ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
May 10, 2010

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, 2010

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	14-0462060
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1373 Broadway, Albany, New York	12204
(Address of principal executive offices)	(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 27,800,794 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of March 31, 2010.

ALBANY INTERNATIONAL CORP.

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ALBANY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2010	2009
Net sales	$213,873	$209,205
Cost of goods sold	136,644	139,174
Gross profit	77,229	70,031
Selling, technical, general and research expenses	66,076	67,619
Restructuring and other, net	3,113	17,179
Operating income/(loss)	8,040	(14,767)
Interest expense, net	3,825	5,834
Other (income)/expense, net	(2,281)	181
Income/(loss) before income taxes	6,496	(20,782)
Income tax expense/(benefit)	2,239	(1,605)
Income/(loss) before associated companies	4,257	(19,177)
Equity in income of associated companies	8	280
Net income/(loss)	$4,265	($18,897)
Net income/(loss) per share:		
Basic	$0.14	($0.63)
Diluted	$0.14	($0.63)
Shares used in computing earnings per share:		
Basic	30,943	30,046
Diluted	31,033	30,046
Dividends per share	$0.12	$0.12

The accompanying notes are an integral part of the financial statements

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

	(unaudited) March 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$101,758	$97,466
Accounts receivable, net	156,593	168,820
Inventories	167,718	172,433
Income taxes receivable and deferred	40,241	42,613
Prepaid expenses and other current assets	12,424	9,712
Total current assets	478,734	491,044
Property, plant and equipment, net	502,197	514,475
Investments in associated companies	2,860	3,001
Intangibles	6,300	5,216
Goodwill	115,382	120,037
Deferred taxes	142,574	143,085
Cash surrender value of life insurance policies	49,982	49,135
Other assets	18,192	18,264
Total assets	$1,316,221	$1,344,257
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes and loans payable	$16,434	$15,296
Accounts payable	49,555	52,618
Accrued liabilities	101,046	113,323
Current maturities of long-term debt	11	11
Income taxes payable and deferred	2,323	3,639
Total current liabilities	169,369	184,887
Long-term debt	489,106	483,922
Other noncurrent liabilities	184,171	185,067
Deferred taxes and other credits	66,720	65,383
Total liabilities	909,366	919,259
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
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 36,297,533 in 2010 and 36,149,115 in 2009	36	36
Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,236,098 in 2010 and 2009	3	3
Additional paid in capital	383,715	382,674
Retained earnings	383,271	382,720
Accumulated items of other comprehensive income:		
Translation adjustments	(15,394)	4,167
Pension and post retirement liability adjustments	(86,477)	(86,303)
	665,154	683,297
Less treasury stock (Class A), at cost 8,496,739 shares in 2010 and 2009	258,299	258,299
Total shareholders equity	406,855	424,998
Total liabilities and shareholders equity	$1,316,221	$1,344,257

The accompanying notes are an integral part of the financial statements

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
OPERATING ACTIVITIES		
Net income/(loss)	$4,265	($18,897)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Equity in earnings of associated companies	(8)	(280)
Depreciation	13,941	14,573
Amortization	1,954	2,138
Noncash interest expense	188	1,187
Gain on early retirement of debt		(2,800)
Settlement of accreted debt discount		(522)
Provision for deferred income taxes, other credits and long-term liabilities	1,118	(4,635)
Provision for write-off of property, plant and equipment	1,467	1,076
Increase in cash surrender value of life insurance	(847)	(1,019)
Stock option expense		42
Compensation and benefits paid or payable in Class A Common Stock	955	1,039
Changes in operating assets and liabilities, net of business acquisitions and divestitures:		
Accounts receivable	8,396	23,445
Inventories	2,270	(6,214)
Prepaid expenses and other current assets	(2,769)	(1,161)
Accounts payable	(2,075)	(24,450)
Accrued liabilities	(10,401)	9,096
Income taxes payable	(1,437)	(2,455)
Other, net	(117)	(1,631)
Net cash provided by/(used in) operating activities	16,900	(11,468)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(6,821)	(15,721)
Purchased software	(1,073)	(1,145)
Acquisitions, net of cash acquired	(1,902)	
Net cash used in investing activities	(9,796)	(16,866)
FINANCING ACTIVITIES		
Proceeds from borrowings	6,152	40,583
Principal payments on debt	(17)	(3,585)
Early retirement of debt		(3,360)
Proceeds from options exercised	87	

Dividends paid	(3,705)	(3,628)
Net cash provided by financing activities	2,517	30,010
Effect of exchange rate changes on cash flows	(5,329)	(4,209)
Increase/(decrease) in cash and cash equivalents	4,292	(2,533)
Cash and cash equivalents at beginning of year	97,466	106,571
Cash and cash equivalents at end of period	$101,758	$104,038

The accompanying notes are an integral part of the financial statements

ALBANY INTERNATIONAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

In our opinion, 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 our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2009.

2. Reportable Segment Data

The following table shows data by reportable segment, reconciled to consolidated totals included in the financial statements:

(in thousands)	Three Months Ended March 31, 2010	2009
Net Sales		
Paper Machine Clothing	**$ 144,408**	$ 139,074
Albany Door Systems	**33,755**	34,326
Engineered Fabrics	**21,441**	21,570
Engineered Composites	**8,641**	9,085
PrimaLoft® Products	**5,628**	5,150
Consolidated total	**$ 213,873**	$ 209,205
Operating income/(loss)		
Paper Machine Clothing	**$ 25,076**	$ 7,261
Albany Door Systems	**2,884**	228
Engineered Fabrics	**2,521**	3,655
Engineered Composites	**(2,229)**	(2,508)
PrimaLoft® Products	**2,069**	1,089
Research expense	**(5,811)**	(5,610)
Unallocated expenses	**(16,470)**	(18,882)
Operating income/(loss) before reconciling items	**8,040**	(14,767)
Reconciling items:		
Interest expense, net	**3,825**	5,834
Other (income)/expense, net	**(2,281)**	181
Income/(loss) before income taxes	**$ 6,496**	($ 20,782)

During 2006, we began a three-year restructuring and performance improvement plan that resulted in significant restructuring costs. The table below presents first quarter restructuring costs by reportable segment:

(in thousands)	Three Months Ended March 31, 2010	2009
Restructuring expense		
Paper Machine Clothing	**$ 4,007**	$ 15,609
Albany Door Systems	**28**	148
PrimaLoft® Products		42

Unallocated		**(922)**		1,380
Consolidated total	**$**	**3,113**	$	17,179

There were no material changes in the total assets of the reportable segments during the three months ended March 31, 2010.

3. Pensions and Other Benefits

We sponsor defined benefit pension plans in various countries. The amount of contributions to the plans are based on several factors including the funding rules in each country. We expect to contribute approximately $12.3 million to our pension plans in 2010, compared to $28.7 million in 2009, which included a voluntary contribution of $20 million. We also provide certain medical, dental and life insurance benefits (Other Postretirement Benefits) for retired United States employees that meet program qualifications. We currently fund this plan as claims are paid.

The components of net periodic benefit cost for the three months ended March 31, 2010 and 2009 are, as follows:

	Pension Plans		Other Postretirement Benefits	
(in thousands)	**2010**	2009	**2010**	2009
Service cost	**$ 623**	$ 1,439	**$ 209**	$ 281
Interest cost	**5,028**	4,669	**1,024**	955
Expected return on plan assets	**(3,791)**	(5,087)		
Amortization:				
Transition obligation	**25**	23		
Prior service cost/(credit)	**4**	26	**(873)**	(1,082)
Net actuarial loss	**1,187**	498	**710**	695
Curtailment loss/(gain)	**1,720**		**(922)**	
Net periodic benefit costs	**$ 4,796**	$ 1,568	**$ 148**	$ 849

The $1.7 million pension plan curtailment loss in Q1 2010 was included as part of the restructuring line in our Statement of Operations. We recorded the $1.7 million reduction to a pension curtailment gain, which was originally recorded during the fourth quarter of 2009, in order to correct an error in the actuarial calculation. We assessed the impact of this adjustment on the current and prior year and determined that the effect of this adjustment was not material to either period.

In addition, in the first quarter of 2010 a benefit curtailment gain of $0.9 million was recorded related to previously announced reductions in manufacturing capacity.

4. Restructuring

The three-year Company-wide restructuring and performance improvement plan that began in 2006 and included the reduction of manufacturing capacity, reduction of administrative personnel, and curtailment of benefits under pension and postretirement plans, is now largely complete. The actions taken were driven by the need to adjust our manufacturing footprint to align with regional markets, and to improve our cost structure.

The following tables summarize charges reported in the Statement of Operations under Restructuring and other, net for the first three months of 2010 and 2009:

	Three months ending March 31, 2010			
(in thousands)	Total restructuring costs incurred	Termination and other costs	Writedown of plant and equipment	Benefit plan curtailment
Paper Machine Clothing	$ 4,007	$ 1,044	$ 1,243	$ 1,720
Albany Door Systems	28	28		
Unallocated	(922)			(922)
Total	$ 3,113	$ 1,072	$ 1,243	$ 798

	Three months ending March 31, 2009		
(in thousands)	Total restructuring costs incurred	Termination and other costs	Writedown of plant and equipment
Paper Machine Clothing	$ 15,609	$ 15,321	$ 288
Albany Door Systems	148	148	
PrimaLoft	42	42	
Unallocated	1,380	1,380	
	$ 17,179	$ 16,891	$ 288

The tables below present year-to-date summaries of changes in restructuring liabilities for 2010 and 2009:

(in thousands)	Restructuring charges accrued December 31, 2009	Restructuring accruals in 2010	Payments	Currency translation/ other	Restructuring charges accrued March 31, 2010
Termination costs	$ 20,511	$ 713	$ (9,744)	$ (510)	$ 10,970

We expect that substantially all accruals for restructuring liabilities during 2010 will be paid within one year.

(in thousands)	Restructuring charges accrued	Restructuring accruals in	Payments	Currency translation/other	Restructuring charges accrued

	December 31, 2008	2009			March 31, 2009
Termination costs	$ 21,284	$ 16,651	$ (7,976)	$ (328)	$ 29,631
Other restructuring costs	624	119	(387)	(19)	337
Total	$ 21,908	$ 16,770	$ (8,363)	$ (347)	$ 29,968

5. Other (Income)/Expense, net

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

(in thousands)	Three Months Ended March 31, 2010		2009	
Currency transactions	**$**	**(2,793)**	$	1,463
Amortization of debt issuance costs and loan origination fees		**519**		883
Gain on early retirement of debt				(2,800)
Other miscellaneous (income)/expense		**(7)**		635
Total	**$**	**(2,281)**	$	181

6. Income Taxes

The following table presents components of income tax expense/(benefit) for the three month period ending March 31, 2010 and 2009:

	Three Months Ended March 31,	
(in thousands)	**2010**	2009
Income tax expense/(benefit) based on income from continuing operations, at estimated tax rates of 34.5% in 2010 and 11.4% in 2009, respectively	**$ 2,239**	$ (2,697)
Provision for gain on extinguishment of debt		1,101
Income tax/(benefit) from continuing operations before discrete items	**2,239**	(1,596)
Discrete tax expense/(benefit):		
Provision for/resolution of tax audits and contingencies		(9)
Total income tax expense/(benefit) from continuing operations	**$ 2,239**	$ (1,605)

The first-quarter estimated income tax rate on continuing operations was 34.5% in 2010, as compared to 11.4% in 2009. The higher tax rate was primarily due to a shift in the distribution of income toward higher-tax jurisdictions; our current year inability under U.S. GAAP to recognize certain tax benefits from current losses in certain high-tax jurisdictions; and the recent expiration of certain provisions in the U.S. tax code relating to R&D credits and the deferred taxation of income generated by controlled foreign subsidiaries.

We are currently under audit in U.S. and non-U.S. taxing jurisdictions.

In our Annual Report on Form 10-K for the period ending December 31, 2009, it was disclosed that tax benefits of approximately $24.3 million claimed in Germany related to a 1999 reorganization were under challenge. In 2008 the German Federal Tax Court denied benefits to other taxpayers in a case involving German tax laws relevant to our reorganization. The determination of the German Federal Tax Court on this matter was appealed to the European Court of Justice (ECJ) to determine if the underlying German tax law is violative of European Union (EU) principles. In September of 2009 the ECJ issued an opinion in this case that is generally favorable to the other taxpayer and referred the case back to the German Federal Tax Court for further consideration. The Annual Report also disclosed that a reassessment notice in the amount of $54.8 million had been issued by the Canada Revenue Agency. There was no change with regard to either of these matters during the first quarter of 2010.

We record reserves for the outcome of these uncertainties in accordance with applicable guidance for accounting for uncertainty in income taxes. It is reasonably possible that an increase or decrease in the unrecognized tax benefits may occur in the next twelve months related to one of these audits or other changes. However, it is not possible to estimate a range at this time.

7. 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:

	Three Months Ended March 31,	
(in thousands, except market price data)	**2010**	2009
Net income/(loss)	**$ 4,265**	$ (18,897)
Weighted average number of shares:		
Weighted average number of shares used in calculating basic earnings per share	**30,943**	30,046
Effect of dilutive stock-based compensation awards:		
Stock options	**56**	
Long-term incentive awards	**34**	
Weighted average number of shares used in calculating diluted earnings per share	**31,033**	30,046
Effect of stock-based compensation awards that were not included in the computation of diluted earnings per share because to do so would be antidilutive		146
Average market price of common stock used for calculation of dilutive shares	**$ 21.04**	$ 9.46
Net income/(loss) per share:		
Basic	**$ 0.14**	$ (0.63)
Diluted	**$ 0.14**	$ (0.63)

There was no dilution resulting from the convertible debt instrument, purchased call option, and warrant that are described in Note 10 as of March 31, 2010 and 2009.

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, 2009	36,149,115	3,236,098	(8,496,739)	30,888,474
March 31, 2010	**36,297,533**	**3,236,098**	**(8,496,739)**	**31,036,892**

8. Inventories

Inventories consist of the following:

(in thousands)		**March 31, 2010**		December 31, 2009
Finished goods	**$**	**79,675**	$	80,885
Work in process		**48,361**		49,420
Raw material and supplies		**39,682**		42,128
Total inventories	**$**	**167,718**	$	172,433

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

9. Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Our reporting units are consistent with our operating segments.

Determining the fair value of a reporting unit requires the use of significant estimates and assumptions, including revenue growth rates, operating margins, discount rates and future market conditions, among others. 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.

To determine fair value, we utilized two market-based approaches and an income approach. Under the market-based approaches, we utilized information regarding the Company as well as publicly available industry information to determine earnings multiples and sales multiples. Under the income approach, we determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

We completed an annual evaluation of goodwill for our Paper Machine Clothing reporting unit and Albany Door System reporting unit as of June 30, 2009. Our assessment of goodwill impairment indicated that the fair value of each reporting unit exceeded its carrying value and therefore goodwill in each of the reporting units was not impaired.

We are continuing to amortize certain patents, trade names, customer contracts and technology assets that have finite lives. The changes in intangible assets and goodwill from January 1, 2010 to March 31, 2010, were as follows:

(in thousands)	Balance at January 1, 2010	Amortization	Currency translation	Other changes	**Balance at March 31, 2010**
Amortized intangible assets:					
Patents	$ 605				