albany Doors segment, the Engineered Fabrics segment, and the Engineered Composites segment. Fair values of the reporting units and the related implied fair values of their respective goodwill were established using public company analysis and discounted cash flows.

The changes in intangible assets and goodwill from December 31, 2007 to March 31, 2008, were as follows:

(in thousands)	Balance at December 31, 2007	Amortization	Currency translation	Balance at March 31, 2008
----------------	---------------------------------	--------------	-------------------------	------------------------------

#### Amortized intangible assets:

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

Patents	\$	2,091 (\$126)	\$	147 \$	2,112
Trade names	2,044	(188)	128	1,984	
Customer contracts	6,693	(264)	-	6,429	
Technology	389	(11)	-	378	
Total amortized intangible assets	\$	11,217 (\$589)	\$	275 \$	10,903

**Unamortized intangible assets:**

Goodwill	\$	194,660 \$	-	\$	11,892 \$	206,552
----------	----	------------	---	----	-----------	---------

As of March 31, 2008, goodwill included \$141,514,000 in the Paper Machine Clothing segment, \$38,940,000 in the Albany Door Systems segment, \$20,136,000 in the Engineered Fabrics segment, and \$5,962,000 in the Engineered Composites segment.

**14**

---

Estimated amortization expense of intangibles for the years ending December 31, 2008 through 2012 is as follows:

Year	Annual amortization (in thousands)
2008	\$ 2,636
2009	2,469
2010	1,833
2011	1,372
2012	865
	\$ 9,175

**15**

---

**11. Financial Instruments**

Long term debt consists of the following:

(in thousands)	March 31, 2008	December 31, 2007
----------------	-------------------	----------------------

Convertible notes issued in March 2006 with fixed interest rates of 2.25%, due in year 2026	\$	180,000	\$	180,000
Private placement with a fixed interest rate of 5.34%, due in years 2013 through 2017		150,000		150,000
April 2006 credit agreement with borrowings outstanding at an average interest rate of 3.77%.		142,000		116,000
Various notes and mortgages relative to operations principally outside the United States, at an average rate of 4.99% in 2008 and 5.80% in 2007 due in varying amounts through 2021		246		1,015
Industrial revenue financings at an average interest rate of 1.75% in 2008 and 1.75% in 2007, due in varying amounts through 2009		471		564
Long term debt	\$	472,717		447,579
Less: current portion		(386)		(1,146)
Long term debt, net of current portion	\$	472,331	\$	446,433

The weighted average rate for all debt was 3.76% as of March 31, 2008 and 4.06% as of December 31, 2007.

In October 2005, the Company entered into a Note Agreement and Guaranty ( the Prudential Agreement ) with the Prudential Insurance Company of America, and certain other purchasers, in an aggregate principal amount of \$150,000,000. The notes bear interest at a rate of 5.34% and have a maturity date of October 25, 2017, with mandatory prepayments of \$50,000,000 on October 25, 2013 and October 25, 2015. At the noteholders election, certain prepayments may also be required in connection with certain asset dispositions or financings. The notes may not otherwise be prepaid without a premium, under certain market conditions. The Note Agreement contains customary terms, as well as affirmative covenants, negative covenants and events of default comparable to those in the Company s current principal revolving credit facility. For disclosure purposes, we are required to measure the fair value of outstanding debt on a recurring basis.

## 16

The fair value of the note agreement was approximately \$158,855,000, which was measured using active market interest rates.

In March 2006, the Company issued \$180,000,000 principal amount of 2.25% convertible notes. The notes are convertible upon the occurrence of specified events and at any time on or after February 15, 2013, into cash up to the principal amount of notes converted and shares of the Company s Class A common stock with respect to the remainder, if any, of the Company s conversion obligation at a conversion rate of 22.487 shares per \$1,000 principal amount of notes (equivalent to a conversion price of \$44.47 per share of Class A common stock). The fair value of the convertible notes was approximately \$172,350,000, which was measured using quoted prices in active markets.

In connection with the offering, the Company has entered into convertible note hedge and warrant transactions with respect to its Class A common stock at a net cost of \$14,700,000. These transactions are intended to reduce the potential dilution upon conversion of the notes by

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

providing the Company with the option, subject to certain exceptions, to acquire shares which offset the delivery of newly issued shares upon conversion of the notes.

Emerging Issues Task Force (EITF) Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, (EITF 00-19) provides guidance for distinguishing between permanent equity, temporary equity and assets and liabilities. The convertible feature of the notes, the convertible note hedge, and the warrant transactions each meet the requirements of EITF 00-19 to be accounted for as equity instruments. As such, the convertible feature of the notes has not been accounted for as a derivative (which would be marked to market each reporting period) and in the event the debt is converted, no gain or loss is recognized, as the cash payment of principal reduces the recorded liability and the issuance of common shares would be recorded in stockholders' equity.

In addition, the amount paid for the call option and the premium received for the warrant were recorded as additional paid-in capital in the accompanying consolidated balance sheet and are not accounted for as derivatives (which would be marked to market each reporting period). Incremental net shares for the convertible note feature and the warrant agreement will be included in future diluted earnings per share calculations for those periods in which the Company's average common stock price exceeds \$44.47 per share in the case of the Senior Notes and \$52.16 per share in the case of the warrants. The purchased call option is anti-dilutive and is excluded from the diluted earnings per share calculation.

On April 14, 2006, the Company entered into a \$460,000,000 five-year revolving credit agreement (the Credit Agreement), under which \$142,000,000 was outstanding as of March 31, 2008. The applicable interest rate for borrowings under the agreement is LIBOR plus a spread, based on the Company's leverage ratio at the time of borrowing. The agreement includes covenants that could limit the Company's ability to purchase Common Stock, pay dividends, acquire other companies or dispose of its assets.

Reflecting, in each case, the effect of subsequent amendments to each agreement, the Company is required to maintain a leverage ratio of not greater than 3.50 to 1.00 under the Credit Agreement, and a leverage ratio of not greater than 3.00 to 1.00 (or 3.50 to 1.00 for a period of six fiscal quarters following a material acquisition, as defined) under the Prudential Agreement. The Company is also required to maintain minimum interest coverage of 3.00 to 1.00 under each agreement. As of March 31, 2008, the Company's leverage ratio under the agreement was 2.82 to 1.00 and the interest coverage ratio was 7.64 to 1.00. The Company may purchase its Common Stock or pay dividends to the extent its leverage ratio remains at or below 3.00 to 1.00, and may make acquisitions provided its leverage ratio would not exceed 3.00 to 1.00 after giving pro forma effect to the acquisition. The Company's ability to borrow additional amounts under the credit agreement is

17

---

conditional upon the absence of any defaults, as well as the absence of any material adverse change. Based on the maximum leverage ratio and the Company's consolidated EBITDA (as defined in the agreement), and without modification to any other credit agreements as of March 31, 2008, the Company would have been able to borrow an additional \$25,000,000 under its loan agreements.

On December 10, 2007, the Company and Bank of America entered into a US dollar-to-euro cross-currency and interest rate swap agreement with a notional value of \$150,000,000. The Company has designated the swap to be an effective hedge of its euro net asset exposure relating to European operations. Under the swap agreement, the Company has notionally exchanged \$150,000,000 at a fixed interest rate of 5.34% for euro 101,951,000 at a fixed interest rate of 5.28%. The exchange was executed at an exchange rate of 1.4713 US dollars per euro. The majority of the cash flows in the swap agreement are aligned with the Company's principal and interest payment obligations on its \$150,000,000, Prudential Agreement. The final maturity of the swap matches the final maturity of the Prudential Agreement.



The Company's swap agreement qualifies as a hedge of net investments in foreign operations under the provisions of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Under FAS No. 133, changes in fair value of derivatives that qualify as hedges are recorded in shareholders' equity, net of tax, in the caption Derivative valuation adjustments. As of March 31, 2008, the fair value of the swap agreement was a liability \$7,327,000, which was measured using current exchange rates and discounted cash flows. The liability was recorded in other noncurrent liabilities. Of that amount, \$2,873,000 was included in deferred taxes and the remaining \$4,454,000 was included in shareholders' equity.

18

---

## 12. Contingencies

Albany International Corp. (Albany) is a defendant in suits brought in various courts in the United States by plaintiffs who allege that they have suffered personal injury as a result of exposure to asbestos-containing products previously manufactured by Albany. Albany produced asbestos-containing paper machine clothing synthetic dryer fabrics marketed during the period from 1967 to 1976 and used in certain paper mills. Such fabrics generally had a useful life of three to twelve months.

Albany was defending against 18,529 claims as of May 2, 2008. This compares with 18,789 such claims as of February 1, 2008, 18,791 claims as of October 19, 2007, 18,813 claims as of July 27, 2007, 19,120 claims as of April 27, 2007, 19,388 claims as of February 16, 2007, 19,416 claims as of December 31, 2006, 19,283 claims as of October 27, 2006, 24,451 claims as of December 31, 2005, 29,411 claims as of December 31, 2004, 28,838 claims as of December 31, 2003, 22,593 claims as of December 31, 2002, 7,347 claims as of December 31, 2001, 1,997 claims as of December 31, 2000, and 2,276 claims as of December 31, 1999. These suits allege a variety of lung and other diseases based on alleged exposure to products previously manufactured by Albany.

Albany anticipates that additional claims will be filed against it and related companies in the future, but is unable to predict the number and timing of such future claims. These suits typically involve claims against from twenty to more than two hundred defendants, and the complaints usually fail to identify the plaintiffs' work history or the nature of the plaintiffs' alleged exposure to Albany's products. Pleadings and discovery responses in those cases in which work histories have been provided indicate claimants with paper mill exposure in less than 10% of total claims reported, and only a portion of those claimants have alleged time spent in a paper mill to which Albany is believed to have supplied asbestos-containing products.

As of May 2, 2008, approximately 12,440 of the claims pending against Albany are pending in Mississippi. Of these, approximately 11,871 are in federal court, at the multidistrict litigation panel (MDL), either through removal or original jurisdiction. (In addition to the 11,871 Mississippi claims pending against the Company at the MDL, there are approximately 888 claims pending against the Company at the MDL removed from various United States District Courts in other states.)

On May 31, 2007 the MDL issued an administrative order that required each MDL plaintiff to provide detailed information regarding, among other things, the alleged asbestos-related medical diagnoses. The order does not require exposure information with this initial filing. The first set of plaintiffs were required to submit their filings with the Court by August 1, 2007, with deadlines for additional sets of plaintiffs monthly thereafter until December 1, 2007, by which time all MDL plaintiffs were to have filed compliant reports. The process, however, remains incomplete, as a number of extensions have been requested and granted, and reports continue to be filed. The order states that the Court may

dismiss the claims of any plaintiff who fails to comply, but no such action has yet been taken.

Because the order of the MDL does not require the submission of alleged exposure information, the Company cannot predict if any dismissals will result from these initial filings. The MDL will at some point begin conducting settlement conferences, at which time the plaintiffs will be required to submit short position statements setting forth exposure information. The Company does not expect the MDL to begin the process of scheduling the settlement conference for several months. Consequently, the Company believes that the effects of the new order will not be fully known or realized for some time.

Based on past experience, communications from certain plaintiffs' counsel, and the advice of the Company's Mississippi counsel, the Company expects the percentage of Mississippi claimants able to demonstrate time spent in a paper mill to which Albany supplied asbestos-containing products during a period in which Albany's

19

---

asbestos-containing products were in use to be considerably lower than the total number of pending claims. However, due to the large number of inactive claims pending in the MDL and the lack of alleged exposure information, the Company does not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

It is the position of Albany and the other paper machine clothing defendants that there was insufficient exposure to asbestos from any paper machine clothing products to cause asbestos-related injury to any plaintiff. Furthermore, asbestos contained in Albany's synthetic products was encapsulated in a resin-coated yarn woven into the interior of the fabric, further reducing the likelihood of fiber release. While the Company believes it has meritorious defenses to these claims, it has settled certain of these cases for amounts it considers reasonable given the facts and circumstances of each case. The Company's insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of May 2, 2008, the Company had resolved, by means of settlement or dismissal, 21,878 claims. The total cost of resolving all claims was \$6,748,000. Of this amount, \$6,713,000, or 99%, was paid by the Company's insurance carrier. The Company has approximately \$130 million in confirmed insurance coverage that should be available with respect to current and future asbestos claims, as well as additional insurance coverage that it should be able to access.

#### **Brandon Drying Fabrics, Inc.**

Brandon Drying Fabrics, Inc. ( Brandon ), a subsidiary of Geschmay Corp., which is a subsidiary of the Company, is also a separate defendant in many of the asbestos cases in which Albany is named as a defendant. Brandon was defending against 8,689 claims as of May 2, 2008. This compares with 8,741 such claims as of February 1, 2008 and October 19, 2007, 9,023 claims as of July 27, 2007, 9,089 claims as of April 27, 2007, 9,189 claims as of February 16, 2007, 9,114 claims as of December 31, 2006, 8,992 claims as of October 27, 2006, 9,566 claims as of December 31, 2005, 9,985 claims as of December 31, 2004, 10,242 claims as of December 31, 2003, 11,802 claims as of December 31, 2002, 8,759 claims as of December 31, 2001, 3,598 claims as of December 31, 2000, and 1,887 claims as of December 31, 1999. The Company acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999. Brandon is a wholly-owned subsidiary of Geschmay Corp. In 1978, Brandon acquired certain assets from Abney Mills ( Abney ), a South Carolina textile manufacturer. Among the assets acquired by Brandon from Abney were assets of Abney's wholly-owned subsidiary, Brandon Sales, Inc. which had sold, among other things, dryer fabrics containing asbestos made by its parent, Abney. It is believed that Abney ceased production of asbestos-containing fabrics prior to the 1978 transaction. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. Under the terms of the Assets Purchase Agreement between Brandon and Abney, Abney agreed to indemnify, defend, and

hold Brandon harmless from any actions or claims on account of products manufactured by Abney and its related corporations prior to the date of the sale, whether or not the product was sold subsequent to the date of the sale. It appears that Abney has since been dissolved. Nevertheless, a representative of Abney has been notified of the pendency of these actions and demand has been made that it assume the defense of these actions. Because Brandon did not manufacture asbestos-containing products, and because it does not believe that it was the legal successor to, or otherwise responsible for obligations of Abney with respect to products manufactured by Abney, it believes it has strong defenses to the claims that have been asserted against it. In some instances, plaintiffs have voluntarily dismissed claims against it, while in others it has entered into what it considers to be reasonable settlements. As of May 2, 2008, Brandon has resolved, by means of settlement or dismissal, 8,883 claims for a total of \$152,499. Brandon's insurance carriers initially agreed to pay 88.2% of the total indemnification and defense costs related to these proceedings, subject to the standard reservation of rights. The remaining 11.8% of the costs had been borne directly by Brandon. During 2004, Brandon's insurance carriers agreed to cover 100% of indemnification and defense costs, subject to policy limits and the standard reservation of rights, and to reimburse Brandon for all indemnity and defense costs paid directly by Brandon related to these proceedings.

20

---

#### Mount Vernon

In some of these asbestos cases, the Company is named both as a direct defendant and as the successor in interest to Mount Vernon Mills (Mount Vernon). The Company acquired certain assets from Mount Vernon in 1993. Certain plaintiffs allege injury caused by asbestos-containing products alleged to have been sold by Mount Vernon many years prior to this acquisition. Mount Vernon is contractually obligated to indemnify the Company against any liability arising out of such products. The Company denies any liability for products sold by Mount Vernon prior to the acquisition of the Mount Vernon assets. Pursuant to its contractual indemnification obligations, Mount Vernon has assumed the defense of these claims. On this basis, the Company has successfully moved for dismissal in a number of actions.

---

While the Company does not believe, based on currently available information and for the reasons stated above, that a meaningful estimate of a range of possible loss can be made with respect to such claims, based on its understanding of the insurance policies available, how settlement amounts have been allocated to various policies, its recent settlement experience, the absence of any judgments against the Company or Brandon, the ratio of paper mill claims to total claims filed, and the defenses available, the Company currently does not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, the Company currently does not anticipate, based on currently available information, that the ultimate resolution of the aforementioned proceedings will have a material adverse effect on the financial position, results of operations or cash flows of the Company. Although the Company cannot predict the number and timing of future claims, based on the foregoing factors and the trends in claims against it to date, the Company does not anticipate that additional claims likely to be filed against it in the future will have a material adverse effect on its financial position, results of operations, or cash flows. The Company is aware that litigation is inherently uncertain, especially when the outcome is dependent primarily on determinations of factual matters to be made by juries. The Company is also aware that numerous other defendants in asbestos cases, as well as others who claim to have knowledge and expertise on the subject, have found it difficult to anticipate the outcome of asbestos litigation, the volume of future asbestos claims, and the anticipated settlement values of those claims. For these reasons, there can be no assurance that the foregoing conclusions will not change.

21

---

**13. Changes in Stockholders' Equity**

The following table summarizes changes in Stockholders' Equity:

(in thousands)	Class A Common Stock	Class B Common Stock	Additional paid in capital	Retained earnings	Accumulated items of other comprehensive income	Treasury stock	Total Shareholders' Equity
December 31, 2007	\$ 35	\$ 3	\$ 326,608	\$ 544,228	(\$12,180)	(\$259,023)	\$ 599,671
Net (loss)				(1,492)			(1,492)
Shares contributed to ESOP			2,544				2,544
Proceeds from options exercised			354				354
Dividends declared				(3,259)			(3,259)
Stock option expense			42				42
Tax benefit of options exercised			74				74
Issuance of shares under long-term incentive plan			624				624
Change in derivative valuation adjustment					(6,019)		(6,019)
Amortization and adjustment of pension liability					(2,694)		(2,694)
Cumulative translation adjustment/other					36,333		36,333
March 31, 2008	\$ 35	\$ 3	\$ 330,246	\$ 539,477	\$ 15,440	(\$259,023)	\$ 626,178

**22****14. Comprehensive Income**

Comprehensive income consists of the following:

Three Months Ended

Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

(in thousands)	March 31, 2008	2007
Net (loss)/income	(\$1,492)	\$ 9,305
Other comprehensive income, before tax:		
Foreign currency translation adjustments	36,333	4,517
Amortization of pension liability adjustment	371	(815)
Pension and postretirement liability adjustments	(4,742)	
Derivative valuation adjustment	(9,893)	-
Income taxes related to items of other comprehensive income:		
Amortization of pension liability adjustment	(145)	318
Pension and postretirement liability adjustments	1,822	-
Derivative valuation adjustment	3,874	-
Other comprehensive income, net of tax	27,620	4,020
Comprehensive income	\$ 26,128	\$ 13,325

23

---

**15. Recent Accounting Pronouncements**

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* (FAS No. 157). FAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The Company's adoption of this Standard on January 1, 2008 did not have a material effect on its financial statements.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of FASB Statement No. 115 (FAS No. 159). FAS No. 159 provides companies with a choice to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (the *Fair Value Option*). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. The Company's adoption of this Standard on January 1, 2008 did not have a material effect on its financial statements.

In December 2007, the FASB issued FAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements* an amendment to ARB No. 51. FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect the adoption of FAS No. 160 to have a material effect on its financial statements.

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

In December 2007, the FASB issued Statement of Financial Accounting Standards ("FAS") No. 141 (revised 2007), Business Combinations FAS 141(R)" which replaces FAS No.141, Business Combinations. FAS 141(R) retains the underlying concepts of FAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but FAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. FAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. FAS 141(R) amends FAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of FAS 141(R) would also apply the provisions of FAS 141(R). Early adoption is not allowed. We are currently evaluating the effects, if any, that FAS 141(R) may have on our financial statements, but the Company does not expect the adoption of FAS No. 141(R) to have a material effect on its financial statements.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging ActivitiesThe Standard requires enhanced disclosures about derivative instruments and is effective for fiscal periods beginning after November 15, 2008. The Company does not expect adoption of this Standard to have a material effect on its financial statements.

24

---

### 16. Subsequent events

On April 10, 2008, the Company announced its plans to shut down its Mansfield, Massachusetts facility and consolidate its technical and manufacturing operations there into other facilities in Europe and North America.

On May 4, 2008, the Company announced that it has entered into an agreement to sell its Filtration Technologies business, which is based primarily in Gosford, Australia, and Zhangjiagang, China for \$45,000,000, subject to contractual closing adjustments.

On May 4, 2008, the Company announced a general downsizing of its remaining operations in Australia. While the operation will continue to support the Australia and New Zealand markets for paper machine clothing, and the global market for Fiber Cement, production of press felts will be scaled back. Production of high performance doors in Australia will cease.

Given local legal requirements and discussions with employees affected, the Company cannot presently determine the amount of expense to be incurred for severance and termination payments related to these actions. As a result, the Company is not yet able to estimate total charges to be incurred in connection with these planned actions. The estimated charges, and related cash expenditures, are expected to be incurred during the remainder of 2008.

25

---

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

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

The following Management's Discussion and Analysis ( MD&A ) is intended to help the reader understand the results of operations and financial condition of the Company. The MD&A is provided as a supplement to, and should be read in conjunction with, the Consolidated Financial Statements and the accompanying Notes.

### Overview

Albany International Corp. (the Registrant, the Company, or we) and its subsidiaries are engaged in five business segments.

The Paper Machine Clothing segment includes fabrics and belts used in the manufacture of paper and paperboard (PMC or paper machine clothing). The Company designs, manufactures, and markets paper machine clothing for each section of the paper machine. It manufactures and sells more paper machine clothing worldwide than any other company. PMC consists of large permeable and non-permeable continuous belts of custom-designed and custom-manufactured engineered fabrics that are installed on paper machines and carry the paper stock through each stage of the paper production process. PMC products are consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure. The design and material composition of PMC can have a considerable effect on the quality of paper products produced and the efficiency of the paper machines on which it is used. Principal products in the PMC segment include forming, pressing and dryer fabrics, and process belts. A forming fabric assists in sheet formation and conveys the very dilute sheet through the section. Press fabrics are designed to carry the sheet through the presses, where water pressed from the sheet is carried through the press nip in the fabric. In the dryer section, dryer fabrics manage air movement and hold the sheet against heated cylinders to enhance drying. Process belts are used in the press section to increase dryness and enhance sheet properties, as well as in other sections of the machine to improve runnability and enhance sheet qualities. The Company's customers in the PMC segment are paper industry companies, some of which operate in multiple regions of the world. The Company's manufacturing processes and distribution channels for PMC are substantially the same in each region of the world in which it operates.

Albany Door Systems (ADS) designs, manufactures, sells, and services high-speed, high-performance industrial doors worldwide, for a wide range of interior, exterior, and machine protection industrial applications. Already a high performance door leader, ADS further expanded its market position in North America with the second-quarter 2007 acquisition of the assets and business of R-Bac Industries, the fastest-growing high-performance door company in North America, whose product lines are complementary to Albany's. The business segment also derives revenue from aftermarket sales and service.

The Company's other reportable segments are emerging businesses that apply the Company's core competencies in advanced textiles and materials to other industries, including specialty materials and composite structures for aircraft and other applications (Albany Engineered Composites); a variety of products similar to PMC for application in the corrugators, pulp, nonwovens, building products, tannery and textile industries (Albany Engineered Fabrics); and insulation for outdoor clothing, gloves, footwear, sleeping bags and home furnishings (PrimaLoft® Products). No class of similar products or services within these segments accounted for 10% or more of the Company's consolidated net sales in any of the past three years.

### Trends

The Company's primary segment, Paper Machine Clothing, accounted for approximately 70% of consolidated revenues during 2007. Paper machine clothing is purchased primarily by manufacturers of paper and paperboard. According to data published by RISI, Inc., world paper and paperboard production volumes have grown at an annual rate of approximately 2.6% over the last ten years. Based on data from RISI, demand for paper is expected to grow approximately 2.9% over the next five years. The paper and paperboard industry has been characterized by an evolving but essentially stable manufacturing technology based on the wet-forming papermaking process. This process, of which paper machine clothing is an integral element, requires a very large capital investment. Consequently, management does not believe that a commercially feasible substitute technology to paper machine clothing is likely to be developed and

---

incorporated into the paper production process by paper manufacturers in the foreseeable future. For this reason, management expects that demand for paper machine clothing will continue into the foreseeable future.

The world paper and paperboard industry tends to be cyclical, with periods of healthy paper prices followed by increases in new capacity, which then leads to increased production and higher inventories of paper and paperboard, followed by a period of price competition and reduced profitability among the Company's customers. Although sales of paper machine clothing do not tend to be as cyclical, the Company may experience somewhat greater demand during periods of increased production and somewhat reduced demand during periods of lesser production.

The world paper and paperboard industry experienced a significant period of consolidation and rationalization from approximately 2000 through 2004. While significant consolidation among paper and paperboard suppliers slowed after 2004, machine closures, or announcements of additional machine closures, continued during 2005, 2006 and 2007 in North America as well as Europe. During this period, a number of older, less efficient machines in areas where significant established capacity existed were closed or were the subject of planned closure announcements, while at the same time a number of newer, faster and more efficient machines began production or plans for the installation of such newer machines were announced in areas of growing demand for paper and paperboard (such as Asia and South America). Management anticipates that this trend is likely to continue in the near term.

At the same time, technological advances in paper machine clothing, while contributing to the papermaking efficiency of customers, have lengthened the useful life of many of the Company's products and reduced the number of pieces required to produce the same volume of paper. As the Company introduces new value creating products and services, it is often able to charge higher prices or increase market share in certain areas as a result of these improvements. However, increased prices and share have not always been sufficient to offset completely a decrease in the number of fabrics sold.

The factors described above result in a steady decline in the number of pieces of paper machine clothing, while the average fabric size is increasing. The net effect of these trends is that the specific volume of paper machine clothing consumption (measured in kilograms or square meters) has been increasing at a rate of approximately 1% per year over the past several years.

During 2006, the Company reported that price competition in Western Europe had an adverse impact on the Company's operating results in this segment. In the third and fourth quarters of 2006, and in the first two quarters of 2007, sales of paper machine clothing to customers in Western Europe were significantly lower than the same quarter of the previous year. This also contributed to reduced operating income within this segment, as well as overall operating income, during those quarters.

The Company's response to that pricing disruption has been to initiate a deliberate, intensive three-year process of restructuring and performance improvement initiatives. In the mature paper machine clothing markets of North America and Europe, the Company is driving for growth in market share, while the Company is positioning itself to expand in the rapidly growing markets of Asia and South America. At the same time that the Company is adjusting its manufacturing footprint to align with these regional markets, management is taking actions to reduce costs significantly. Additionally, the Company has reorganized its PMC research and product development function resulting in better ability to bring value-added products to market faster.



The Albany Door Systems segment derives most of its revenue from the sale of high-performance doors, particularly to customers in Europe. The purchase of these doors is normally a capital expenditure item for customers and, as such, market opportunities tend to fluctuate with industrial capital spending. If economic conditions weaken, customers may reduce levels of capital expenditures, which could have a negative effect on sales and earnings in the Albany Door Systems segment. The large amount of revenue derived from sales and manufacturing outside the United States could cause the reported financial results for the Albany Door Systems segment to be more sensitive than the other segments of the Company to changes in currency rates.

The Engineered Fabrics segment derives its revenue from various industries that use fabrics and belts for industrial applications other than the manufacture of paper and paperboard. Approximately 40% of revenue in this segment is derived from sales to the nonwovens industry, which includes the manufacture of diapers, personal care and household

27

---

wipes, and fiberglass-reinforced roofing shingles. Segment sales in the European and Pacific regions combined are almost at the same level as sales within the Americas.

The Engineered Composites segment (AEC) serves primarily the aerospace industry, with custom-designed composite and advanced composite parts for static and dynamic applications. Management believes AEC has the potential to grow at least 35% per annum for the next five years and has the potential to become a second core business of the Company. AEC has experienced significant growth in net sales during the last few years, due both to the introduction of new products as well as growth in demand and application for previously existing products. The principal challenges and opportunities in this segment involve managing this growth opportunity.

The PrimaLoft® Products segment includes sales of insulation for outdoor clothing, gloves, footwear, sleeping bags, and home furnishings. The segment has manufacturing and sales operations in the United States, Europe, and Asia.

### **Foreign Currency**

Albany International operates in many geographic regions of the world and has more than half of its business in countries outside the United States. A substantial portion of the Company's sales are denominated in euros or other currencies. In some locations, the profitability of transactions is affected by the fact that sales are denominated in a currency different from the currency in which the costs to manufacture and distribute the products are denominated. As a result, changes in the relative values of U.S. dollars, euros and other currencies affect revenues and profits as the results are translated into U.S. dollars in the consolidated financial statements.

From time to time, the Company enters into foreign currency or other derivative contracts in order to enhance cash flows or to mitigate volatility in the financial statements that can be caused by changes in currency exchange rates.

## Review of Operations

### 2008 vs. 2007

On May 4, 2008, the Company announced that it had entered into an agreement to sell its Filtration Technologies business for \$45 million, subject to contractual closing adjustments. Filtration Technologies' principal operations are in Gosford, Australia, and Zhangjiagang, China. In the first quarter of 2008, net sales were \$10.5 million, an increase of 47% compared to the first quarter of 2007. The activities of this business are reported as a discontinued operation in the first-quarter financial statements and accordingly are excluded from Tables 1, 2, and 3, below.

In the first quarter of 2008, the Company modified its reportable segments to be consistent with changes in the Company's organizational structure. Prior year data has been modified to conform to the current year presentation. The Company has filed a Form 8-K with reclassified segment data for quarters ending in 2007, as well as annual data for 2006 and 2007.

Net sales from continuing operations increased \$22.6 million to \$273.2 million, or 9.0 percent compared to the same period last year. Excluding the effect of changes in currency translation rates, net sales increased 1.3 percent. The following table, which reflects changes in the Company's reportable segments, presents net sales and the effect of changes in currency translation rates:

## 28

Table 1

(in thousands)	Net Sales Three Months ended		Percent Change	Impact of Changes in Currency Translation Rates	Percent Change excluding Currency Rate Effect
	March 31, 2008	2007			
Paper Machine Clothing	\$183,015	\$178,631	2.5%	\$11,946	-4.2%
Albany Door Systems	45,132	34,494	30.8%	5,082	16.1%
Engineered Fabrics	28,110	25,531	10.1%	2,280	1.2%
Engineered Composites	11,088	7,775	42.6%	-	42.6%
PrimaLoft® Products	5,863	4,183	40.2%	110	37.5%
Total	\$273,208	\$250,614	9.0%	\$19,418	1.3%

Gross profit was 34.7 percent of net sales in the first quarter of 2008, compared to 38.6 percent in the same period of 2007. The difference is principally due to decreases in PMC net sales, particularly in North America, and costs associated with performance-improvement initiatives.

Selling, technical, general, and research (STG&R) expenses were 30.2 percent of net sales in the first quarter of 2008 compared to 29.4 percent in the first quarter of 2007. STG&R expenses were \$82.4 million in the first quarter of 2008, in comparison to \$73.7 million in the first quarter of 2007. First-quarter 2008 STG&R expenses included \$5.8 million related to the effect of changes in currency translation rates and \$5.1 million of expenses related to performance-improvement initiatives. First-quarter 2007 STG&R expenses included \$1.6 million related to performance-improvement initiatives.

Operating income was \$7.2 million in the first quarter of 2008, compared to \$15.5 million for the same period of 2007. The following table presents segment operating income:

Table 2

(in thousands)	Operating Income Three Months ended March 31,	
	2008	2007
Paper Machine Clothing	\$18,550	\$26,542
Albany Door Systems	2,836	1,732
Engineered Fabrics	5,569	4,424
Engineered Composites	(1,826)	(615)
Primaloft® Products	1,078	510
Research expenses	(5,871)	(5,011)
Unallocated expenses	(13,156)	(12,061)
Total	\$7,180	\$15,521

29

---

First-quarter segment operating income included the following expenses associated with restructuring and performance-improvement initiatives:

Table 3

(in thousands)	2008	Idle- capacity Costs at Plants Closing	Performance- improvement Initiatives	Total	2007
	Restructuring and Other, Net				Restructuring and Performance- improvement Initiatives
Paper Machine Clothing	\$6,402	\$684	\$3,323	\$10,409	\$6,846
Albany Door Systems	-	-	135	135	-
Unallocated expenses	(1,040)	-	3,948	2,908	2,469
Total	\$5,362	\$684	\$7,406	\$13,452	\$9,315

The first-quarter 2008 net restructuring charges of \$5.4 million (\$0.14 per share) were principally due to costs associated with the closure of the Company's Montgomery, Alabama, plant that was announced in the first quarter of 2008 and other restructuring activities. In addition, idle-capacity costs of \$0.7 million, related to previously announced plant closures, and \$7.4 million of expenses related to ongoing performance-improvement initiatives increased cost of goods sold by \$3.0 million (\$0.08 per share), and STG&R expenses by \$5.1 million (\$0.14 per share). The increased STG&R expenses are principally due to the non-capitalized portion of SAP project costs, costs related to the implementation of the global procurement initiative, and termination costs. Cost of goods sold during the quarter includes additional costs related to the start-up of the greenfield PMC plant in China and equipment relocation expenses. Performance-improvement costs in the first quarter of 2007 amounted to \$1.7 million, of which \$1.6 million was included in STG&R expenses.

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

Research expenses increased \$0.9 million principally due to increased development efforts in the Engineered Composites business. Unallocated expenses increased \$1.1 million principally due to higher costs associated with restructuring and performance improvement initiatives.

Interest expense increased to \$4.3 million for the first quarter of 2008, compared to \$3.3 million for 2007. The increase in 2008 reflects higher average levels of debt outstanding in 2008.

The effective first-quarter income tax rate before discrete tax items was 20 percent in 2008 and 25 percent in 2007. Included in first-quarter 2008 income tax expense are discrete tax adjustments that decreased net income by \$0.13 per share.

Net loss per share for the first quarter of 2008 was \$0.05, after reductions of \$0.36 from net restructuring charges, idle capacity costs related to restructuring, and costs related to continuing performance-improvement initiatives. Discrete income tax adjustments reduced net income by \$0.13 per share. Net income per share for the first quarter of 2007 was \$0.32, after expenses related to restructuring and performance improvement initiatives reduced net income per share by \$0.24.

### **Paper Machine Clothing Segment**

Compared to the first quarter of 2007, trade sales in the Americas region declined 8.3 percent. Trade sales in South America increased 10.5 percent, while sales in North America declined 12.9 percent. Volume in North America was negatively affected by paper mill closures, reduced capacity utilization rates in some paper grades, and longer running life of paper machine clothing.

Orders in the Americas region during the quarter were 14.7 percent ahead of very strong first-quarter 2007 orders. Cost-reduction activities in North America are proceeding on schedule. Headcount has dropped 9 percent compared to the first quarter of 2007, and lower costs are beginning to become apparent in lower average production costs in finished goods inventories.

**30**

---

In Western Europe, compared to the first quarter of 2007, trade sales in euros declined 5.8 percent due to lower sales volume and lower average prices. While prices were lower than the first quarter of 2007, they were relatively stable compared to recent quarters and based on current orders are likely to remain stable for the rest of the year. While volume was lower than in the first quarter of 2007, reflecting a weakened European paper industry, market share increased and orders are strong. Restructuring activities in Europe have resulted in a 13 percent reduction in headcount, which nearly offset the effect of lower sales.

Trade sales in the Pacific region were 9.9 percent higher than the first quarter of 2007. Orders are strong and the new capacity in Asia is beginning to come on stream as planned.

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

First-quarter gross profit as a percentage of net sales was 37.4% for 2008 compared to 42.0% for 2007. The difference was principally due to decreases in net sales, particularly in North America, and costs associated with performance-improvement initiatives. First-quarter operating income was \$18.6 million for 2008, compared to \$26.5 million for 2007. Segment expenses for restructuring and performance improvement initiatives increased \$3.5 million.

### **Albany Door Systems Segment**

Trade sales in Europe in euros were up 13.8 percent, and orders were up 10.5 percent compared to the first quarter of 2007. Much of this increase was due to strong product sales. Compared to last year, operating margins improved due to the 2007 consolidation of European manufacturing operations.

In North America, trade sales increased 33.7 percent and orders increased 39.0 percent compared to the same period last year. Most of this increase was due to the second-quarter 2007 R-Bac acquisition. Sales were negatively affected by the construction slowdown in the U.S.

First-quarter gross profit as a percentage of net sales was 32.7% for 2008 compared to 33.5% for 2007. The difference reflects a higher portion of segment sales in 2008 that were generated by initial product sales. First-quarter operating income increased from \$1.7 million in 2007 to \$2.8 million in 2008 principally due to the effect of higher sales.

### **Engineered Fabrics Segment**

Excluding the effect of changes in currency translation rates, net sales compared to the first quarter of 2007 increased 1.2 percent. Sales in the North American building products market were negatively affected by the downturn in the U.S. economy and the related decline in new construction. Some of the weakness in this area has been offset by growth in sales to Asia.

First-quarter gross profit as a percentage of net sales was 39.9% for 2008 compared to 37.7% for 2007. First-quarter operating income increased to \$5.6 million in 2008, compared to \$4.4 million in 2007. The improvement in 2008 reflects increased efficiencies in Europe and the new facility in Kaukauna, Wisconsin.

### **Engineered Composites Segment**

Net sales increased to \$11.1 million in the first quarter of 2008, compared to \$7.8 million in the first quarter of 2007, an increase of 42.6%.

As expected, the Engineered Composites segment generated an operating loss of \$1.8 million during the quarter, but by late in the quarter showed significant improvement in operating efficiencies.

### **PrimaLoft® Products Segment**

Net sales increased 40.2 percent compared to the same period last year. While outerwear sales in North America and Europe showed good growth, home furnishings sales in North America were down significantly due to weakness in the retail market.

First-quarter gross profit as a percentage of net sales was 47.2% for 2008 compared to 46.7% for 2007. First-quarter operating income increased from \$0.5 million in 2007 to \$1.1 million in 2008. The improvement in 2008 was principally due to higher sales.

### **Liquidity and Capital Resources**

On May 4, 2008, the Company announced that it has agreed to sell its filtration business, which manufactures filtration products for a variety of industrial processes, most notably power generation. The Company has reached the point in the growth of its emerging businesses when management is starting to make choices in how it allocates capital among them. While the filtration business has very appealing growth prospects, its basis for competitive advantage, and thus for sustainable profitable growth, is not tightly connected to Albany's core competencies. The Company will use the proceeds of the sale to fund planned capital expenditures outside of the U.S. and for general working capital purposes.

Net cash provided by operating activities was \$7.4 million in the first quarter of 2008, compared to \$17.3 million for the same period of 2007. Capital spending during the first quarter of 2008 was \$31.6 million. The Company expects capital spending in 2008 to be approximately \$140 million, and continues to expect that capital spending in 2009 will be approximately \$70 million. Depreciation and amortization were \$14.8 million and \$1.2 million, respectively, for the first quarter of 2008. Depreciation and amortization are estimated to be \$68 million and \$7 million for 2008, and \$72 million and \$10 million for 2009.

The Company finances its business activities primarily with cash generated from operations and borrowings, primarily under \$180 million of 2.25% convertible notes issued in March 2006, \$150 million of 5.34% long-term indebtedness to Prudential Capital Group issued in October 2005, and its revolving credit agreement as described in Notes to Consolidated Financial Statements. Company subsidiaries outside of the United States may also maintain working capital lines with local banks, but borrowings under such local facilities tend not to be significant.

The effective first-quarter income tax rate on continuing operations before discrete tax items was 20% in 2008 and 25% in 2007. The Company currently anticipates its consolidated effective tax rate on continuing operations in 2008 will not exceed 20% before any discrete items, although there can be no assurance that this will not change.

Under *Trends*, management discussed certain recent trends in its paper machine clothing segment that have had a negative impact on demand for the Company's products within that segment, as well as its strategy for addressing these trends. Management also discussed pricing competition within this segment and the negative effect of such competition on segment sales and earnings. If these trends continue or intensify, and if management's strategy for addressing them should prove inadequate, the Company's operating cash flow could be adversely affected. In any event, although historical cash flows may not, for all of these reasons, necessarily be indicative of future cash flows, the Company expects to continue to be able to generate substantial cash from sales of its products and services in future periods.

In October 2005, the Company closed on a \$150 million borrowing from Prudential Capital Group. The principal is due in three installments of \$50 million each in 2013, 2015, and 2017 (an average life of 10 years), and the interest rate is fixed at 5.34 percent. Proceeds from the borrowing were used to pay down all \$127 million of floating-rate indebtedness at the time outstanding under the Company's existing credit facility. Under this agreement the Company is required to maintain a leverage ratio of not greater than 3.00 to 1.00 and a minimum interest coverage of at least 3.00 to 1.00. As of March 31, 2008, the Company's leverage ratio under the agreement was 2.82 to 1.00 and the interest coverage ratio was 7.64 to

32

---

1.00. The Company may purchase its Common Stock or pay dividends to the extent its leverage ratio remains at or below 3.00 to 1.00, and may make acquisitions provided its leverage ratio would not exceed 3.00 to 1.00 after giving pro forma effect to the acquisition. The Company's ability to borrow additional amounts under the credit agreement is conditional upon the absence of any defaults, as well as the absence of any material adverse change. Based on the maximum leverage ratio and the Company's consolidated EBITDA (as defined in the agreement), and without modification to any other credit agreements as of March 31, 2008, the Company would have been able to borrow an additional \$25 million under the loan agreement. There are cross-default provisions in this agreement whereby a default under the borrowing from the five-year revolving credit agreement would trigger a default under this agreement.

In March 2006, the Company issued \$180 million principal amount of 2.25% convertible notes. The notes are convertible upon the occurrence of specified events and at any time on or after February 15, 2013, into cash up to the principal amount of notes converted and shares of the Company's Class A common stock with respect to the remainder, if any, of the Company's conversion obligation at an initial conversion rate of 22.462 shares per \$1,000 principal amount of notes (equivalent to an initial conversion price of \$44.52 per share of Class A common stock).

In connection with the offering, the Company entered into convertible note hedge and warrant transactions with respect to its Class A common stock at a net cost of \$14.7 million. These transactions are intended to reduce the potential dilution upon conversion of the notes by providing the Company with the option, subject to certain exceptions, to acquire shares that offset the delivery of newly issued shares upon conversion of the notes.

On April 14, 2006, the Company entered into a new \$460 million five-year revolving credit agreement, under which \$142 million was outstanding as of March 31, 2008. The agreement replaced a similar \$460 million revolving credit facility. Under the terms of the new agreement, commitment fees on the unused portion of the facility were reduced from 0.25% to 0.09% and the term was extended from 2009 to 2011. The applicable interest rate for borrowings under the new agreement, as well as under the old agreement, is LIBOR plus a spread, based on the Company's leverage ratio at the time of borrowing. As of March 31, 2008, the interest rate under this agreement was 3.77%. Spreads under the new agreement are 15 to 50 basis points lower than under the old agreement. The new agreement includes covenants similar to the old agreement, which could limit the Company's ability to purchase Common Stock, pay dividends, or acquire other companies or dispose of its assets. The Company is also required to maintain a leverage ratio of not greater than 3.00 to 1.00 and a minimum interest coverage of at least 3.00 to 1.00. As of March 31, 2008, the Company's leverage ratio under the agreement was 2.82 to 1.00 and the interest coverage ratio was 7.64 to 1.00. The Company may purchase its Common Stock or pay dividends to the extent its leverage ratio remains at or below 3.00 to 1.00, and may make acquisitions provided its leverage ratio would not exceed 3.00 to 1.00 after giving pro forma effect to the acquisition. The Company's ability to borrow additional amounts under the credit agreement is conditional upon the absence of any defaults, as well as the absence of any material adverse change. Based on the maximum leverage ratio and the Company's consolidated EBITDA (as defined in the agreement), and without modification to any other credit agreements as of March 31, 2008, the Company would have been able to borrow an additional \$25 million under the loan agreement. There are cross-default provisions in this agreement whereby a default under the borrowing from Prudential would trigger a default under this agreement.

## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

On December 10, 2007, the Company and Bank of America entered into a US dollar-to-euro cross-currency and interest rate swap agreement with a notional value of \$150,000,000. The Company has designed the swap to be an effective hedge of its euro net asset exposure relating to European operations. Under the swap agreement, the Company has notionally exchanged \$150,000,000 at a fixed interest rate of 5.34% for euro 101,950,700 at a fixed interest rate of 5.28%. The exchange was executed at an exchange rate of 1.4713 US dollars per euro. The majority of the cash flows in the swap agreement are aligned with the Company's principal and interest payment obligations on its \$150,000,000 Prudential Agreement. The final maturity of the swap matches the final maturity of the Prudential Agreement.

The Company's swap agreement qualifies as a hedge of net investments in foreign operations under the provisions of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Under FAS No. 133, changes in fair value of derivatives that qualify as hedges are recorded in shareholders' equity, net of tax, in the caption Derivative valuation adjustment. As of March 31, 2008, the fair value of the swap agreement was a liability \$7,327,000, which was recorded

### 33

---

in other noncurrent liabilities. Of that amount, \$2,873,000 was included in deferred taxes and the remaining \$4,454,000 was included in shareholders' equity.

Dividends have been declared each quarter since the fourth quarter of 2001, and first-quarter dividends per share were \$0.11 in 2008 and \$0.10 in 2007. Decisions with respect to whether a dividend will be paid, and the amount of the dividend, are made by the Board of Directors each quarter. To the extent the Board declares cash dividends in the future, the Company would expect to pay such dividends out of operating cash flow. Future cash dividends will be dependent on debt covenants and on the Board's assessment of the Company's ability to generate sufficient cash flows.

In August 2006, the Company announced that the Board of Directors authorized management to purchase up to 2 million additional shares of its Class A Common Stock. The Board's action authorizes management to purchase shares from time to time, in the open market or otherwise, whenever it believes such purchase to be advantageous to the Company's shareholders, and it is otherwise legally permitted to do so. As of March 31, 2008, no share purchases had been made under the 2006 authorization.

### Outlook

First quarter 2008 results were depressed by a slowdown in each of the Company's North American operations, except for Engineered Composites. By far the largest effect was in PMC. Despite continuing strength in market share, the successful conclusion of several important contract negotiations in 2007, and unusually strong orders, sales in North America were down 12.9 percent compared to the same period in 2007. This decline in sales reduced operating income by an estimated \$3.5 million. There are a number of reasons for this decline, the most significant of which was the impact of the general economic slowdown on an already weakened paper industry. In most publication grades, paper mill operating rates dropped well below their 2007 levels. At the same time, some mills ran their paper machine clothing longer than is customary. The net effect was lower consumption of paper machine clothing. The weakness in PMC sales was most pronounced in the third month of the quarter, just as it was in the fourth quarter of 2007.



## Edgar Filing: ALBANY INTERNATIONAL CORP /DE/ - Form 10-Q

Management saw further evidence of this economic weakness in sales of Engineered Fabrics to the U.S. building products and fiber cement industries, sales of PrimaLoft® products to the U.S. home furnishings retail market, and sales of doors to some construction-sensitive market segments in the U.S.

Apart from this economic weakness in North America, there were no significant deviations from management's expectations for the first quarter. Each of the emerging businesses performed to plan. Albany Engineered Composites increased net sales by 43 percent compared to the first quarter of 2007, made excellent progress in manufacturing efficiencies, and continues on trend toward becoming profitable in the third quarter of 2008. Fueled by continuing growth in the European market, Albany Doors had another strong quarter in both sales and orders; and Engineered Fabrics was strong across the board, except for its North American construction-oriented product lines.

The three-year process of internal restructuring, launched in the third quarter of 2006 continued on plan, with the announced closures of the Mansfield, Massachusetts, and Montgomery, Alabama, operations. The effects of this process are beginning to become apparent: combined headcount in North American and European PMC is down 11 percent; gross margins are increasing in the PMC product lines where the most significant restructuring has taken place—dryers in the Americas and press in Europe; and average cost of finished goods inventories in those product lines is declining. Meanwhile, several new products in the R&D pipeline are approaching market trials, or had successful initial trials during the quarter; the expansions in Asia and South America remain on schedule; and the Company is progressing toward the toughest and most important milestone in our SAP implementation, the July 2008 go-live for the North American PMC and Engineered Fabrics operations. The Company thus remains on trend toward the strong cash generation that it has been projecting for 2009.

Looking forward to the second quarter and the balance of the year, the economic slowdown in North America, coupled with the possibility of a European slowdown later in the year, adds an element of uncertainty to the short-term outlook. Orders are strong across each of the Company's businesses. Market share in PMC is strong and getting stronger, and based on current orders, management expects PMC pricing to be stable in Europe through the rest of 2008. And even though the increases in oil prices are putting upward pressure on materials costs, management expects to mitigate the effect of those increases through the balance of the year. With all of these positive factors at work, management would

34

---

ordinarily be optimistic about the prospects for the next few quarters. But the continuing economic weakness in North America tempers management's optimism about the short-term outlook.

### Non-GAAP Measures

This Form 10-Q contains certain items, such as sales excluding currency effects, and consolidated net income and consolidated and segment operating income excluding costs associated with restructuring and performance-improvement initiatives, that may be considered to be non-GAAP financial measures. Such items are provided because management believes that, when presented together with the GAAP items to which they relate, they can provide additional useful information to investors regarding the registrant's financial condition, results of operations, and cash flows. Presenting increases or decreases in sales, after currency effects are excluded, can give managements and investors insight into underlying sales trends. An understanding of the impact in a particular quarter of specific restructuring and performance-improvement measures, and in particular of the costs associated with the implementation of such measures, on the Company's net income or operating income, or the operating income of a business segment, can give management and investors additional insight into quarterly performance, especially when compared to quarters in which such measures had a greater or lesser effect, or no effect. The effect of changes in currency translation rates is calculated by converting amounts reported in local currencies into U.S. dollars at the exchange rate of a prior period. That amount is then

compared to the U.S. dollar amount reported in the current period.

### Recent Accounting Pronouncements

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS No. 157). FAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The Company's adoption of this Standard on January 1, 2008 did not have a material effect on its financial statements.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (FAS No. 159). FAS No. 159 provides companies with a choice to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (the Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. The Company's adoption of this Standard on January 1, 2008 did not have a material effect on its financial statements.

In December 2007, the FASB issued FAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51. FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect the adoption of FAS No. 160 to have a material effect on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards (FAS) No. 141 (revised 2007), Business Combinations FAS 141(R) which replaces FAS No. 141, Business Combinations. FAS 141(R) retains the underlying concepts of FAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but FAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. FAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. FAS 141(R) amends FAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of FAS 141(R) would also apply the provisions of FAS 141(R). Early adoption is not allowed. We are currently evaluating the effects, if any, that FAS 141(R) may have on our financial statements, but the Company does not expect the adoption of FAS No. 141(R) to have a material effect on its financial statements.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. The Standard requires enhanced disclosures about derivative instruments and is effective for fiscal periods beginning after November 15, 2008. The Company does not expect adoption of this Standard to have a material effect on its financial statements.

### **Critical Accounting Policies and Assumptions**

The following should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

The Company's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The Company records sales when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed, and collectibility is reasonably assured. The timing of revenue recognition is dependent upon the contractual arrangement between the Company and its customers. These arrangements, which may include provisions for transfer of title and guarantees of workmanship, are specific to each customer. Sales contracts in the Albany Door Systems segment may include product and installation services. For these sales, the Company applies the provisions of EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company's contracts that include product and installation services generally do not qualify as separate units of accounting and, accordingly, revenue for the entire contract value is recognized upon completion of installation services. The Company limits the concentration of credit risk in receivables by closely monitoring credit and collection policies. The Company records allowances for sales returns as a deduction in the computation of net sales. Such provisions are recorded on the basis of written communication with customers and/or historical experience.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Goodwill and other long-lived assets are reviewed for impairment whenever events such as significant changes in the business climate, plant closures, changes in product offerings, or other circumstances indicate that the carrying amount may not be recoverable. The Company performs a test for goodwill impairment at least annually. The determination of whether these assets are impaired involves significant judgments based on short and long-term projections of future performance. Changes in strategy and/or market conditions may result in adjustments to recorded asset balances.

The Company has investments in other companies that are accounted for under the equity method of accounting. Investments accounted for under the equity method are included in Investments in associated companies. The Company performs regular reviews of the financial condition of the investees to determine if its investment is impaired. If the financial condition of the investees were to no longer support their valuations, the Company would record an impairment provision.

The Company has pension and postretirement benefit costs and liabilities that are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets, which are updated on an annual basis. The Company is required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in the related pension and postretirement benefit costs or credits may occur in the future due to changes in the assumptions. The amount of annual pension plan funding and annual expense is subject to many variables, including the investment return on pension plan assets and interest rates. Assumptions used for determining pension plan liabilities and expenses are evaluated and updated at least annually. The largest benefit plans are the U.S. pension plan and the U.S. postretirement benefits plan, which account for 41% and 21% of the total company benefit obligations. Discount rate assumptions are based on the population of plan participants and a mixture of high-quality fixed income investments for which the average maturity approximates the average remaining service period of plan participants. The largest portion of pension plan assets (35% for the

U.S. plan and 74% for non-U.S. plans) was invested in equities. The assumption for expected return on plan assets is based on historical and expected returns on various categories of plan assets. The U.S. plan accounts for 64% of the total consolidated pension plan assets. The benefit obligation was calculated using the RP-2000 Combined Healthy Mortality Table projected to 2015 using Scale AA with phase-out and without collar adjustment. Weakness in investment returns and low interest rates, or deviations in results from other assumptions, could result in the Company making equal or greater pension plan contributions in future years, as compared to 2007. Including anticipated contributions for all pension plans, the Company estimates that contributions will amount to approximately \$9.6 million. Actual contributions for 2007 totaled \$20.8 million. The

36

---

Company adopted the provisions of FAS No. 158 in the fourth quarter of 2006, resulting in an increase of \$23.7 million in noncurrent deferred tax assets, a decrease of \$5.6 million in intangible assets, an increase of \$59.6 million in pension liabilities, and an increase of \$41.5 million in accumulated other comprehensive losses.

The Company records deferred income tax assets and liabilities for the tax consequences of differences between financial statement and tax bases of existing assets and liabilities. A tax valuation allowance is established, as needed, to reduce net deferred tax assets to the amount expected to be realized. In the event it becomes more likely than not that some or all of the deferred tax asset allowances will not be needed, the valuation allowance will be adjusted.

The Company has contingent liabilities for litigation, claims and assessments that result from the ordinary course of business. These matters are more fully described in Notes to the Consolidated Financial Statements.

#### **Forward-looking statements**

This quarterly report and the documents incorporated or deemed to be incorporated by reference in this quarterly report contain statements concerning our future results and performance and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The words believe, expect, anticipate, intend, plan, project, may, will and variations of such words or similar expressions are intended, but are not the exclusive means, to identify forward-looking statements. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements.

There are a number of risks, uncertainties and other important factors that could cause actual results to differ materially from the forward-looking statements, including, but not limited to: changes in conditions in the industry in which the Company's Paper Machine Clothing segment competes or in the papermaking industry in general could change; failure to remain competitive in the industry in which the Company's Paper Machine Clothing segment competes; material and petroleum-related costs could increase more or faster than anticipated; failure to receive, or a delay in receiving, the benefits from the Company's capital expenditures and investments; the strategies described in this report to address certain business or operational matters could fail to be effective, or their effectiveness could be delayed; other risks and uncertainties detailed from time to time in the Company's filings with the SEC.

Further information concerning important factors that could cause actual events or results to be materially different from the forward-looking statements can be found in Industry Trends and Challenges, Risks and Opportunities sections of this quarterly report, as well as in the Risk Factors, section of the Company's most recent Annual Report on Form 10-K. Although the Company believes the expectations reflected in the Company's forward-looking statements are based upon reasonable assumptions, it is not possible to foresee or identify all factors that could have a material and negative impact on future performance. The forward-looking statements included or incorporated by reference in this quarterly report are made on the basis of management's assumptions and analyses, as of the time the statements are made, in light of their experience and perception of historical conditions, expected future developments and other factors believed to be appropriate under the circumstances.

Except as otherwise required by the federal securities laws, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained or incorporated by reference in this report to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

37

---

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

For discussion of the Company's exposure to market risk, refer to Quantitative and Qualitative Disclosures About Market Risk under Item 7A of form 10-K, which is included as an exhibit to this Form 10-Q.

38

---

### Item 4. Controls and Procedures

(a) Disclosure controls and procedures.

The principal executive officers and principal financial officer, based on their evaluation of disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that the Company's disclosure controls and procedures are effective for ensuring that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures, include, without limitation, controls and procedures designed to ensure that information required to be disclosed in filed or submitted reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

39

---

## **PART II OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

Albany International Corp. ( Albany ) is a defendant in suits brought in various courts in the United States by plaintiffs who allege that they have suffered personal injury as a result of exposure to asbestos-containing products previously manufactured by Albany. Albany produced asbestos-containing paper machine clothing synthetic dryer fabrics marketed during the period from 1967 to 1976 and used in certain paper mills. Such fabrics generally had a useful life of three to twelve months.

Albany was defending against 18,529 claims as of May 2, 2008. This compares with 18,789 such claims as of February 1, 2008, 18,791 claims as of October 19, 2007, 18,813 claims as of July 27, 2007, 19,120 claims as of April 27, 2007, 19,388 claims as of February 16, 2007, 19,416 claims as of December 31, 2006, 19,283 claims as of October 27, 2006, 24,451 claims as of December 31, 2005, 29,411 claims as of December 31, 2004, 28,838 claims as of December 31, 2003, 22,593 claims as of December 31, 2002, 7,347 claims as of December 31, 2001, 1,997 claims as of December 31, 2000, and 2,276 claims as of December 31, 1999. These suits allege a variety of lung and other diseases based on alleged exposure to products previously manufactured by Albany.

Albany anticipates that additional claims will be filed against it and related companies in the future, but is unable to predict the number and timing of such future claims. These suits typically involve claims against from twenty to more than two hundred defendants, and the complaints usually fail to identify the plaintiffs' work history or the nature of the plaintiffs' alleged exposure to Albany's products. Pleadings and discovery responses in those cases in which work histories have been provided indicate claimants with paper mill exposure in less than 10% of total claims reported, and only a portion of those claimants have alleged time spent in a paper mill to which Albany is believed to have supplied asbestos-containing products.

As of May 2, 2008, approximately 12,440 of the claims pending against Albany are pending in Mississippi. Of these, approximately 11,871 are in federal court, at the multidistrict litigation panel ( MDL ), either through removal or original jurisdiction. (In addition to the 11,871 Mississippi claims pending against the Company at the MDL, there are approximately 888 claims pending against the Company at the MDL removed from various United States District Courts in other states.)

On May 31, 2007 the MDL issued an administrative order that required each MDL plaintiff to provide detailed information regarding, among other things, the alleged asbestos-related medical diagnoses. The order does not require exposure information with this initial filing. The first set of plaintiffs were required to submit their filings with the Court by August 1, 2007, with deadlines for additional sets of plaintiffs monthly thereafter until December 1, 2007, by which time all MDL plaintiffs were to have filed compliant reports. The process, however, remains incomplete, as a number of extensions have been requested and granted, and reports continue to be filed. The order states that the Court may dismiss the claims of any plaintiff who fails to comply, but no such action has yet been taken.

Because the order of the MDL does not require the submission of alleged exposure information, the Company cannot predict if any dismissals will result from these initial filings. The MDL will at some point begin conducting settlement conferences, at which time the plaintiffs will be required to submit short position statements setting forth exposure information. The Company does not expect the MDL to begin the process of scheduling the settlement conference for several months. Consequently, the Company believes that the effects of the new order will not be fully known or realized for some time.

40

---

Based on past experience, communications from certain plaintiffs' counsel, and the advice of the Company's Mississippi counsel, the Company expects the percentage of Mississippi claimants able to demonstrate time spent in a paper mill to which Albany supplied asbestos-containing products during a period in which Albany's asbestos-containing products were in use to be considerably lower than the total number of pending claims. However, due to the large number of inactive claims pending in the MDL and the lack of alleged exposure information, the Company does not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

It is the position of Albany and the other paper machine clothing defendants that there was insufficient exposure to asbestos from any paper machine clothing products to cause asbestos-related injury to any plaintiff. Furthermore, asbestos contained in Albany's synthetic products was encapsulated in a resin-coated yarn woven into the interior of the fabric, further reducing the likelihood of fiber release. While the Company believes it has meritorious defenses to these claims, it has settled certain of these cases for amounts it considers reasonable given the facts and circumstances of each case. The Company's insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of May 2, 2008, the Company had resolved, by means of settlement or dismissal, 21,878 claims. The total cost of resolving all claims was \$6,748,000. Of this amount, \$6,713,000, or 99%, was paid by the Company's insurance carrier. The Company has approximately \$130 million in confirmed insurance coverage that should be available with respect to current and future asbestos claims, as well as additional insurance coverage that it should be able to access.

#### **Brandon Drying Fabrics, Inc.**

Brandon Drying Fabrics, Inc. ( Brandon ), a subsidiary of Geschmay Corp., which is a subsidiary of the Company, is also a separate defendant in many of the asbestos cases in which Albany is named as a defendant. Brandon was defending against 8,689 claims as of May 2, 2008. This compares with 8,741 such claims as of February 1, 2008 and October 19, 2007, 9,023 claims as of July 27, 2007, 9,089 claims as of April 27, 2007, 9,189 claims as of February 16, 2007, 9,114 claims as of December 31, 2006, 8,992 claims as of October 27, 2006, 9,566 claims as of December 31, 2005, 9,985 claims as of December 31, 2004, 10,242 claims as of December 31, 2003, 11,802 claims as of December 31, 2002, 8,759 claims as of December 31, 2001, 3,598 claims as of December 31, 2000, and 1,887 claims as of December 31, 1999. The Company acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999. Brandon is a wholly-owned subsidiary of Geschmay Corp. In 1978, Brandon acquired certain assets from Abney Mills ( Abney ), a South Carolina textile manufacturer. Among the assets acquired by Brandon from Abney were assets of Abney's wholly-owned subsidiary, Brandon Sales, Inc. which had sold, among other things, dryer fabrics containing asbestos made by its parent, Abney. It is believed that Abney ceased production of asbestos-containing fabrics prior to the 1978 transaction. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. Under the terms of the Assets Purchase Agreement between Brandon and Abney, Abney agreed to indemnify, defend, and hold Brandon harmless from any actions or claims on account of products manufactured by Abney and its related corporations prior to the date of the sale, whether or not the product was sold subsequent to the date of the sale. It appears that Abney has since been dissolved. Nevertheless, a representative of Abney has been notified of the pendency of these actions and demand has been made that it assume the defense of these actions. Because Brandon did not manufacture asbestos-containing products, and because it does not believe that it was the legal successor to, or otherwise responsible for obligations of Abney with respect to products manufactured by Abney, it believes it has strong defenses to the claims that have been asserted against it. In some instances, plaintiffs have voluntarily dismissed claims against it, while in others it has entered into what it considers to be reasonable settlements. As of May 2, 2008, Brandon has resolved, by means of settlement or dismissal, 8,883 claims for a

total of \$152,499. Brandon's insurance carriers initially agreed to pay 88.2% of the total indemnification and defense costs related to these proceedings, subject to the standard reservation of rights. The remaining 11.8% of the costs had been borne directly by Brandon. During 2004, Brandon's

41

---

insurance carriers agreed to cover 100% of indemnification and defense costs, subject to policy limits and the standard reservation of rights, and to reimburse Brandon for all indemnity and defense costs paid directly by Brandon related to these proceedings.

#### **Mount Vernon**

In some of these asbestos cases, the Company is named both as a direct defendant and as the successor in interest to Mount Vernon Mills (Mount Vernon). The Company acquired certain assets from Mount Vernon in 1993. Certain plaintiffs allege injury caused by asbestos-containing products alleged to have been sold by Mount Vernon many years prior to this acquisition. Mount Vernon is contractually obligated to indemnify the Company against any liability arising out of such products. The Company denies any liability for products sold by Mount Vernon prior to the acquisition of the Mount Vernon assets. Pursuant to its contractual indemnification obligations, Mount Vernon has assumed the defense of these claims. On this basis, the Company has successfully moved for dismissal in a number of actions.

---

While the Company does not believe, based on currently available information and for the reasons stated above, that a meaningful estimate of a range of possible loss can be made with respect to such claims, based on its understanding of the insurance policies available, how settlement amounts have been allocated to various policies, its recent settlement experience, the absence of any judgments against the Company or Brandon, the ratio of paper mill claims to total claims filed, and the defenses available, the Company currently does not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, the Company currently does not anticipate, based on currently available information, that the ultimate resolution of the aforementioned proceedings will have a material adverse effect on the financial position, results of operations or cash flows of the Company. Although the Company cannot predict the number and timing of future claims, based on the foregoing factors and the trends in claims against it to date, the Company does not anticipate that additional claims likely to be filed against it in the future will have a material adverse effect on its financial position, results of operations, or cash flows. The Company is aware that litigation is inherently uncertain, especially when the outcome is dependent primarily on determinations of factual matters to be made by juries. The Company is also aware that numerous other defendants in asbestos cases, as well as others who claim to have knowledge and expertise on the subject, have found it difficult to anticipate the outcome of asbestos litigation, the volume of future asbestos claims, and the anticipated settlement values of those claims. For these reasons, there can be no assurance that the foregoing conclusions will not change.

42

---

#### **Item 1A. Risk Factors.**



There have been no material changes in risks since December 31, 2007. For discussion of risk factors, refer to Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Management made no share purchases during the first quarter of 2008. Management remains authorized by the Board of Directors to purchase up to 2,000,000 shares of its Class A Common Stock.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)
99.1	Quantitative and qualitative disclosures about market risks as reported at December 31, 2007.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALBANY INTERNATIONAL CORP.  
(Registrant)

Date: May 9, 2008

By /s/ Michael C. Nahl

Michael C. Nahl  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

---