ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
August 09, 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: June 30, 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 27,863,286 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of June 30, 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 June 30, 2010	Three Months Ended June 30, 2009		Six Months Ended June 30, 2010*	Six Months Ended June 30, 2009*
$227,450	$212,559	Net sales	$441,323	$421,764
141,615	143,671	Cost of goods sold	278,259	282,845
85,835	68,888	Gross profit	163,064	138,919
61,366	64,633	Selling, technical, general and research expenses	127,442	132,252
689	33,810	Restructuring and other, net	2,081	50,989
23,780	(29,555)	Operating income/(loss)	33,541	(44,322)
3,882	6,086	Interest expense, net	7,707	11,920
(2,991)	(37,201)	Other (income), net	(5,272)	(37,020)
22,889	1,560	Income/(loss) from continuing operations before income taxes	31,106	(19,222)
15,102	4,339	Income tax expense	17,729	2,734
7,787	(2,779)	Income/(loss) before associated companies	13,377	(21,956)
90	35	Equity in income/(loss) of associated companies	98	(90)
7,877	(2,744)	Income/(loss) from continuing operations	13,475	(22,046)
	(10,000)	(Loss) from discontinued operations		(10,000)
$7,877	$(12,744)	Net income/(loss)	$13,475	$(32,046)
		Income/(loss) from continuing operations per share:		
$0.25	$(0.08)	Basic	$0.43	$(0.72)
$0.25	$(0.08)	Diluted	$0.43	$(0.72)
		(Loss) from discontinued operations per share:		
	$(0.33)	Basic		$(0.33)
	$(0.33)	Diluted		$(0.33)
		Net income/(loss) per share:		
$0.25	$(0.41)	Basic	$0.43	$(1.05)
$0.25	$(0.41)	Diluted	$0.43	$(1.05)
		Shares used in computing earnings per share:		
31,058	30,723	Basic	31,001	30,386
31,161	30,723	Diluted	31,105	30,386
$0.12	$0.12	Dividends per share	$0.24	$0.24

* Includes revisions to correct previously reported amounts (see Note 2).

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)

	June 30, 2010	December 31, 2009*
ASSETS		
Cash and cash equivalents	$ 102,673	$ 97,466
Accounts receivable, net	157,524	168,523
Inventories	153,358	172,433
Income taxes receivable and deferred	34,563	42,613
Prepaid expenses and other current assets	11,487	9,712
Total current assets	459,605	490,747
Property, plant and equipment, net	486,368	514,475
Investments in associated companies	2,699	3,001
Intangibles	4,916	5,216
Goodwill	108,457	120,037
Deferred taxes	131,763	144,274
Cash surrender value of life insurance policies		49,135
Other assets	21,100	18,264
Total assets	$ 1,214,908	$ 1,345,149
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and loans payable	$ 15,703	$ 15,296
Accounts payable	45,345	52,618
Accrued liabilities	107,711	116,600
Current maturities of long-term debt	11	11
Income taxes payable and deferred	4,095	3,639
Total current liabilities	172,865	188,164
Long-term debt	420,289	483,922
Other noncurrent liabilities	176,584	185,067
Deferred taxes and other credits	67,709	65,383
Total liabilities	837,447	922,536
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 36,347,814 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	385,551	382,674
Retained earnings	386,366	380,335
Accumulated items of other comprehensive income:		
Translation adjustments	(51,413)	4,167
Pension and post retirement liability adjustments	(85,051)	(86,303)
	635,492	680,912
Less treasury stock (Class A), at cost 8,484,528 shares in 2010 and 8,496,739 shares in 2009	258,031	258,299
Total shareholders' equity	377,461	422,613
Total liabilities and shareholders' equity	$ 1,214,908	$ 1,345,149

* Includes revisions to correct previously reported amounts (see Note 2).

The accompanying notes are an integral part of the financial statements

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

Three Months Ended June 30, 2010	Three Months Ended June 30, 2009		Six Months Ended June 30, 2010*	Six Months Ended June 30, 2009*
		OPERATING ACTIVITIES		
$7,877	$12,744)	Net income/(loss)	$13,475	$(32,046)
		Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
(90)	(35)	Equity in (earnings)/losses of associated companies	(98)	90
13,309	14,520	Depreciation	27,250	29,093
2,276	2,268	Amortization	4,230	4,406
189	585	Noncash interest expense	377	1,772
	(36,631)	Gain on early retirement of debt		(39,431)
	(6,935)	Settlement of accreted debt discount		(7,457)
9,709	(7,391)	Provision for deferred income taxes, other credits and long- term liabilities	11,215	(12,026)
1,626	533	Provision for write-off of property, plant and equipment	3,093	1,609
	2,624	Provision for impairment of investment		2,624
847	(808)	Decrease/(increase) in cash surrender value of life insurance		(1,827)
	10,000	Provision for purchase price adjustment of discontinued operation		10,000
	28	Stock option expense		70
2,054	2,315	Compensation and benefits paid or payable in Class A Common Stock	3,009	3,354
		Changes in operating assets and liabilities, net of business acquisitions and divestitures:		
(8,740)	13,859	Accounts receivable	(344)	37,304
9,748	14,751	Inventories	12,018	8,537
739	3,024	Prepaid expenses and other current assets	(2,030)	1,863
(2,369)	(4,653)	Accounts payable	(4,444)	(29,103)
3,429	10,069	Accrued liabilities	(8,693)	19,165
1,758	(488)	Income taxes payable	321	(2,943)
1,560	3,335	Other, net	1,443	1,704
43,922	8,226	Net cash provided by/(used in) operating activities	60,822	(3,242)
		INVESTING ACTIVITIES		
(7,094)	(10,143)	Purchases of property, plant and equipment	(13,915)	(25,864)
(873)	(1,163)	Purchased software	(1,946)	(2,308)
		Acquisitions, net of cash acquired	(1,902)	
49,302	239	Cash received from life insurance policy terminations	49,302	239

41,335	(11,067)	Net cash provided by/(used in) investing activities	31,539	(27,933)
		FINANCING ACTIVITIES		
	64,467	Proceeds from borrowings	6,152	105,050
(69,738)	(1,048)	Principal payments on debt	(69,755)	(4,633)
	(43,142)	Early retirement of debt		(46,502)
49		Proceeds from options exercised	136	
(3,714)	(3,574)	Dividends paid	(7,419)	(7,202)
(73,403)	16,703	Net cash (used in)/provided by financing activities	(70,886)	46,713
(10,939)	2,808	Effect of exchange rate changes on cash flows	(16,268)	(1,401)
915	16,670	Increase in cash and cash equivalents	5,207	14,137
101,758	104,038	Cash and cash equivalents at beginning of period	97,466	106,571
$102,673	$120,708	Cash and cash equivalents at end of period	$102,673	$120,708

* Includes revisions to correct previously reported amounts (see Note 2).

The accompanying notes are an integral part of the financial statements

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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.

See Note 2 for revisions to prior period financial statements.

2. Revisions to Financial Statements

During the process of finalizing the second quarter 2010 financial statements, we discovered that fourth quarter 2009 restructuring expense, as reported in our fourth quarter 2009 and full-year 2009 financial statements, failed to include an additional $1.6 million of severance and related costs associated with restructuring activities in France. The error detected during the second quarter 2010 closing process is in addition to a charge of $1.7 million detected and reported in the first quarter 2010 to correct an error in the actuarial calculation of a curtailment gain, also related to restructuring activities in France, that also should have been reported in the fourth quarter of 2009. Additionally in the second quarter of 2010, we detected an error in the conversion from French GAAP to US GAAP that resulted in an understatement of expense in 2008 totaling $0.3 million. We have assessed the impact of these adjustments on the 2009 and 2008 financial statements and on projected 2010 full-year results, and have determined that no prior period financial statements have been materially misstated. In accordance with the provisions of SEC Staff Accounting Bulletin No. 108, we have revised previously reported results to correct the errors described above, and other previously disclosed errors.

The following tables show the financial statement revisions for all periods affected:

(in thousands, except per share data)	2010 by quarter Q1	2009 YTD	2009 by quarter Q4	Q3	Q2	Q1	2008 YTD
As previously reported: Consolidated Statement of Operations							
Cost of goods sold	$ 136,644	$ 577,135	$ 150,277	$ 144,013	$ 143,671	$ 139,174	$ 724,484
Selling, technical, general, and research expenses	66,076	260,053	66,628	61,173	64,633	67,619	317,992
Restructuring and other, net	3,113	69,168	(2,052)	20,231	33,810	17,179	38,653
Goodwill and intangible impairment charge		1,011		1,011			72,305
Operating income/(loss)	8,040	(36,322)	16,497	(8,497)	(29,555)	(14,767)	(66,917)
Income/(loss) from continuing operations before income taxes	6,496	(7,078)	17,327	(5,183)	1,560	(20,782)	(90,690)
Income tax expense/(benefit)	2,239	15,579	11,765	1,080	4,339	(1,605)	(5,666)
Income/(loss) before associated companies	4,257	(22,657)	5,562	(6,263)	(2,779)	(19,177)	(85,024)
Equity in income/(loss) of associated companies	8	277	(37)	(1)	35	280	166
Net income/(loss)	4,265	(32,380)	5,525	(6,264)	(12,744)	(18,897)	(78,379)
Net income per share:							
Basic	$ 0.14	$ (1.06)	$ 0.18	$ (0.20)	$ (0.41)	$ (0.63)	$ (2.63)
Diluted	$ 0.14	$ (1.06)	$ 0.18	$ (0.20)	$ (0.41)	$ (0.63)	$ (2.63)
Shares used in computing earnings per share:							
Basic	30,943	30,612	30,859	30,808	30,723	30,046	29,786
Diluted	31,033	30,612	30,973	30,808	30,723	30,046	29,786
Consolidated Balance Sheets							
Accounts receivable, net	$ 156,593	$ 168,820	$ 168,820	$ 160,476	$ 170,843	$ 174,658	$ 204,157
Investment in associated companies	2,860	3,001	3,001	3,235	3,117	4,045	3,899
Intangibles	6,300	5,216	5,216	6,823	8,340	8,875	8,608
Goodwill	115,382	120,037	120,037	120,415	116,658	108,824	116,443
Noncurrent deferred tax asset	142,574	143,085	143,085	130,856	133,274	119,035	115,818
Accrued liabilities	101,046	113,323	113,323	139,428	147,729	122,613	116,361

Retained earnings	383,271	382,720	382,720	380,898	390,862	407,297	429,804

	2010 by quarter	**2009**	**2009 by quarter**				**2008**
(in thousands, except per share data)	Q1	YTD	Q4	Q3	Q2	Q1	YTD
Revisions:							
Consolidated Statement of Operations							
Cost of goods sold (2)	$ 0	$ (390)	$ (390)	$ 0	$ 0	$ 0	$ 390
Selling, technical, general, and research expense (1)							297
Restructuring and other, net (1)	(1,721)	3,277	3,277				
Goodwill and intangible impairment charge (3)		(1,011)		(1,011)			1,011
Operating income/(loss)	1,721	(1,876)	(2,887)	1,011			(1,698)
Income/(loss) from continuing operations before income taxes	1,721	(1,876)	(2,887)	1,011			(1,698)
Income tax expense/(benefit) (5) (6)	388	(1,203)	(1,043)	(160)			(2,226)
Income/(loss) before associated companies	1,333	(673)	(1,844)	1,171			528
Equity in income/(loss) of associated companies (4)		(405)				(405)	405
Net income/(loss)	1,333	(1,078)	(1,844)	1,171		(405)	933
Consolidated Balance Sheets							
Accounts receivable, net	$ (297)	$ (297)	$ (297)	$ (297)	$ (297)	$ (297)	$ (297)
Investment in associated companies(4)							405
Intangibles (3)					(1,011)	(1,011)	(1,011)
Goodwill (2)				(390)	(390)	(390)	(390)
Noncurrent deferred tax asset	801	1,189	1,189	71	(89)	(89)	(89)
Accrued liabilities (1)	1,556	3,277	3,277				
Retained earnings (1) (2) (3) (4) (5)	(1,052)	(2,385)	(2,385)	(541)	(1,712)	(1,712)	(1,307)

(1) In the first quarter of 2010, a charge of $1.7 million was recorded in order to correct an error in an actuarial calculation of a curtailment gain related to restructuring in France, which should have been reported in the fourth quarter of 2009. Fourth quarter 2009 restructuring expense was also understated by $1.6 million on our France ledger comprised of unrecorded severance and related costs. Fourth quarter 2008 expense was understated by $0.3 million due to errors in the conversion from French GAAP to US GAAP.

(2) In the fourth quarter of 2009, a charge of $0.4 million was recorded to correct for an error made in the fourth quarter of 2008, related to a Goodwill impairment charge of $72.3 million. The charge should have been reported in the fourth quarter of 2008.

(3) In the third quarter of 2009, a charge of $1.0 million was recorded for a customer relationship intangible impairment related to Eclipse Aviation. This charge pertains to the fourth quarter of 2008.

(4) In the first quarter of 2009, we recorded income of $0.4 million related to our investment in an associated company. The income should have been recorded in the fourth quarter of 2008.

(5) In the third quarter of 2009, we recorded a tax charge of $534,000 to correct a deferred tax asset balance error that originated in a prior year.

(6) In the third quarter of 2008, we recorded a tax change of $1.7 million to correct an error made in the second quarter of 2007.

	2010 by quarter	**2009**	**2009 by quarter**				**2008**
(in thousands, except per share data)	Q1	YTD	Q4	Q3	Q2	Q1	YTD
As revised:							
Consolidated Statement of Operations							
Cost of goods sold	$ 136,644	$ 576,745	$ 149,887	$ 144,013	$ 143,671	$ 139,174	$ 724,874
Selling, technical, general, and research expense	66,076	260,053	66,628	61,173	64,633	67,619	318,289
Restructuring and other, net	1,392	72,445	1,225	20,231	33,810	17,179	38,653
Goodwill and intangible impairment charge							73,316
Operating income/(loss)	9,761	(38,198)	13,610	(7,486)	(29,555)	(14,767)	(68,615)
Income/(loss) from continuing operations before income taxes	8,217	(8,954)	14,440	(4,172)	1,560	(20,782)	(92,388)
Income tax expense/(benefit)	2,627	14,376	10,722	920	4,339	(1,605)	(6,186)
Income/(loss) before associated companies	5,590	(23,330)	3,718	(5,092)	(2,779)	(19,177)	(86,202)
Equity in income/(loss) of associated companies	8	(128)	(37)	(1)	35	(125)	571
Net income/(loss)	5,598	(33,458)	3,681	(5,093)	(12,744)	(19,302)	(77,446)
Net income per share:							
Basic	$ 0.18	$ (1.09)	$ 0.12	$ (0.17)	$ (0.41)	$ (0.64)	$ (2.60)
Diluted	$ 0.18	$ (1.09)	$ 0.12	$ (0.17)	$ (0.41)	$ (0.64)	$ (2.60)
Shares used in computing earnings per share:							
Basic	30,943	30,612	30,859	30,808	30,723	30,046	29,786
Diluted	31,033	30,612	30,973	30,808	30,723	30,046	29,786
Consolidated Balance Sheets							
Accounts receivable, net	$ 156,296	$ 168,523	$ 168,523	$ 160,179	$ 170,546	$ 174,361	$ 203,860
Investment in associated companies	2,860	3,001	3,001	3,235	3,117	4,045	4,304
Intangibles	6,300	5,216	5,216	6,823	7,329	7,864	7,597
Goodwill	115,382	120,037	120,037	120,025	116,268	108,434	116,053
Noncurrent deferred tax asset	143,375	144,274	144,274	130,927	133,185	118,946	115,729
Accrued liabilities	102,602	116,600	116,600	139,428	147,729	122,613	116,361
Retained earnings	382,219	380,335	380,335	380,357	389,150	405,585	428,497

The following tables show the segment revisions for all the periods affected:

Segment operating income, as previously reported

	2010 by quarter	**2009**	**2009 by quarter**				**2008**
(in thousands)	Q1	YTD	Q4	Q3	Q2	Q1	YTD
Paper Machine Clothing	$ 25,076	$ 40,417	$ 28,260	$ 13,628	$ (8,732)	$ 7,261	$ 35,692
Albany Door Systems	2,884	(259)	2,212	(1,060)	(1,639)	228	16,635
Engineered Fabrics	2,521	8,141	1,521	2,128	837	3,655	(3,517)
Engineered Composites	(2,229)	(7,664)	(202)	(2,582)	(2,372)	(2,508)	(25,920)
Primaloft	2,069	3,689	21	(15)	2,594	1,089	3,104
Research	(5,811)	(23,849)	(7,453)	(5,019)	(5,767)	(5,610)	(22,783)
Non Segment	(16,470)	(56,797)	(7,862)	(15,577)	(14,476)	(18,882)	(70,128)
Total	$ 8,040	$ (36,322)	$ 16,497	$ (8,497)	$ (29,555)	$ (14,767)	$ (66,917)

Segment effects of error corrections

	2010 by quarter	**2009**	**2009 by quarter**				**2008**
(in thousands)	Q1	YTD	Q4	Q3	Q2	Q1	YTD
Paper Machine Clothing	$ 1,721	$ (2,887)	$ (2,887)				$ (687)
Albany Door Systems							
Engineered Fabrics							
Engineered Composites		1,011		1,011			(1,011)
Primaloft							
Research							

Non Segment							
Total	$ 1,721	$ (1,876)	$ (2,887)	$ 1,011			$ (1,698)

Segment operating income, as revised

	2010 by quarter	**2009**	**2009 by quarter**				**2008**
(in thousands)	Q1	YTD	Q4	Q3	Q2	Q1	YTD
Paper Machine Clothing	$ 26,797	$ 37,530	$ 25,373	$ 13,628	$ (8,732)	$ 7,261	$ 35,005
Albany Door Systems	2,884	(259)	2,212	(1,060)	(1,639)	228	16,635
Engineered Fabrics	2,521	8,141	1,521	2,128	837	3,655	(3,517)
Engineered Composites	(2,229)	(6,653)	(202)	(1,571)	(2,372)	(2,508)	(26,931)
Primaloft	2,069	3,689	21	(15)	2,594	1,089	3,104
Research	(5,811)	(23,849)	(7,453)	(5,019)	(5,767)	(5,610)	(22,783)
Non Segment	(16,470)	(56,797)	(7,862)	(15,577)	(14,476)	(18,882)	(70,128)
Total	$ 9,761	$ (38,198)	$ 13,610	$ (7,486)	$ (29,555)	$ (14,767)	$ (68,615)

Segment restructuring, as previously reported

(in thousands)	2010 by quarter Q1	2009 YTD	2009 by quarter Q4	Q3	Q2	Q1	2008 YTD
Paper Machine Clothing	$ 4,007	$ 63,664	$ 1,776	$ 18,356	$ 27,923	$ 15,609	$ 34,173
Albany Door Systems	28	4,271	708	1,515	1,900	148	945
Engineered Fabrics		4,311	1,628	168	2,515		156
Engineered Composites		291	24	157	110		972
Primaloft		61			19	42	182
Research							1,779
Non Segment	(922)	(3,430)	(6,188)	35	1,343	1,380	446
Total	$ 3,113	$ 69,168	$ (2,052)	$ 20,231	$ 33,810	$ 17,179	$ 38,653

Segment effects of error corrections

(in thousands)	2010 by quarter Q1	2009 YTD	2009 by quarter Q4	Q3	Q2	Q1	2008 YTD
Paper Machine Clothing	$ (1,721)	$ 3,277	$ 3,277				
Albany Door Systems							
Engineered Fabrics							
Engineered Composites							
Primaloft							
Research							
Non Segment							
Total	$ (1,721)	$ 3,277	$ 3,277				

Segment restructuring, as revised

	2010 by quarter	2009	2009 by quarter	2008

(in thousands)	Q1	YTD	Q4	Q3	Q2	Q1	YTD
Paper Machine Clothing	$ 2,286	$ 66,941	$ 5,053	$ 18,356	$ 27,923	$ 15,609	$ 34,173
Albany Door Systems	28	4,271	708	1,515	1,900	148	945
Engineered Fabrics		4,311	1,628	168	2,515		156
Engineered Composites		291	24	157	110		972
Primaloft		61			19	42	182
Research							1,779
Non Segment	(922)	(3,430)	(6,188)	35	1,343	1,380	446
Total	$ 1,392	$ 72,445	$ 1,225	$ 20,231	$ 33,810	$ 17,179	$ 38,653

3. Reportable Segment Data

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2010**	2009	**2010**	2009
Net Sales				
Paper Machine Clothing	**$ 150,755**	$ 145,533	**$ 295,163**	$ 284,607
Albany Door Systems	**33,792**	30,530	**67,547**	64,856
Engineered Fabrics	**23,939**	21,629	**45,380**	43,199
Engineered Composites	**10,870**	7,379	**19,511**	16,464
PrimaLoft® Products	**8,094**	7,488	**13,722**	12,638
Consolidated total	**$ 227,450**	$ 212,559	**$ 441,323**	$ 421,764
Operating income/(loss)				
Paper Machine Clothing	**$ 37,544**	$ (8,732)	**$ 64,341**	$ (1,471)
Albany Door Systems	**2,339**	(1,639)	**5,223**	(1,411)
Engineered Fabrics	**4,866**	837	**7,387**	4,492
Engineered Composites	**(1,989)**	(2,372)	**(4,218)**	(4,880)
PrimaLoft® Products	**2,926**	2,594	**4,995**	3,683
Research expense	**(7,132)**	(5,767)	**(12,943)**	(11,377)
Unallocated expenses	**(14,774)**	(14,476)	**(31,244)**	(33,358)
Operating income/(loss) before reconciling items	**23,780**	(29,555)	**33,541**	(44,322)
Reconciling items:				
Interest expense, net	**3,882**	6,086	**7,707**	11,920
Other (income), net	**(2,991)**	(37,201)	**(5,272)**	(37,020)
Income/(loss) from continuing operations before income taxes	**$ 22,889**	$ 1,560	**$ 31,106**	$ (19,222)

The table below presents restructuring costs by reportable segment for the three and six month periods ended June 30, 2010 and 2009:

(in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Restructuring expense				
Paper Machine Clothing	**$ 676**	$ 27,924	**$ 2,962**	$ 43,533
Albany Door Systems	**446**	1,900	**474**	2,048
Engineered Fabrics	**607**	2,515	**607**	2,515
Engineered Composites		110		110
PrimaLoft® Products		19		61
Unallocated	**(1,040)**	1,342	**(1,962)**	2,722
Consolidated total	**$ 689**	$ 33,810	**$ 2,081**	$ 50,989

Restructuring expense in 2010 was principally the result of residual costs associated with plans announced during 2009. The expense in 2010 was partially reduced by other post retirement curtailment gains, which was included in the Unallocated reportable segment.

Our three-year restructuring and performance improvement plan that started in 2006 resulted in significant restructuring costs during 2009.

There were no material changes in the total assets of reportable segments during this period.

4. 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 six months ended June 30, 2010 and 2009 are, as follows:

	Pension Plans		Other Postretirement Benefits	
(in thousands)	**2010**	2009	**2010**	2009
Service cost	**$ 1,235**	$ 2,202	**$ 428**	$ 563
Interest cost	**9,999**	9,465	**2,026**	1,910
Expected return on plan assets	**(7,567)**	(10,261)		
Amortization:				
Transition obligation	**50**	47		
Prior service cost/(credit)	**8**	54	**(1,757)**	(2,163)
Net actuarial loss	**2,371**	1,016	**1,428**	1,390
Curtailment/settlement loss/(gain)	**675**		**(1,921)**	
Net periodic benefit costs	**$ 6,771**	$ 2,523	**$ 204**	$ 1,700

During 2010 a pension plan settlement loss of $0.7 million and an other post retirement benefit curtailment gain of $1.9 million were recorded related to previously announced restructuring activities.

5. Restructuring

Restructuring expense in 2010 was principally the result of residual costs associated with plans announced during 2009. The expense in 2010 was partially reduced by other post retirement curtailment gains, which was included in the Unallocated reportable segment.

The three-year Company-wide restructuring and performance improvement plan that began in 2006 resulted in significant restructuring costs through 2009. Driven by the need to adjust our manufacturing footprint to align with regional markets and to improve our cost structure, that plan included the reductions of manufacturing capacity and administrative personnel.

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

	Six months ending June 30, 2010			
(in thousands)	Total restructuring costs incurred	Termination and other costs	Writedown of plant and equipment	Benefit plan curtailment/ settlement
Paper Machine Clothing	$ 2,962	$ 1,044	$ 1,243	$ 675
Albany Door Systems	474	474		
Engineered Fabrics	607	607		
Unallocated	(1,962)	(41)		(1,921)
Total	$ 2,081	$ 2,084	$ 1,243	$ (1,246)

	Six months ending June 30, 2009		
(in thousands)	Total restructuring costs incurred	Termination and other costs	Writedown of plant and equipment
Paper Machine Clothing	$ 43,533	$ 40,466	$ 3,067
Albany Door Systems	2,048	2,048	
Engineered Fabrics	2,515	2,515	
Engineered Composites	110	110	
PrimaLoft® Products	61	61	
Unallocated	2,722	2,722	
Total	$ 50,989	$ 47,922	$ 3,067

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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 June 30, 2010
Termination costs	$ 23,788	$ 1,110	$ (14,642)	$ (685)	$ 9,821

(in thousands)	Restructuring charges accrued December 31, 2008	Restructuring accruals in 2009	Payments	Currency translation/ other	Restructuring charges accrued June 30, 2009
Termination costs	$ 21,284	$ 43,707	$ (23,793)	$ 937	$ 42,135
Other restructuring costs	624	480	(817)	8	295
Total	$ 21,908	$ 44,187	$ (24,610)	$ 945	$ 42,430

We expect that substantially all accruals for restructuring liabilities as of June 30, 2010 will be paid within one year and therefore have been recorded in current accrued liabilities in the accompanying financial statements.

6. Other (Income)/Expense, net

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

(in thousands)	Three Months Ended June 30, **2010**	2009	Six Months Ended June 30, **2010**	2009
Currency transactions	**$ (3,933)**	$ (1,236)	**$ (6,726)**	$ 228
Amortization of debt issuance costs and loan origination fees	**929**	468	**1,448**	1,351
Gain on early retirement of debt	**-**	(36,631)	**-**	(39,431)
Other miscellaneous expense	**13**	198	**6**	832
Total	**$ (2,991)**	$ (37,201)	**$ (5,272)**	$ (37,020)

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7. Discontinued Operations

In July 2008, we closed on the sale of our Filtration Technologies business, the principal operations of which were in Gosford, Australia, and Zhangjiagang, China. At closing, we received approximately $45 million, which resulted in a pretax gain of $5.4 million.

During 2008, the purchaser asserted that various working capital items included in the sale were improperly valued at the time of sale. As a result, without admitting liability, we returned a portion of the original $45 million purchase price, in exchange for a broad release of future claims under the purchase agreement or related to the business, including claims of breach of representations or warranties, related indemnity obligations, and certain other postclosing obligations of the Company related to the business. A charge of $10 million was recorded in the second quarter of 2009, which was the accounting period during which the likelihood of an unfavorable outcome became probable and estimable.

In accordance with the applicable accounting guidance for the impairment or disposal of long-lived assets, the results of operations, including the proceeds from the purchase price adjustment, of this business have been reported as income from discontinued operations for all periods presented. Cash flows of the discontinued operation were combined with cash flows from continuing operations in the consolidated statements of cash flows.

8. Income Taxes

The following table presents components of income tax expense for the three and six month periods ended June 30, 2010 and 2009:

(in thousands)	Three Months Ended June 30, **2010**	Three Months Ended June 30, 2009	Six Months Ended June 30, **2010**	Six Months Ended June 30, 2009
Income tax expense/(benefit) based on income from continuing operations, at estimated tax rates of 32.6% in 2010 and 22.7% in 2009, respectively	**$ 7,470**	$ (7,960)	**$ 10,152**	$ (13,320)
Provision for gain on extinguishment of debt		14,286		15,387
Income tax from continuing operations before discrete items	**7,470**	6,326	**10,152**	2,067
Provision for change in estimated tax rates	**$ 55**	$ (2,663)		
Discrete tax expense/(benefit):				
Provision for/resolution of tax audits and contingencies		676		667
Redemption of life insurance policies	**9,382**		**9,382**	
Repatriation of Non-US prior years earnings	**(1,805)**		**(1,805)**	
Total income tax expense from continuing operations	**$ 15,102**	$ 4,339	**$ 17,729**	$ 2,734

The second-quarter estimated income tax rate on continuing operations was 32.6% in 2010, as compared to 22.7% in 2009. The increase in the tax rate was primarily due to a continued 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; the repatriation of non-U.S. current year earnings; and the expiration of certain tax provisions in the U.S. tax code relating to the deferred taxation of income generated by controlled foreign subsidiaries.

During the second quarter of 2010, we liquidated all prior holdings in life insurance policies, which led to the recognition of a $9.4 million discrete tax charge on the excess cash surrender value over the premiums paid. Also during the second quarter, we repatriated funds held by a foreign subsidiary, which resulted in a discrete tax benefit of $1.8 million.

We are currently under audit in the U.S. (years 2005 through 2007) and non-U.S. taxing jurisdictions, including Canada (years 2001 through 2008), Germany (years 2000 through 2007) and Sweden (years 2003, 2006, and 2008).

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. In May 2010 the German Federal Tax Court released its decision, in which it resolved certain tax issues that may be relevant to our audit and remanded the case to a lower court for further development. After consideration of the ECJ decision and the latest German Federal Tax Court decision, we continue to believe that it is more likely than not that the relevant German tax law is violative of EU principles.

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 to our reserve position regarding either these tax matters during the second quarter of 2010.

We record reserves for the outcome of tax 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.

9. 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:

(in thousands, except market price data)	Three Months Ended June 30, **2010**	Three Months Ended June 30, 2009	Six Months Ended June 30, **2010**	Six Months Ended June 30, 2009
Net income/(loss)	**$ 7,877**	$ (12,744)	**$ 13,475**	$ (32,046)
Weighted average number of shares:				
Weighted average number of shares used in calculating basic earnings per share	**31,058**	30,723	**31,001**	30,386
Effect of dilutive stock-based compensation awards:				
Stock options	**53**		**54**	
Long-term incentive awards	**50**		**50**	
Weighted average number of shares used in calculating diluted earnings per share	**31,161**	30,723	**31,105**	30,386
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		132		277
Average market price of common stock used for calculation of dilutive shares	**$ 20.95**	$ 10.82	**$ 21.00**	$ 10.15
Net income/(loss) per share:				
Basic	**$ 0.25**	$ (0.41)	**$ 0.43**	$ (1.05)
Diluted	**$ 0.25**	$ (0.41)	**$ 0.43**	$ (1.05)

There was no dilution resulting from the convertible debt instrument, purchased call option, and warrant that are described in Note 12 as of June 30, 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
June 30, 2010	**36,347,814**	**3,236,098**	**(8,484,528)**	**31,099,384**

10. Inventories

Inventories consist of the following:

(in thousands)	June 30, 2010	December 31, 2009
Finished goods	**$ 68,693**	$ 80,885
Work in process	**49,240**	49,420
Raw material and supplies	**35,425**	42,128
Total inventories	**$ 153,358**	$ 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.

11. 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 our annual evaluation of goodwill for our Paper Machine Clothing and Albany Door System reporting units in the second quarter of 2010. There is no goodwill held in our other reporting units. 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 June 30, 2010, were as follows:

(in thousands)	Balance at January1, 2010	Amortization	Currency translation	Other changes	**Balance at June 30, 2010**
Amortized intangible assets:					
Patents	$ 605	$ (169)	$ (75)		**$ 361**
Trade names	91	(41)			**50**
Customer contracts	4,216	(725)	(73)	742	**4,160**
Technology	304	(31)	(25)	97	**345**
Total amortized intangible assets	$ 5,216	$ (966)	$ (173)	$ 839	**$ 4,916**
Unamortized intangible assets:					
Goodwill	$ 120,037		$ (11,793)	$ 213	**$ 108,457**

In March 2010, we acquired Envico Ltd. for $1.9 million. Envico Ltd. is a New Zealand based manufacturer and distributor of high performance doors, which we have integrated into our Albany Door Systems segment. The purchase price was allocated as follows: $0.3 million to inventories and property, plant, and equipment, $0.2 million to goodwill, $0.8 million to amortizable intangibles, and $0.6 million to other assets.

As of June 30, 2010, the balance of goodwill was $71.9 million in the Paper Machine Clothing segment and $36.6 million in the Albany Doors Systems segment.

Estimated amortization expense of amortized intangible assets for the years ending December 31, 2010 through 2014 is as follows:

Year	Annual amortization (in thousands)
2010	$1,900
2011	1,500
2012	1,000
2013	800
2014	500

12. Financial Instruments

Long-term debt consists of:

(in thousands)	June 30, 2010	December 31, 2009
Convertible notes, par value $28,437, issued in March 2006 with fixed contractual interest rates of 2.25%, due in 2026	**$ 26,098**	$ 25,721
Private placement with a fixed interest rate of 6.84%, due in 2013 through 2017	**150,000**	150,000
April 2006 credit agreement with borrowings outstanding at an end of period interest rate of 1.23% in 2010 and 1.35% in 2009, due in 2011	**244,000**	308,000
Various notes and mortgages relative to operations principally outside the United States, at an average end of period rate of 5.38% in 2010 and 5.40% in 2009, due in varying amounts through 2021	**202**	212
Long-term debt	**420,300**	483,933
Less: current portion	**(11)**	(11)
Long-term debt, net of current portion	**$ 420,289**	$ 483,922

In October 2005, we 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 million, with interest at 6.84% and a maturity date of October 25, 2017. There are mandatory prepayments of $50 million 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 our current principal credit facility. For disclosure purposes, we are required to measure the fair value of outstanding debt on a recurring basis. The fair value of the note agreement was approximately $170.1 million, which was measured using active market interest rates.

On April 14, 2006, we entered into a $460 million five-year credit agreement (the credit agreement), under which $244 million of borrowings was outstanding as of June 30, 2010. The applicable interest rate for borrowings under the agreement is LIBOR plus a spread, based on our leverage ratio at the time of borrowing. The agreement includes covenants that could limit our ability to purchase Common Stock, pay dividends, acquire other companies or dispose of assets.

On July 16, 2010, we entered into a $390 million unsecured five-year revolving credit facility agreement (the new agreement) that replaces the previous $460 million agreement made in 2006. A copy of the new agreement was filed as an exhibit to the Company's Current Report on Form 8-K filed July 19, 2010. The applicable interest rate for borrowings under the new agreement, as well as under the former agreement, is LIBOR plus a spread, based on our leverage ratio at the time of borrowing. Spreads under the new agreement are higher than under the former agreement, reflecting changes in market spreads. The applicable interest rate for borrowings on July 16 was LIBOR plus 250 basis points (or 2.85% for a one-month borrowing), compared to LIBOR plus 85 basis points (or 1.20% for a one-month borrowing) under the former agreement. Our ability to borrow additional amounts under the new credit agreement is conditional upon the absence of any defaults, as well as the absence of any material adverse change. Based on our maximum leverage ratio and our consolidated EBITDA (as defined in the new agreement), and without modification to any other credit agreements as of June 30, 2010, we would have been able to borrow an additional $96 million under our credit agreements.

Also on July 16, 2010, we entered into interest rate hedging transactions that have the effect of fixing the LIBOR portion of the effective interest rate (before addition of the spread) on $105 million of the indebtedness drawn under the new agreement at the rate of 2.04% for the next five years. Under the terms of these transactions, we pay the fixed rate of 2.04% and the counterparties pay a floating rate based on the three-month LIBOR rate at each quarterly calculation date, which on July 16 was 0.53%. The net effect is to fix the effective interest rate on $105 million of indebtedness at 2.04%, plus the applicable spread, until these swap agreements expire on July 16, 2015. On July 16, 2010 the applicable spread was 250 basis points, yielding an effective annual rate of 4.54%.

Reflecting, in each case, the effect of subsequent amendments to each agreement, we are currently required to maintain a leverage ratio of not greater than 3.50 to 1.00 under the old and new credit agreements and under the Prudential agreement. Under the Prudential agreement, the maximum permitted leverage ratio will be reduced to 3.00 to 1.00 on January 1, 2011. We are also required to maintain minimum interest coverage of 3.00 to 1.00 under each agreement.

As of June 30, 2010, our leverage ratio under the old agreement and Prudential agreement was 1.95 to 1.00, and our interest coverage ratio was 10.0 to 1.00. We may purchase our Common Stock or pay dividends to the extent its leverage ratio remains at or below 3.50 to 1.00, and may make acquisitions with cash provided our leverage ratio would not exceed 3.00 to 1.00 after giving pro forma effect to the acquisition.

Our ability to borrow additional amounts under the new 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 our consolidated EBITDA (as defined in the new agreement), and without modification to any other credit agreements as of June 30, 2010, we would have been able to borrow an additional $96.0 million under our credit agreements.

In March 2006, we 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 our Class A common stock with respect to the remainder, if any, of our conversion obligation at a conversion rate of 22.9188 shares per $1,000 principal amount of notes (equivalent to a conversion price of $43.63 per share of Class A common stock). As of June 30, 2010, $28.4 million principal amount of convertible notes were outstanding, with a fair value of approximately $23.6 million, which was measured using quoted prices in active markets. These amounts reflect the reduction in principal amount and fair value as a result of purchases made in 2009, as described below.

Holders may convert their notes at any time on or after February 15, 2013. Before February 15, 2013, a holder may convert notes during the five-business day period immediately after any period of five consecutive trading days in which the trading price per note for each of such five days was less than 103% of the product of the last reported sale price of our Class A common stock and the conversion rate on such day. Additionally, holders may convert prior to February 15, 2013 if we elect to distribute to all or substantially all of our Class A shareholders (a) rights or warrants to purchase shares of Class A common stock for less than their trading value, or (b) assets, debt securities or rights to purchase securities, which distribution has a per-share value exceeding 15% of the current trading value of the Class A common stock.

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Converting holders are entitled to receive, upon conversion of their notes, (1) an amount in cash equal to the lesser of the principal amount of the note and the note s conversion value, and (2) if the conversion value of the note exceeds the principal amount, shares of our Class A common stock in respect of the excess conversion value. The conversion rate of the notes (subject to adjustment upon the occurrence of certain events) is 22.9188 shares per $1,000 principal amount of notes (equivalent to a conversion price of $43.63 per share of Class A common stock). The exact amount payable upon conversion would be determined in accordance with the terms of the indenture pursuant to which the notes were issued and will be based on a daily conversion value calculated on a proportionate basis by reference to the volume-weighted average price of our Class A common stock for each day during a twenty-five day period relating to the conversion.

The notes are not redeemable before March 15, 2013. On or after March 15, 2013, we may, at our option, redeem for cash all or part of the notes for a price equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest, including any additional interest, up to but excluding the redemption date.

On each of March 15, 2013, and March 15, 2021, holders may require that we purchase all or a portion of their notes at a purchase price equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest, including any additional interest, up to but excluding the purchase date. Holders also have the right to require that we repurchase notes upon the occurrence of certain fundamental events, including, without limitation, (1) a person or group, other than the Standish family, becoming beneficial owner of shares of common stock carrying more than 50% of the voting power of our common stock, (2) consummation of an exchange offer, tender offer, or similar event whereby our Class A common stock is converted into cash, securities, or other property, or any sale, lease, or other transfer of all or substantially all of our consolidated assets, (3) approval by our stockholders of a plan or proposal of liquidation or dissolution, or (4) the delisting of our Class A common stock under certain circumstances.

In connection with the sale of the notes, we entered into hedge and warrant transactions with respect to our Class A common stock. These transactions are intended to reduce the potential dilution upon conversion of the notes by providing us with the option, subject to certain exceptions, to acquire shares in an amount equal to the number of shares that we would be required to deliver upon conversion of the notes. These transactions had the economic effect to the Company of increasing the conversion price of the notes to $52.25 per share.

Pursuant to the hedge transactions, if we deliver notice to the counterparties of any conversion of the notes on or prior to March 15, 2013, the counterparties are in the aggregate obligated to deliver to the Company the number of shares of Class A common stock that we are obligated to deliver to the holders of the notes with respect to such conversion, exclusive of any shares deliverable by the Company by reason of any additional (or make whole) premium relating to the notes or by reason of any election by the Company to unilaterally increase the conversion rate. The note hedge and warrant transactions had a net cost of $14.7 million.

Pursuant to the warrant transactions, we sold a total of 4.1 million warrants, each exercisable to buy a single share of Class A common stock at an initial strike price of $52.25 per share. The warrants are American-style warrants (exercisable at any time), and expire over a period of sixty trading days beginning on September 15, 2013. If the warrants are exercised when they expire, we may choose either net cash or net share settlement. If the warrants are exercised before they expire, they must be net share settled. If we elect to net cash settle the warrants, we will pay cash in an amount equal to, for each exercise of warrants, (i) the number of warrants exercised multiplied by (ii) the excess of the volume weighted average price of the our Class A common stock on the expiration date of such warrants (the settlement price) over the strike price. Under net share settlement, we will deliver to the warrant holders a number of shares of our Class A common stock equal to, for each exercise of warrants, (x) the amount payable upon net cash settlement divided by (y) the settlement price.

During 2009 we entered into several agreements to exchange our 2.25% convertible senior notes due 2026 for cash plus an equivalent amount of our 2.25% senior notes due 2026 (the new notes). In each case, we simultaneously entered into additional agreements to purchase the new notes. Information pertinent to these transactions is noted below:

(in thousands)

Month of agreement	Month of settlement	Par value	Aggregate cost	Pretax gain on early retirement of debt
March 2009	March 2009	$ 7,074	$ 3,360	$ 2,800
April 2009	April 2009	93,989	53,515	36,631
May 2009	July 2009	30,500	18,887	7,906
May 2009	October 2009	20,000	13,100	4,622
Totals		$ 151,563	$ 88,862	$ 51,959

Accounting guidance for convertible debt instruments that may be settled in cash upon conversion requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer s nonconvertible debt borrowing rate. We implemented this guidance during the first quarter of 2009 and filed a Form 8-K on May 1, 2009, with retrospectively revised income statement and balance sheet items for quarterly periods in 2008, as well as annual data for 2006, 2007, and 2008.

As of June 30, 2010, the carrying amounts of the debt and equity components of our bifurcated convertible debt instrument were $26.1 million and $25.5 million, respectively. The carrying values of the debt and equity components include reductions of $134.6 million and $5.2 million, respectively, related to our convertible note purchases in 2009. The equity component is included in additional paid-in capital in the equity section of the balance sheet.

Adopting this guidance had the impact of increasing interest expense by approximately $0.4 million and $1.8 million for the six months ended June 30, 2010 and 2009, respectively. The additional interest is noncash and represents the difference between the stated rate of the notes (2.25%) and our nonconvertible debt borrowing rate at the time of the offering (5.59%). The noncash interest is amortized into interest expense and increases the book value of the notes until the time that the notes can be redeemed on March 15, 2013. We concluded that the amortization period of seven years is appropriate because March 15, 2013, is the earliest date that the convertible noteholders can require the Company to buy back the notes.

Including amortization of noncash interest, the effective interest rate on the convertible notes for 2010 and 2009 was 5.59%. Unamortized noncash interest was $2.3 million at June 30, 2010, with a remaining amortization period of approximately three years.

The following table details interest expense on convertible debt:

(in thousands)	Three months ended June 30, **2010**	Three months ended June 30, 2009	Six months ended June 30, **2010**	Six months ended June 30, 2009
Contractual interest (2.25%)	**$ 158**	$ 478	**$ 320**	$ 1,470
Non-cash interest (3.34%)	**189**	585	**377**	1,772
Total (5.59%)	**$ 347**	$ 1,063	**$ 697**	$ 3,242

The convertible feature of the notes, the convertible note hedge, and the warrant transactions each meet the requirements of the applicable accounting guidance 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 our average common stock price exceeds $43.63 per share in the case of the Senior Notes and $50.35 per share in the case of the warrants. The purchased call option is antidilutive and is excluded from the diluted earnings per share calculation.

Indebtedness under the note and guaranty agreement, the convertible notes, and the credit agreement is ranked equally in right of payment to all unsecured senior debt.

We were in compliance with all debt covenants as of June 30, 2010.

13. Fair Value Measurements

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting principles establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three general levels: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs include data points that are observable, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; Level 3 inputs are unobservable data points for the asset or liability, and include situations in which there is little, if any, market activity for the asset or liability.

The following table presents the fair-value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis:

(in thousands)	Total fair value at June 30, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$ 8,540	$ 8,540		
Available for sale securities	517	517		
Foreign exchange options	193	193		

During the six-months ended June 30, 2010, there were no transfers between levels 1, 2, and 3.

Cash equivalents include short-term securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities.

Available for sale securities represent shares of common stock that are traded in an active market exchange. The shares are measured at fair value using closing stock prices and are recorded in the Consolidated Balance Sheets as Other assets. Because the securities are classified as available for sale, any resulting gain or loss is recorded to the Shareholders Equity section of the Consolidated Balance Sheets, rather than to the Consolidated Statements of Operations. When the security is sold or impaired, gains and losses are reported on the Consolidated Statements of Operations. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary.

Foreign currency instruments are entered into periodically, and consist of foreign currency option contracts or forward contracts that are valued using quoted prices in active markets obtained from independent pricing sources. During 2010, we have entered into foreign currency options (options) only, which are measured using market foreign exchange prices and are recorded in the Consolidated Balance Sheets as Other current assets. Changes in fair value of the options are recorded as gains or losses within Other (income)/expense, net. Losses on the options totaled $0.4 million for the six months ended June 30, 2010. When exercised, the options are net settled with the same financial institution that bought or sold the options. For all positions,

whether options or forward contracts, there is risk from the possible inability of the financial institution to meet the terms of the contracts and the risk of unfavorable changes in interest and currency rates, which may reduce the value of the instruments. We seek to control risk by evaluating the creditworthiness of counterparties and by monitoring the currency exchange and interest rate markets while reviewing the hedging risks and contracts to ensure compliance with our internal guidelines and policies.

We operate our business in many regions of the world, and currency rate movements can have a significant effect on operating results.

Changes in exchange rates can result in revaluation gains and losses that are recorded in Selling, Technical, General and Research expenses or Other income/expense, net. Revaluation gains and losses occur when our business units have intercompany or third-party trade receivable or payable balances in a currency other than their local reporting (or functional) currency.

Operating results can also be affected by the translation of sales and costs, for each non-U.S. subsidiary, from the local functional currency to the U.S. dollar. The translation effect on the income statement is dependent on our net income or expense position in each non-U.S. currency in which we do business. A net income position exists when sales realized in a particular currency exceed expenses paid in that currency; a net expense position exists if the opposite is true.

In Europe during Q2 2010, we had a significant net income position in the euro, which was more than offset by expense positions in the Swedish krona and British pound. Other significant expense positions currently occurred in the Mexican peso, Brazilian real, South Korean won, and Chinese yuan, while net income positions occurred in the Canadian dollar, Japanese yen, and Australian dollar. Future operating results would be negatively affected by the strengthening of any currency in an expense position, while results would be improved by strengthening currencies that are currently in a net income position.

In order to mitigate foreign exchange volatility in the financial statements, we periodically enter into foreign currency financial instruments from time to time. There were no foreign currency financial instruments designated as hedging instruments at June 30, 2010.

As described in Note 12, on July 16, 2010, we entered into a $390 million unsecured five-year revolving credit facility agreement. In order to fix a portion of the effective interest rate on part of the indebtedness drawn under the agreement, also on July 16, 2010, we entered into interest rate hedging transactions, which will be accounted for as a hedge of future cash flows in the third quarter.

14. Contingencies

Albany International Corp. 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 that we previously manufactured. We 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.

We were defending against 7,343 claims as of July 23, 2010. This compares with 7,464 such claims as of April 29, 2010, and 7,809 claims as of February 16, 2010. These suits allege a variety of lung and other diseases based on alleged exposure to products that we previously manufactured.

The following table sets forth the number of claims filed, the number of claims settled, dismissed or otherwise resolved, and the aggregate settlement amount during the periods presented:

Year ended December 31,	*Opening Number of claims*	*Claims Dismissed, Settled or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve ($)*
2005	*29,411*	*6,257*	*1,297*	*24,451*	*504*
2006	*24,451*	*6,841*	*1,806*	*19,416*	*3,879*
2007	*19,416*	*808*	*190*	*18,798*	*15*
2008	*18,798*	*523*	*110*	*18,385*	*52*
2009	*18,385*	*9,482*	*42*	*8,945*	*88*
2010 to date	***8,945***	***1,782***	***180***	***7,343***	***99***

We anticipate that additional claims will be filed against the Company and related companies in the future, but are 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 our products. Pleadings and discovery responses in those cases in which work histories have been provided indicate claimants with paper mill exposure in approximately 15% of the total claims filed against the Company to date, and only a portion of those claimants have alleged time spent in a paper mill to which we are believed to have supplied asbestos-containing products.

The significant increase in the number of dismissed claims during 2009 and early 2010 is in large part the result of changes in the administration of claims assigned to the multidistrict litigation panel of the federal district courts (the MDL). Beginning in May 2007 the MDL issued a series of administrative orders intended to expedite the resolution of pending cases. Those orders provided a process to allow defendants to move for dismissal of claims that were non-compliant or were not being prosecuted. While there is no way to anticipate how many plaintiffs may attempt to re-file their claims, that process resulted in the dismissal of numerous claims, either voluntarily or involuntarily. As of July 23, 2010, 2,930 claims remained against the Company in the MDL. This compares to 12,758 claims that were pending at the MDL as of February 6, 2009. Of these remaining 2,930 MDL claims, 2,549 were originally filed in state courts in Mississippi.

With respect to claims remaining at the MDL, the court has begun holding scheduling conferences and issuing scheduling orders that contain deadlines for the completion of discovery. The discovery conducted pursuant to these scheduling orders may yield more relevant information regarding work histories and the basis, if any, for a plaintiff s claim against the Company. The Company believes that the effects of this process may not be fully known or realized for some time. We therefore do not currently believe a meaningful estimate can be made regarding the range of possible loss with respect to the claims remaining at the MDL, although this conclusion could change as the MDL s efforts to advance resolution of these claims progresses.

As of July 23, 2010, the remaining 4,413 claims pending against the Company were pending in a number of jurisdictions other than the MDL. Pleadings and discovery responses in those cases in which work histories have been provided indicate claimants with paper mill exposure in approximately 25% of total claims reported, and only a portion of those claimants have alleged time spent in a paper mill to which we are believed to have supplied asbestos-containing products. For these reasons, we expect the percentage of these remaining claimants able to demonstrate time spent in a paper mill to which we supplied asbestos-containing products during a period in which our asbestos-containing products were in use to be considerably lower than the total number of pending claims. In addition, over half of these remaining claims have not provided any disease information. Detailed exposure and disease information sufficient meaningfully to estimate a range of possible loss of a particular claim is typically not available until late in the discovery process, and often not until a trial date is imminent and a settlement demand has been received. For these reasons, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

It is our position and the position of 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 our synthetic products was encapsulated in a resin-coated yarn woven into the interior of the fabric, further reducing the likelihood of fiber release. While we believe we have meritorious defenses to these claims, we have settled certain of these cases for amounts we consider reasonable given the facts and circumstances of each case. Our insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of July 23, 2010, we had resolved, by means of settlement or dismissal, 33,310 claims. The total cost of resolving all claims was $6.9 million. Of this amount, $6.9 million, or 99%, was paid by our 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 we 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 7,907 claims as of July 23, 2010. This is the same amount as last reported April 29, 2010 and compares with 7,905 such claims as of February 16, 2010.

The following table sets forth the number of claims filed, the number of claims settled, dismissed or otherwise resolved, and the aggregate settlement amount during the periods presented:

Year ended December 31,	*Opening Number of claims*	*Claims Dismissed, Settled or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve ($)*
2005	*9,985*	*642*	*223*	*9,566*	*0*
2006	*9,566*	*1182*	*730*	*9,114*	*0*
2007	*9,114*	*462*	*88*	*8,740*	*0*
2008	*8,740*	*86*	*10*	*8,664*	*0*
2009	*8,664*	*760*	*3*	*7,907*	*0*

2010 to date	***7,907***	***7***	***7***	***7,907***	***0***

We 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 July 23, 2010, Brandon has resolved, by means of settlement or dismissal, 9, 678 claims for a total of $0.2 million. 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.

As of July 23, 2010, 6,821 (or approximately 86%) of the claims pending against Brandon were pending in Mississippi. For the same reasons set forth above with respect to Albany s claims, as well as the fact that no amounts have been paid to resolve any Brandon claims since 2001, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

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). We 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. We deny 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, we have successfully moved for dismissal in a number of actions.

While we do 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 our understanding of the insurance policies available, how settlement amounts have been allocated to various policies, our 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, we currently do not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, we currently do 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 we cannot predict the number and timing of

future claims, based on the foregoing factors and the trends in claims against us to date, we do not anticipate that additional claims likely to be filed against us in the future will have a material adverse effect on our financial position, results of operations, or cash flows. We are aware that litigation is inherently uncertain, especially when the outcome is dependent primarily on determinations of factual matters to be made by juries.

15. 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, 2009	$ 36	$ 3	$ 382,674	$ 380,335	$ (82,136)	$(258,299)	$ 422,646
Net income				13,475			13,475
Dividends declared				(7,444)			(7,444)
Compensation and benefits paid or payable in Class A Common Stock			2,774				2,774
Options exercised			136				136
Amortization and adjustment of pension liability					1,252		1,252