

ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
November 10, 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: September 30, 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

14-0462060

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

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 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 26,646,292 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of September 30, 2008.

ALBANY INTERNATIONAL CORP.

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

Three Months Ended			Nine Months Ended	
September 30,			September 30,	
2008	2007		2008	2007
\$266,922	\$264,960	Net sales	\$837,331	\$772,253
177,772	173,583	Cost of goods sold	550,053	489,700
89,150	91,377	Gross profit	287,278	282,553
78,297	76,823	Selling, technical, general and research expenses	247,625	231,850
6,731	13,512	Restructuring and other, net	13,825	28,233
4,122	1,042	Operating income	25,828	22,470
4,520	3,782	Interest expense, net	13,602	10,666
(706)	1,409	Other (income)/expense, net	1,175	1,622
308	(4,149)	Income/(loss) from continuing operations before income taxes	11,051	10,182
5,805	81	Income tax expense	12,082	971

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(5,497)	(4,230)	(Loss)/income before associated companies	(1,031)	9,211
159	(195)	Equity in income/(losses) of associated companies	(86)	(430)
(5,338)	(4,425)	(Loss)/income from continuing operations	(1,117)	8,781
		Discontinued operations:		
(404)	658	(Loss)/income from operations of discontinued business	(91)	1,255
6,134	-	Gain on sale of discontinued business	6,134	-
(368)	104	Income tax (benefit)/expense	(238)	197
6,098	554	Income from discontinued operations	6,281	1,058
\$760	(\$3,871)	Net income/(loss)	\$5,164	\$9,839
		(Loss)/income from continuing operations:		
(\$0.17)	(\$0.15)	Basic	(\$0.04)	\$0.30
(\$0.17)	(\$0.15)	Diluted	(\$0.04)	\$0.30
		Income from discontinued operations:		
\$0.20	\$0.02	Basic	\$0.21	\$0.03
\$0.20	\$0.02	Diluted	\$0.21	\$0.03
		Net income/(loss) per share:		
\$0.03	(\$0.13)	Basic	\$0.17	\$0.33
\$0.03	(\$0.13)	Diluted	\$0.17	\$0.33
		Shares used in computing (losses)/earnings per share:		
29,857	29,492	Basic	29,743	29,380
29,857	29,492	Diluted	29,743	29,790
\$0.12	\$0.11	Dividends per share	\$0.35	\$0.32

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

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

	(unaudited) September 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	\$93,962	\$73,305
Accounts receivable, net	232,842	232,440
Inventories	226,224	247,043
Income taxes receivable and deferred	25,070	26,734
Prepaid expenses and other current assets	22,712	22,832
Total current assets	600,810	602,354
Property, plant and equipment, net	576,642	525,853
Investments in associated companies	4,204	5,373
Intangibles	9,448	11,217
Goodwill	194,184	194,660
Deferred taxes	87,393	100,604
Cash surrender value of life insurance policies	46,494	43,701
Other assets	41,958	43,215
Total assets	\$1,561,133	\$1,526,977
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and loans payable	\$19,551	\$32,030
Accounts payable	53,828	82,157
Accrued liabilities	137,149	120,267
Current maturities of long-term debt	10	1,146
Income taxes payable and deferred	5,988	2,970
Total current liabilities	216,526	238,570
Long-term debt	526,276	446,433
Other noncurrent liabilities	146,016	188,621
Deferred taxes and other credits	58,895	53,682
Total liabilities	947,713	927,306
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 35,169,431 in 2008 and 34,819,384 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	335,658	326,608
Retained earnings	538,968	544,228
Accumulated items of other comprehensive income:		
Translation adjustments	29,384	42,208
Pension liability adjustment	(31,757)	(55,953)
Derivative valuation adjustment	-	1,565
	872,291	858,694
Less treasury stock (Class A), at cost (8,523,139 shares in 2008 and 8,530,066 in 2007)	258,871	259,023
Total shareholders' equity	613,420	599,671
Total liabilities and shareholders' equity	\$1,561,133	\$1,526,977

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

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

	Nine Months Ended September 30,	
	2008	2007
OPERATING ACTIVITIES		

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Net income	\$5,164	\$9,839
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in losses of associated companies	86	430
Depreciation	43,618	43,020
Amortization	4,553	3,605
Provision for deferred income taxes, other credits and long-term liabilities	1,610	(2,925)
Provision for write-off of equipment	1,793	3,452
Increase in cash surrender value of life insurance	(1,806)	(2,146)
Unrealized currency transaction gains and losses	(2,401)	(273)
Gain on disposition of discontinued operations	(6,134)	-
Shares contributed to ESOP	4,593	4,065
Stock option expense	126	602
Tax benefit of options exercised	(811)	(1,088)
Issuance of shares under long-term incentive plan	624	937
Changes in operating assets and liabilities, net of business acquisitions and divestitures:		
Accounts receivable	(8,126)	(16,895)
Inventories	(2,706)	(18,804)
Income taxes prepaid and receivable	-	(16,076)
Prepaid expenses	(101)	(4,570)
Accounts payable	(26,826)	922
Accrued liabilities	17,719	33,449
Income taxes payable	3,710	1,667
Other, net	(2,816)	61
Net cash provided by operating activities	31,869	39,272
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(104,958)	(90,684)
Proceeds from sale of discontinued operations, net of cash transferred	42,268	-
Purchased software	(10,027)	(11,687)
Acquisitions, net of cash acquired	-	(9,592)
Cash received from life insurance policy terminations	-	1,470
Premiums paid for life insurance policies	(987)	(988)
Gain on cross currency swap	8,090	-
Net cash (used in) investing activities	(65,614)	(111,481)
FINANCING ACTIVITIES		

Proceeds from borrowings	87,010	83,697
Principal payments on debt	(21,884)	(28,104)
Proceeds from options exercised	2,813	2,958
Tax benefit of options exercised	811	1,088
Dividends paid	(10,094)	(9,088)
Net cash provided by financing activities	58,656	50,551
Effect of exchange rate changes on cash flows	(4,254)	188
Increase/(decrease) in cash and cash equivalents	20,657	(21,470)
Cash and cash equivalents at beginning of year	73,305	68,237
Cash and cash equivalents at end of period	\$93,962	\$46,767

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

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ALBANY INTERNATIONAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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.

Reclassification:

In the third quarter of 2008, the Company reclassified software so that it is now reflected as a component of Property, plant, and equipment, net, on the Consolidated Balance Sheets for the periods ended September 30, 2008 and December 31, 2007. In previous financial reports, software was included in the caption Other assets in the Consolidated Balance Sheets. The accompanying balance sheet of December 31, 2007 includes a reclassification of \$26,313,000 from Other assets to Property, plant, and equipment, net, in order to conform to the current year presentation.

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net Sales				
Paper Machine Clothing	\$179,449	\$189,077	\$561,941	\$552,107
Albany Door Systems	46,268	37,363	140,245	105,181
Engineered Fabrics	24,117	25,219	79,482	76,592
Engineered Composites	12,000	9,341	37,065	24,259
PrimaLoft® Products	5,088	3,960	18,598	14,114
Consolidated total	\$266,922	\$264,960	\$837,331	\$772,253
Operating Income				
Paper Machine Clothing	\$19,246	\$15,886	\$65,221	\$66,020
Albany Door Systems	3,231	(99)	10,389	(556)
Engineered Fabrics	4,060	4,429	13,206	13,282
Engineered Composites	(3,342)	(1,309)	(5,393)	(3,621)
PrimaLoft® Products	646	304	3,409	2,391
Research expense	(6,004)	(5,892)	(20,163)	(16,609)
Unallocated expenses	(13,715)	(12,277)	(40,841)	(38,437)

Operating income before reconciling items	4,122	1,042	25,828	22,470
Reconciling items:				
Interest expense, net	4,520	3,782	13,602	10,666
Other (income)/expense, net	(706)	1,409	1,175	1,622
Income/(loss) from continuing operations before income taxes	\$308	(\$4,149)	\$11,051	\$10,182

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 September 30, 2008			Nine Months Ended September 30, 2008		
	Restructuring and other	Costs related to Idle capacity and Performance improvement initiatives	Total	Restructuring and other	Costs related to Idle capacity and Performance improvement initiatives	Total
Paper Machine Clothing	\$6,761	\$6,537	\$13,298	\$13,792	\$19,500	\$33,292
Albany Door Systems	227	-	227	549	215	764
Albany Engineered Composites	366	-	366	366	-	366
Research expenses	(192)	-	(192)	1,636	-	1,636

Unallocated	(431)	4,166	3,735	(2,518)	14,874	12,356
Consolidated total	\$6,731	\$10,703	\$17,434	\$13,825	\$34,589	\$48,414

Costs related to idle capacity and performance improvement initiatives were reported in the statement of income as follows:

Cost of goods sold