ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
November 05, 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: September 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 27,914,472 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of September 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 September 30,			Nine Months Ended September 30,	
2010	2009*		2010*	2009*
$228,414	$217,931	Net sales	$669,737	$639,695
141,879	144,013	Cost of goods sold	420,138	426,858
86,535	73,918	Gross profit	249,599	212,837
67,541	61,173	Selling, technical, general and research expenses	194,983	193,425
842	20,231	Restructuring and other, net	2,923	71,220
18,152	(7,486)	Operating income/(loss)	51,693	(51,808)
4,833	4,772	Interest expense, net	12,540	16,692
5,920	(8,086)	Other expense/(income), net	648	(45,106)
7,399	(4,172)	Income/(loss) from continuing operations before income taxes	38,505	(23,394)
3,732	920	Income tax expense	21,461	3,654
3,667	(5,092)	Income/(loss) before associated companies	17,044	(27,048)
(40)	(1)	Equity in (loss)/income of associated companies	58	(91)
3,627	(5,093)	Income/(loss) from continuing operations	17,102	(27,139)
		(Loss) from discontinued operations		(10,000)
$3,627	$(5,093)	Net income/(loss)	$17,102	$(37,139)
		Income/(loss) from continuing operations per share:		
$0.12	$(0.17)	Basic	$0.55	$(0.89)
$0.12	$(0.17)	Diluted	$0.55	$(0.89)

		(Loss) from discontinued operations per share:		
		Basic		$(0.33)
		Diluted		$(0.33)
		Net income/(loss) per share:		
$0.12	$(0.17)	Basic	$0.55	$(1.22)
$0.12	$(0.17)	Diluted	$0.55	$(1.22)
		Shares used in computing earnings per share:		
31,118	30,808	Basic	31,040	30,529
31,211	30,808	Diluted	31,145	30,529
$0.12	$0.12	Dividends per share	$0.36	$0.36

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

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

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

	September 30, 2010	December 31, 2009*
ASSETS		
Cash and cash equivalents	$99,410	$97,466
Accounts receivable, net	175,304	168,523
Inventories	157,116	172,433
Income taxes receivable and deferred	39,486	42,613
Prepaid expenses and other current assets	15,181	9,712
Total current assets	486,497	490,747
Property, plant and equipment, net	492,482	514,475
Investments in associated companies	3,155	3,001
Intangibles	4,614	5,216
Goodwill	116,322	120,037
Deferred taxes	136,636	144,274
Cash surrender value of life insurance policies		49,135
Other assets	20,801	18,264
Total assets	$1,260,507	$1,345,149
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and loans payable	$11,911	$15,296
Accounts payable	44,130	52,618
Accrued liabilities	116,138	116,600
Current maturities of long-term debt	12	11
Income taxes payable and deferred	6,446	3,639
Total current liabilities	178,637	188,164
Long-term debt	412,476	483,922
Other noncurrent liabilities	180,268	185,067
Deferred taxes and other credits	68,326	65,383
Total liabilities	839,707	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 36,399,000 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	387,342	382,674
Retained earnings	386,258	380,335
Accumulated items of other comprehensive income:		
Translation adjustments	(5,603)	4,167
Pension and post retirement liability adjustments	(87,332)	(86,303)
Derivative valuation adjustment	(1,873)	
	678,831	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	420,800	422,613
Total liabilities and shareholders' equity	$1,260,507	$1,345,149

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

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 September 30,			Nine Months Ended September 30,	
2010	2009		2010*	2009*
		OPERATING ACTIVITIES		
$3,627	$(5,093)	Net income/(loss)	$17,102	$(37,139)
		Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
40	1	Equity in losses/(earnings) of associated companies	(58)	91
13,204	15,819	Depreciation	40,454	44,912
2,256	2,051	Amortization	6,486	6,457
188	321	Noncash interest expense	565	2,093
	(7,935)	Gain on early retirement of debt		(47,366)
	(2,687)	Settlement of accreted debt discount		(10,144)
(2,825)	(20,907)	Provision for deferred income taxes, other credits and long-term liabilities	8,390	(32,933)
116	12,223	Provision for write-off of property, plant and equipment	3,209	13,832
(2,454)		Gain on disposition of assets	(2,454)	
		Provision for impairment of investment		2,624
	158	Decrease/(increase) in cash surrender value of life insurance		(1,669)
		Provision for purchase price adjustment of discontinued operation		10,000
		Stock option expense		70
(12)		Excess tax benefit of options exercised	(12)	
1,790	71	Compensation and benefits paid or payable in Class A Common Stock	4,799	3,425
		Changes in operating assets and liabilities, net of business acquisitions and divestitures:		
(7,783)	15,387	Accounts receivable	(8,127)	52,691
2,626	17,937	Inventories	14,644	26,474
(3,289)	(1,814)	Prepaid expenses and other current assets	(5,319)	49
(3,671)	(505)	Accounts payable	(8,115)	(29,608)
7,487	(1,638)	Accrued liabilities	(1,206)	17,527
(431)	94	Income taxes payable	(110)	(2,849)
(1,556)	(516)	Other, net	(113)	1,188
9,313	22,967	Net cash provided by operating activities	70,135	19,725

		INVESTING ACTIVITIES		
(4,029)	(8,053)	Purchases of property, plant and equipment	(17,944)	(33,917)
	(10,000)	Purchase price adjustment from sale of discontinued operations		(10,000)
(644)	(217)	Purchased software	(2,590)	(2,525)
3,209		Proceeds from sale of assets	3,209	
		Acquisitions, net of cash acquired	(1,902)	
	2,033	Cash received from life insurance policy terminations	49,302	2,272
	(957)	Premiums paid for life insurance policies		(957)
(1,464)	(17,194)	Net cash (used in)/provided by investing activities	30,075	(45,127)
		FINANCING ACTIVITIES		
576	18,264	Proceeds from borrowings	6,728	123,314
(12,369)	(5,496)	Principal payments on debt	(82,124)	(10,129)
	(16,199)	Early retirement of debt		(62,701)
(11)	8	Proceeds from options exercised	125	8
12		Excess tax benefit of options exercised	12	
(4,471)		Debt issuance costs	(4,471)	
(3,729)	(3,692)	Dividends paid	(11,148)	(10,894)
(19,992)	(7,115)	Net cash (used in)/provided by financing activities	(90,878)	39,598
8,880	3,006	Effect of exchange rate changes on cash flows	(7,388)	1,605
(3,263)	1,664	(Decrease)/increase in cash and cash equivalents	1,944	15,801
102,673	120,708	Cash and cash equivalents at beginning of period	97,466	106,571
$99,410	$122,372	Cash and cash equivalents at end of period	$99,410	$122,372

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

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.

See Note 2 for revisions to prior period financial statements.

2. Revisions to Financial Statements

As reported in the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2010, 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 ASC 250.10.S99, 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
	142,574	143,085	143,085	130,856	133,274	119,035	115,818

Noncurrent deferred tax asset							
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)	$	$(390)	$(390)	$	$	$	$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.

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(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 charge of $1.7 million to correct an error made in the second quarter of 2007

(in thousands, except per share data)	2010 by quarter Q1	2009 YTD	2009 by quarter Q4	Q3	Q2	Q1	2008 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)	(7,892)
Income/(loss) before associated companies	5,590	(23,330)	3,718	(5,092)	(2,779)	(19,177)	(84,496)
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

(in thousands)	2010 by quarter Q1	2009 YTD	2009 by quarter Q4	Q3	Q2	Q1	2008 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

(in thousands)	2010 by quarter Q1	2009 YTD	2009 by quarter Q4	Q3	Q2	Q1	2008 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

(in thousands)	2010 by quarter Q1	2009 YTD	2009 by quarter Q4	Q3	Q2	Q1	2008 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

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3. 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, **2010**	2009	Nine Months Ended September 30, **2010**	2009
Net Sales				
Paper Machine Clothing	**$155,008**	$154,290	**$450,171**	$438,897
Albany Door Systems	**36,247**	31,198	**103,794**	96,054
Engineered Fabrics	**20,961**	21,001	**66,341**	64,200
Engineered Composites	**10,585**	8,068	**30,096**	24,532
PrimaLoft® Products	**5,613**	3,374	**19,335**	16,012
Consolidated total	**$228,414**	$217,931	**$669,737**	$639,695
Operating income/(loss)				
Paper Machine Clothing	**$38,916**	$13,628	**$103,257**	$12,157
Albany Door Systems	**2,490**	(1,060)	**7,713**	(2,471)
Engineered Fabrics	**2,391**	2,128	**9,778**	6,620
Engineered Composites	**(2,637)**	(1,571)	**(6,855)**	(6,451)
PrimaLoft® Products	**1,264**	(15)	**6,259**	3,668
Research expense	**(6,330)**	(5,019)	**(19,273)**	(16,396)
Unallocated expenses	**(17,942)**	(15,577)	**(49,186)**	(48,935)
Operating income/(loss) before reconciling items	**18,152**	(7,486)	**51,693**	(51,808)
Reconciling items:				
Interest expense, net	**4,833**	4,772	**12,540**	16,692
Other expense/(income), net	**5,920**	(8,086)	**648**	(45,106)
Income/(loss) from continuing operations before income taxes	**$7,399**	$(4,172)	**$38,505**	$(23,394)

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

(in thousands)	Three Months Ended September 30, **2010**	2009	Nine Months Ended September 30, **2010**	2009
Restructuring expense				
Paper Machine Clothing	**$216**	$18,356	**$3,178**	$61,889
Albany Door Systems	**(249)**	1,515	**225**	3,563
Engineered Fabrics	**405**	168	**1,012**	2,683
Engineered Composites	**453**	157	**453**	267
PrimaLoft® Products				61
Unallocated	**17**	35	**(1,945)**	2,757
Consolidated total	**$842**	$20,231	**$2,923**	$71,220

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 is 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 nine months ended September 30, 2010 and 2009 are, as follows:

(in thousands)	Pension Plans **2010**	2009	Other Postretirement Benefits **2010**	2009
Service cost	**$1,849**	$3,017	**$669**	$844
Interest cost	**15,005**	14,381	**3,040**	2,865
Expected return on plan assets	**(11,355)**	(15,501)	**-**	
Amortization:				
Transition obligation	**75**	71	**-**	
Prior service cost/(credit)	**12**	83	**(2,711)**	(3,254)
Net actuarial loss	**3,558**	1,546	**2,176**	2,085
Settlement/curtailment loss/(gain)	**478**	583	**(1,945)**	
Net periodic benefit costs	**$9,622**	$4,180	**$1,229**	$2,540

During 2010 a pension plan settlement loss of $0.5 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 nine months of 2010 and 2009:

	Nine months ending September 30, 2010			
(in thousands)	Total restructuring costs incurred	Termination and other costs	Writedown of plant and equipment	Benefit plan curtailment/ settlement
Paper Machine Clothing	$3,178	$1,457	$1,243	$478
Albany Door Systems	225	225		
Engineered Composites	453	453		
Engineered Fabrics	1,012	1,012		
Unallocated	(1,945)			(1,945)
Total	$2,923	$3,147	$1,243	$(1,467)

	Nine months ending September 30, 2009		
(in thousands)	Total restructuring costs incurred	Termination and other costs	Writedown of plant and equipment
Paper Machine Clothing	$61,889	$47,248	$14,641
Albany Door Systems	3,563	3,563	
Engineered Composites	267	267	
PrimaLoft® Products	61	61	
Engineered Fabrics	2,683	2,683	
Unallocated	2,757	2,757	
Total	$71,220	$56,579	$14,641

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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 September 30, 2010
Termination costs	$22,067	$2,625	$(18,850)	$(169)	$5,673

(in thousands)	Restructuring charges accrued December 31, 2008	Restructuring accruals in 2009	Payments	Currency translation/ other	Restructuring charges accrued September 30, 2009
Termination costs	$21,284	$50,251	$(30,790)	$704	$41,449
Other restructuring costs	624	708	(1,145)	42	229
Total	$21,908	$50,959	$(31,935)	$746	$41,678

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

6. Other Expense/(Income), net3

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

(in thousands)	Three Months Ended September 30, **2010**	2009	Nine Months Ended September 30 **2010**	2009
Currency transactions	**$4,800**	$(810)	**$(1,926)**	$(581)
Amortization of debt issuance costs and loan origination fees	**1,177**	282	**2,625**	1,633
Gain on early retirement of debt		(7,906)		(47,366)
Other miscellaneous (income)/expense	**(57)**	348	**(51)**	1,208
Total	**$5,920**	$(8,086)	**$648**	$(45,106)

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 nine month periods ended September 30, 2010 and 2009:

(in thousands)	Three Months Ended September 30, **2010**	2009	Nine Months Ended September 30, **2010**	2009
Income tax expense/(benefit) based on income from continuing operations, at estimated tax rates of 36.0% in 2010 and 21.7% in 2009, respectively	**$2,663**	$(2,625)	**$13,857**	$(15,369)
Provision for gain on extinguishment of debt		3,086		18,473
Income tax from continuing operations before discrete items	**2,663**	461	**13,857**	3,104
Provision for change in estimated tax rates	**$1,042**	$576		
Discrete tax expense/(benefit):				
Provision for/resolution of tax audits and contingencies				667
Adjustments to prior period tax liabilities	**(343)**	(117)	**(343)**	(117)
Redemption of life insurance policies			**9,382**	
Repatriation of Non-US prior years earnings	**370**		**(1,435)**	
Total income tax expense from continuing operations	**$3,732**	$920	**$21,461**	$3,654

The third-quarter estimated income tax rate on continuing operations was 36% in 2010, as compared to 21.7% 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 from certain subsidiaries 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.

The estimated income tax rate on continuing operations increased from 32.6% in Q2 2010 to 36.0% in Q3 2010, primarily due to a continued shift in the distribution of income toward higher-tax jurisdictions. The higher rate, when applied to income of the first two quarters, has the effect of increasing tax expense by $1.0 million in Q3 2010.

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. During the third quarter of 2010, we recorded an adjustment to the estimated benefit, which resulted in a discrete tax expense of $0.4 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 and, therefore, our tax position will be sustained.

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 of these tax matters during the third 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 September 30, **2010**	2009	Nine Months Ended September 30, **2010**	2009
Net income/(loss)	**$3,627**	$(5,093)	**$17,102**	$(37,139)
Weighted average number of shares:				
Weighted average number of shares used in calculating basic earnings per share	**31,118**	30,808	**31,040**	30,529
Effect of dilutive stock-based compensation awards:				
Stock options	**28**		**40**	
Long-term incentive awards	**65**		**65**	
Weighted average number of shares used in calculating diluted earnings per share	**31,211**	30,808	**31,145**	30,529
Stock-based compensation awards that were not included in the computation of diluted earnings per share because to do so would be antidilutive		104		372
Average market price of common stock used for calculation of dilutive shares	**$18.28**	$15.79	**$20.07**	$12.07
Net income/(loss) per share:				
Basic	**$0.12**	$(0.17)	**$0.55**	$(1.22)
Diluted	**$0.12**	$(0.17)	**$0.55**	$(1.22)

There was no dilution resulting from the convertible debt instrument, purchased call option, and warrant that are described in Note 12 as of September 30, 2010 and 2009.

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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
September 30, 2010	**36,399,000**	**3,236,098**	**(8,484,528)**	**31,150,570**

10. Inventories

Inventories consist of the following:

(in thousands)	**September 30, 2010**	December 31, 2009
Finished goods	**$71,099**	$80,885
Work in process	**49,998**	49,420
Raw material and supplies	**36,019**	42,128
Total inventories	**$157,116**	$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 September 30, 2010, were as follows:

(in thousands)	Balance at January 1, 2010	Amortization	Currency translation	Other changes	**Balance at September 30, 2010**
Amortized intangible assets:					
Patents	$605	$(252)	$(41)		**$312**
Trade names	91	(42)			**49**
Customer contracts	4,216	(1,029)	(40)	742	**3,889**
Technology	304	(50)	13	97	**364**
Total amortized intangible assets	$5,216	$(1,373)	$(68)	$839	**$4,614**
Unamortized intangible assets:					
Goodwill	$120,037		$(3,928)	$213	**$116,322**

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 September 30, 2010, the balance of goodwill was $78.1 million in the Paper Machine Clothing segment and $38.2 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	$1,800
2011	1,600
2012	1,000
2013	800
2014	500

12. Financial Instruments

Long-term debt consists of:

(in thousands)	**September 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	**$26,286**	$25,721
Private placement with a fixed interest rate of 6.84%, due in 2013 through 2017	**150,000**	150,000
Credit agreement with borrowings outstanding at an end of period interest rate of 3.62% in 2010 and 1.35% in 2009, due in 2015	**236,000**	308,000
Various notes and mortgages relative to operations principally outside the United States, at an average end of period rate of 5.41% in 2010 and 5.40% in 2009, due in varying amounts through 2021	**202**	212
Long-term debt	**412,488**	483,933
Less: current portion	**(12)**	(11)
Long-term debt, net of current portion	**$412,476**	$483,922

The note agreement and guaranty (the Prudential agreement) was entered into October 2005 and was amended and restated September 17, 2010, 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 payments 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. As of September 30, 2010, the fair value of the note agreement was approximately $173.5 million, which was measured using active market interest rates.

On July 16, 2010, we entered into a $390 million unsecured five-year revolving credit facility agreement (the new agreement), under which $236 million of borrowings was outstanding as of September 30, 2010. This new agreement 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.

Our ability to borrow additional amounts under the new 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

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agreements as of September 30, 2010, we would have been able to borrow an additional $104.2 million under our new agreement.

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%. This interest rate swap is accounted for as a hedge of future cash flows, as further described in Note 13.

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 and a minimum interest coverage of 3.00 to 1.00 under the credit agreement and Prudential agreement.

As of September 30, 2010, our leverage ratio was 2.26 to 1.00 and our interest coverage ratio was 9.21 to 1.00. We may purchase our Common Stock or pay dividends to the extent our 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. We were in compliance with all debt covenants as of September 30, 2010.

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 September 30, 2010, $28.4 million principal amount of convertible notes were outstanding, with a fair value of approximately $26.1 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.

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.

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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	36,630
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	$51,958

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 September 30, 2010, the carrying amounts of the debt and equity components of our bifurcated convertible debt instrument were $26.3 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 $0.6 million and $2.1 million for the nine months ended September 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 $2.2 million at September 30, 2010, with a remaining amortization period of approximately three years.

The following table details interest expense on convertible debt:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2010**	2009	**2010**	2009
Contractual interest (2.25%)	**$156**	$277	**$476**	$1,746

Non-cash interest (3.34%)	**188**	321	**565**	2,093
Total (5.59%)	**$344**	$598	**$1,041**	$3,839

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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.

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 September 30, 2010**	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	**$12,516**	$12,516		
Common stock of foreign public company	**486**	486		
Foreign exchange contracts	**647**	647		
Liabilities:				
Interest rate swap	**(3,071)**		(3,071)	

(in thousands)	Total fair value at December 31, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$29,215	$29,215		
Common stock of foreign public company	538	538		

During the nine-months ended September 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.

The common stock of a foreign public company is 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. The securities are classified as available for sale, and as a result any 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 $0.2 million for the nine months ended September 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 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 September 30, 2010.

As described in Note 12, on July 16, 2010, we entered into a $390 million unsecured five-year revolving credit facility agreement. The applicable interest rate for borrowings under the agreement is LIBOR plus a spread, based on our leverage ratio at the time of borrowing. Interest rate changes on this variable rate debt cause changes in cash flows, and in order to mitigate this cash flow risk we have fixed a portion of the effective interest rate on part of the indebtedness drawn under the agreement by entering into interest rate hedging transactions on July 16, 2010. This interest rate swap locked in our interest rate on the forecasted outstandings of $105 million at 2.04% plus the credit spread on the debt for a five year period. The credit spread is based on the pricing grid, which can go as low as 2.0% or as high as 2.75%, based on our leverage ratio.

The interest rate swap is accounted for as a hedge of future cash flows. The fair value of our interest rate swap is derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve, and is recorded in the Consolidated Balance Sheets as of September 30, 2010 as Other noncurrent liabilities of $3.1 million. Unrealized gains and losses on the swap will flow through the caption Derivative valuation adjustment in the Shareholders equity section of the Consolidated Balance Sheets, to the extent that the hedge is highly effective. Gains and losses related to the ineffective portion of the hedge will be recognized in the current period in earnings. Amounts accumulated in Other comprehensive income are reclassified as Interest expense, net when the related interest payments (that is, the hedged forecasted transactions) affect earnings. From the date of inception through September 30, 2010, $0.3 million of interest expense was recorded related to the swap.

Fair value amounts of derivative instruments were as follows:

(in thousands)	Balance sheet location	**September 30, 2010**	December 31, 2009
Asset Derivatives			
Derivatives not designated as hedging instruments under FASB ASC 815-20:			
Foreign exchange contracts	Other assets	**$647**	
Total asset derivatives		**$647**	
Liability Derivatives			
Derivatives designated as hedging instruments under FASB ASC 815-20:			
Interest rate swap	Other noncurrent liabilities	**$(3,071)**	
Total liability derivatives		**$(3,071)**	
Total derivatives		**$(2,424)**	

(Losses)/gains on changes in fair value of derivative instruments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2010**	2009	**2010**	2009

Derivatives designated as hedging instruments under FASB ASC 815-20:			
Interest rate swap [1]	**$(1,873)**	**$(1,873)**	
Derivatives not designated as hedging instruments under FASB ASC 815-20:			
Forward exchange options [2]	**172**	**(249)**	
Forward currency contracts [2]			962

1 Unrealized losses are recognized in Other comprehensive income, net of tax. This derivative was a 100% effective hedge of interest rate cash flow risk for the three and nine months ended September 30, 2010.

2 Losses/(gains) are recognized in Other expense, net.

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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 5,170 claims as of October 29, 2010. This compares with 7,343 such claims as of July 23, 2010, and 7,464 claims as of April 29, 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***	***3,963***	***188***	***5,170***	***159***

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 October 29, 2010, 779 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 779 MDL claims, 448 were originally filed in state courts in Mississippi.

With respect to claims remaining at the MDL, the court has begun 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 October 29, 2010, the remaining 4,391 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 October 29, 2010, we had resolved, by means of settlement or dismissal, 35,491 claims. The total cost of resolving all claims was $7.005 million. Of this amount, almost 100%, 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 7,870 claims as of October 29, 2010. This compares with 7,907 such claims as of July 23, 2010 and 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***	***47***	***9***	***7,869***	***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 October 29, 2010, Brandon has resolved, by means of settlement or dismissal, 9,717 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 October 29, 2010, 6,821 (or approximately 81%) 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)	$422,613
Net income				17,102			17,102
Dividends declared				(11,179)			(11,179)
Compensation and benefits paid or payable in Class A Common Stock			4,531			268	4,799
Options exercised			137				137
Cumulative translation adjustment/other					(9,770)		(9,770)
Amortization and adjustment of pension liability					(1,029)		(1,029)
Change in derivative valuation adjustment					(1,873)		(1,873)
September 30, 2010	**$36**	**$3**	**$387,342**	**$386,258**	**$(94,808)**	**$(258,031)**	**$420,800**

16. Comprehensive Income

Comprehensive income consists of the following:

(in thousands)	Three Months Ended September 30, **2010**	2009	Nine Months Ended September 30, **2010**	2009
Net income/(loss)	**$3,627**	$(5,093)	**$17,102**	$(37,139)
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	**45,810**	22,565	**(9,770)**	39,975
Amortization of pension liability adjustment	**1,010**	477	**3,110**	1,430
Pension and postretirement liability adjustments	**(4,749)**		**(4,797)**	
Derivative valuation adjustment	**(3,071)**		**(3,071)**	
Income taxes related to items of other comprehensive income/(loss):				
Amortization of pension liability adjustment	**(394)**	(186)	**(1,213)**	(558)
Pension and postretirement liability adjustments	**1,852**		**1,871**	
Derivative valuation adjustment	**1,198**		**1,198**	
Other comprehensive income/(loss), net of tax	**41,656**	22,856	**(12,672)**	40,847
Comprehensive income	**$45,283**	$17,763	**$4,430**	$3,708

17. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) amended authoritative guidance related to accounting and disclosure of revenue recognition for multiple-element arrangements. This guidance provides principles for allocation of consideration among multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. This guidance introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This is effective on a prospective basis for revenue arrangements entered into or materially modified in the fiscal year beginning January 1, 2011, and early adoption is permitted. We are currently evaluating the impact of adopting this guidance.

In April 2010, the FASB issued guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate, with regard to research and development transactions. The guidance allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. This is effective prospectively to milestones achieved in the fiscal year beginning January 1, 2011. We are currently evaluating the impact of adopting this guidance.

Forward-looking statements

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

There are a number of risks, uncertainties and other important factors that could cause actual results to differ materially from the forward-looking statements, including, but not limited to: statements about future economic and paper industry conditions, rates of recovery in sales and operating income during the next several quarters in each of our businesses, anticipated improvements in cash generation, revenue growth and income expectations for our non-PMC businesses, the timing and impact of certain production and development programs in our AEC business segment, the amount and timing of anticipated costs and savings associated with cost-reduction and performance-improvement initiatives, pricing conditions in the PMC industry, the amount and timing of capital expenditures, future tax rates and cash paid for taxes, depreciation and amortization, future debt levels and debt covenant ratios, future contributions to our pension plans, future revaluation gains and losses, future levels of EBITDA, other risks and uncertainties detailed from time to time in our filings with the SEC. Furthermore, a change in any one or more of the foregoing factors could have a material effect on our financial results in any period.

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

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

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

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

Overview

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

The Paper Machine Clothing segment includes fabrics and belts used in the manufacture of paper and paperboard (PMC or paper machine clothing). We design, manufacture, and market paper machine clothing for each section of the paper machine. We manufacture and sell more paper machine clothing worldwide than any other company. PMC consists of large permeable and non-permeable continuous belts of custom-designed and custom-manufactured engineered fabrics that are installed on paper machines and carry the paper stock through each stage of the paper production process. PMC products are consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure. The design and material composition of PMC can have a considerable effect on the quality of paper products produced and the efficiency of the paper machines on which it is used. Principal products in the PMC segment include forming, pressing and dryer fabrics, and process belts. A forming fabric assists in sheet formation and conveys the very wet sheet (over 75% water) through the forming section. Press fabrics are designed to carry the sheet through the press section, where water is pressed from the sheet as it passes through the press nip. In the dryer section, dryer fabrics manage air movement and hold the sheet against heated cylinders to enhance drying. Process belts are used in the press section to increase dryness and enhance sheet properties, as well as in other sections of the machine to improve runnability and enhance sheet qualities. We sell PMC products directly to customer end-users, which are paper industry companies, some of which operate in multiple regions of the world. Our products, manufacturing processes, and distribution channels for PMC are substantially the same in each region of the world in which we operate. The sales of forming, pressing, and dryer fabrics, individually and in aggregate, accounted for more than 10% of our consolidated net sales during one year or more of the last three years.

Our other reportable segments apply our core competencies in advanced textiles and materials to other industries:

Our Albany Door Systems (ADS) segment designs, manufactures, sells, and services high-speed, high-performance industrial doors worldwide, for a wide range of interior, exterior, and machine protection industrial applications. Already a high-performance door leader, ADS added to its product offerings through its acquisitions of Aktor GmbH in 2008 and R-Bac Industries in 2007. The business segment also derives revenue from aftermarket sales and service. ADS sells directly to customer end-users in certain markets, such as Sweden and Germany, while in other markets, such as the United States, it sells primarily through distributors and dealers.

Our Engineered Fabrics (EF) segment derives its revenue from various industries that use fabrics and belts for industrial applications other than the manufacture of paper and paperboard. Revenue in this segment is derived from sales to the nonwovens industry, which include the manufacture of diapers, personal care and household wipes; and to building products markets, which includes the manufacture of fiberglass-reinforced roofing shingles. Other segment revenue includes sales to markets adjacent to the paper industry, and to the tannery and textile industries. Segment sales in the European and Pacific

regions combined are almost at the same level as sales within the Americas. We generally market EF products directly to our customers.

Our Engineered Composites segment (AEC) provides custom-designed advanced composite structures and textile performs to our customers in aerospace and other high-tech industries.

Our PrimaLoft® Products segment includes sales of insulation for outdoor clothing, gloves, footwear, sleeping bags, and home furnishings. This segment has sales operations in the United States, Europe, and Asia, through which we sell products produced by third-parties according to our proprietary specifications. This segment also generates a significant portion of its income as royalties from the licensing of its intellectual property.

Trends

Our primary segment, Paper Machine Clothing, accounted for approximately 69% of consolidated revenues during 2009. Paper machine clothing is purchased primarily by manufacturers of paper and paperboard. According to data published by RISI, Inc., world paper and paperboard production volumes grew at an annual rate of approximately 2.6% between 1998 and 2009. Paper and paperboard production decreased 6.6% during 2009 due to the global recession, but is expected to grow slightly in future years as demand increases in the emerging markets of Asia and South America while demand stabilizes in the mature markets of Europe and North America.

The paper and paperboard industry has been characterized by an evolving but essentially stable manufacturing technology based on the wet-forming papermaking process. This process, of which paper machine clothing is an integral element, requires a very large capital investment. Consequently, we do not believe that a commercially feasible substitute technology to paper machine clothing is likely to be developed and incorporated into the paper production process by paper manufacturers in the foreseeable future. For this reason, we expect that demand for paper machine clothing will continue into the foreseeable future.

The world paper and paperboard industry has experienced a significant period of consolidation and rationalization since 2000. During this period a number of older and less efficient machines in areas where significant established capacity existed were closed, primarily in Europe and North America. At the same time a number of newer, faster, and more efficient machines began production or plans for the installation of such newer machines in areas of growing demand for paper and paperboard. We anticipate that new machines will be added in Asia and South America as demand for paper and paperboard products increase in those regions.

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

The factors described above result in a steady decline in the number of pieces of paper machine clothing, while the average fabric size is increasing. Due to the global recession, global PMC volume decreased significantly in 2009, resulting in a decline in segment revenue. Going forward, we expect significant volume growth in Asia and South America, while flat or slightly lower volume is expected in Europe and North America.

During 2006, we initiated a deliberate, intensive three-year process of restructuring and performance improvement initiatives. In PMC, our strategy has been to offset the impacts of the maturation of the North

American and Western European markets by (a) growing volume and market share in these mature markets, (b) growing with the emerging markets in Asia and South America, and (c) reducing costs significantly through a company-wide, three-year restructuring and performance improvement program.

During the past three years, we adjusted our manufacturing footprint to align with these regional markets and incurred significant restructuring charges. Specific charges reported have been incurred in connection with the reduction of PMC manufacturing capacity in the United States, Canada, Germany, Finland, France, and Australia, and Doors segment manufacturing in Sweden and Germany. While the major activities associated with our three-year plan of restructuring and performance improvement initiatives came to a conclusion in 2009, we have incurred and will continue to have some residual expenses during 2010 related to restructuring plans announced during 2009. Those expenses include items that will be reported as restructuring, and costs of goods sold for equipment relocation.

In 2006, we announced a plan to migrate our global enterprise resource planning system to SAP. Expenses incurred in connection with these actions are included in Selling, Technical, General and Research (STG&R) expenses. The conversion of our North American divisions was completed during 2009. Remaining SAP implementation costs will continue through 2010 and into 2011 with the conversion of our Eurasia operations.

Our Albany Door Systems segment derives most of its revenue from the sale of high-performance doors, particularly to customers in Europe. The purchase of these doors is normally a capital expenditure item for our customers and, as such, market opportunities tend to fluctuate with industrial capital spending. If economic conditions weaken, our customers may reduce levels of capital expenditures, which could have a negative effect on sales and earnings in our ADS segment. New product and aftermarket sales were significantly lower in 2009 due to the effects of the recession. Accordingly, we took steps across the business to reduce operating costs as well as to focus expansion of our aftermarket business, which tends to carry a higher margin of profit than sales of new products. We expect recovery in this segment to track recovery in the overall economy.

Our Engineered Fabrics segment derives its revenue from various industries that use fabrics and belts for industrial applications other than the manufacture of paper and paperboard. Approximately 60% of revenue in this segment is derived from sales to the nonwovens industry and building products markets, which include the manufacture of diapers, personal care and household wipes, and fiberglass-reinforced roofing shingles. Approximately 40% of segment revenue is derived from sales to markets that are adjacent to the paper industry. Segment sales in the European and Pacific regions combined are almost at the same level as sales within the Americas. Sales in 2009 were 11% lower than in 2008, reflecting the effects of the global recession. We expect any economic recovery will contribute to stronger sales in this segment.

Our Engineered Composites segment serves primarily the aerospace industry, with custom-designed composite and advanced composite parts for static and dynamic applications. While sales declined in 2009, we view AEC as a future core business with significant growth potential. We expect this growth to be fueled by a combination of increased sales from existing growth programs and the commercial introduction of new products that are currently under development.

Our PrimaLoft® Products segment includes sales of insulation for outdoor clothing, gloves, footwear, sleeping bags, and home furnishings. The segment has manufacturing and sales operations in the United States, Europe, and Asia. Reflecting global economic pressures, segment sales for 2009 were 10% lower than 2008. Top line growth in this segment is affected by the health of consumer apparel markets in North America and Europe, and the severity and harshness of the winter weather in those markets.

Foreign Currency

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. Our hedging policy is targeted at mitigating foreign currency fluctuations that affect actual cash flows.

Review of Operations

In Q2 2010, we discovered several errors pertaining to financial data reported during 2009. In accordance with the provisions of ASC 250.10.S99, we have revised previously reported results to correct the errors described above, and other previously disclosed errors, as described in footnote 2. The tables below include the impact of those revisions, where appropriate.

Total Company three months ended September 30, 2010 compared to the same period of 2009, unless noted differently

Net sales increased to $228.4 million in 2010, as compared to $217.9 million for 2009. Changes in currency translation rates had the effect of decreasing net sales by $5.2 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 7.2% as compared to 2009.

Following is a table of net sales for each business segment and the effect of changes in currency translation rates:

(in thousands)	Net sales as reported September 30, **2010**	2009	Percent change	Impact of changes in currency translation rates	Percent change excluding currency translation rate effects
Paper Machine Clothing	**$155,008**	$154,290	0.5%	$(2,973)	2.4%
Albany Door Systems	**36,247**	31,198	16.2%	(1,577)	21.2%
Engineered Fabrics	**20,961**	21,001	-0.2%	(500)	2.2%
Engineered Composites	**10,585**	8,068	31.2%		31.2%
PrimaLoft® Products	**5,613**	3,374	66.4%	(192)	72.1%
Total	**$228,414**	$217,931	4.8%	$(5,242)	7.2%

Gross profit was 37.9% in 2010, compared to 33.9% in 2009. The improvement was principally due to cost reductions

resulting from previously announced restructuring and performance-improvement initiatives. Cost of goods sold in 2010 included $1.7 million for equipment relocations and $0.8 million for building write-offs in France and Australia. Cost of goods sold in 2009 included $0.4 million for equipment relocations and $2.6 million for idle-capacity.

Selling, general, technical and research (SGT&R) expenses increased to $67.5 million or 29.6% of net sales in 2010, as compared to $61.2 million or 28.1% of net sales in 2009.

The increase in SGT&R was principally due to the net effect of the changes in the following expense categories:

- U.S. pension and postretirement costs increased by $2.5 million due to amortization of the loss on pension assets that occurred in 2008.
- Revaluation losses on non functional currency assets and liabilities increased $1.2 million. The increase in revaluation losses were principally due to the euro strengthening against the U.S. dollar, and the resulting effects on non-functional currency trade receivables and payables.
- Selling expenses increased $1.4 million due to higher sales.
- Bad debt expense increased $1.1 million in 2010.
- Long-term share based compensation expense increased $0.9 million.
- Gain on sale of a building was $2.5 million.
- Research expense increased $1.4 million as compared to 2009, principally due to higher expenses in support of AEC programs.

Operating income/(loss) was income of $18.2 million during 2010 compared with a loss of $7.5 million in 2009.

The following table presents segment operating income:

	Operating income/(loss) September 30,	
(in thousands)	**2010**	2009
Paper Machine Clothing	**$38,916**	$13,628
Albany Door Systems	**2,490**	(1,060)
Engineered Fabrics	**2,391**	2,128
Engineered Composites	**(2,637)**	(1,571)
PrimaLoft® Products	**1,264**	(15)
Research expense	**(6,330)**	(5,019)
Unallocated expenses	**(17,942)**	(15,577)
Total	**$18,152**	$(7,486)

The increase in operating income was principally due to a $19.4 million decrease in restructuring costs and a decrease in cost of goods sold that resulted from the restructuring activities.

Operating income included the following expenses associated with restructuring activities by reportable segment:

	Restructuring and other, net September 30,	
(in thousands)	**2010**	2009
Paper Machine Clothing	**$216**	$18,356
Albany Door Systems	**(249)**	1,515
Engineered Fabrics	**405**	168
Engineered Composites	**453**	157
Unallocated expenses	**17**	35
Total	**$842**	$20,231

Restructuring charges in 2010 were $0.8 million, which were attributable to restructuring actions initiated in 2009 to reduce manufacturing capacity in the US and in Europe.

Interest expense, net of interest income, was $4.8 million for 2010 and 2009. The consistency of expense in 2010 as compared to 2009 reflects lower average levels of debt outstanding during 2010 at higher average interest rates. Average interest rates are expected to rise throughout the rest of 2010 due to the new terms of our revolving credit facility that was refinanced on July 16, 2010. See Capital Resources section below for further discussion of borrowings and interest rates.

Other income/expense, net, was expense of $5.9 million for 2010 and income of $8.1 million for 2009. Remeasurements of short-term intercompany balances at operations that held amounts denominated in currencies other than their local currencies resulted in losses of $4.8 million during 2010 and gains of $0.8 million in 2009. The change from remeasurement gains in 2009 to losses in 2010 was principally due to the euro strengthening against the U.S. dollar, Canadian dollar, Australian dollar, and Japanese yen. Included in 2009 was income of $7.9 million for a gain on extinguishment of debt.

Income tax expense/benefit was expense of $3.7 million in 2010 and $0.9 million in 2009. Tax adjustments including discrete items reduced earnings by $1.1 million in 2010 and $0.5 million in 2009. 2009 also included a tax charge of $3.1 million related to the gain on extinguishment of debt.

Net income/loss was income of $3.6 million for 2010, compared to a loss of $5.1 million for 2009. For reasons described in the above paragraphs, improvements in 2010 net income was due to higher sales and reductions in production and restructuring costs, offset by higher SGT&R costs.

Paper Machine Clothing Segment

Net sales in the Paper Machine Clothing segment increased to $155.0 million for 2010 as compared to $154.3 million for 2009. Changes in currency translation rates had the effect of decreasing 2010 net sales by $3.0 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 2.4% as compared to 2009 principally due to higher sales volume in the Asia Pacific region.

Gross profit as a percentage of net sales was 43.5% for 2010 compared to 38.3% for 2009. The increase in 2010 was principally due to lower production costs as a result of restructuring and cost reduction activities. 2009 costs of goods

sold also included $2.6 million of idle capacity costs related to plant closures in Europe and in the US.

Operating income was $38.9 million during 2010 and $13.6 million in 2009. The increase was principally due to higher profitability reflecting lower costs of production and lower restructuring costs.

Albany Door Systems Segment

Net sales in the Albany Door Systems segment increased to $36.2 million in 2010, compared to $31.2 million in 2009. Changes in currency translation rates had the effect of decreasing net sales by $1.6 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 21.2% as compared to 2009. The 2010 increase is principally the result of higher product and aftermarket sales volume across all regions reflecting the recovery of economies around the world.

Gross profit as a percentage of net sales was 32.7% in 2010 and 30.3% in 2009. The increase in 2010 principally reflects improved margins on aftermarket sales.

Operating income increased to income of $2.5 million in 2010 compared with a loss of $1.1 million in 2009 principally due to the higher sales and the effects of stronger gross profit along with lower restructuring costs.

Engineered Fabrics Segment

Net sales in the Engineered Fabrics segment were $21.0 million in 2010 and 2009. Changes in currency translation rates had the effect of decreasing net sales by $0.5 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 2.2% as compared to 2009. Sales levels were consistent with prior year as summer slowdowns in Europe, along with a continued weak U.S. housing market, dampened the effect of a strengthening economy.

Gross profit as a percentage of net sales was 32.0% in 2010 compared to 30.0% in 2009. The increase was principally due to the benefits from cost reductions initiatives.

Operating income was $2.4 million in 2010 compared with $2.1 million in 2009. The increase in 2010 reflects higher profitability offset by higher restructuring costs, as compared with 2009.

Engineered Composites Segment

Net sales in the Engineered Composites segment increased to $10.6 million in 2010, compared to $8.1 million in 2009. The increase reflects growth in projects, involving advanced composite applications, placed into commercial production during 2010.

Gross profit was a loss of $0.9 million in 2010 compared with a loss of $0.5 million in 2009, which reflects higher sales offset by higher fixed costs due to higher salary and social costs associated with an increase in the number of employees from prior year.

The segment operating loss was $2.6 million in 2010 compared with a loss of $1.6 million in 2009. The loss in 2010 includes restructuring charges of $0.5 million. The losses in both years are principally due to the segment s more conventional composites operations, which are located in Boerne, Texas, and primarily focus on business jet applications.

PrimaLoft® Products Segment

Net sales in the PrimaLoft® Products segment increased to $5.6 million in 2010, compared to $3.4 million in 2009. Changes in currency translation rates had the effect of decreasing net sales by $0.2 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 72.1% as compared to 2009. The increase in sales is principally due to higher outdoor product sales volume in Europe and the United States.

Gross profit as a percentage of net sales was 49.0% in 2010 compared to 36.4% in 2009 reflecting the effect of outsourcing certain production activities to third-party manufacturers.

Operating income increased to $1.3 million in 2010 from $0.0 million in 2009, which reflects higher sales and gross profit in 2010.

Total Company nine months ended September 30, 2010 compared to the same period of 2009, unless noted differently

Net sales increased to $669.7 million in 2010, as compared to $639.7 million for 2009. Changes in currency translation rates had the effect of increasing net sales by $2.2 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 4.3% as compared to 2009.

Following is a table of net sales for each business segment and the effect of changes in currency translation rates:

(in thousands)	Net sales as reported September 30, **2010**	2009	Percent change	Impact of changes in currency translation rates	Percent change excluding currency translation rate effects
Paper Machine Clothing	**$450,171**	$438,897	2.6%	$1,366	2.3%
Albany Door Systems	**103,794**	96,054	8.1%	523	7.5%
Engineered Fabrics	**66,341**	64,200	3.3%	546	2.5%
Engineered Composites	**30,096**	24,532	22.7%		22.7%
PrimaLoft® Products	**19,335**	16,012	20.8%	(207)	22.0%
Total	**$669,737**	$639,695	4.7%	$2,228	4.3%

Gross profit was 37.3% in 2010, compared to 33.3% in 2009. The improvement was principally due to cost reductions resulting from previously announced restructuring and performance-improvement initiatives. Cost of goods sold in 2010 included $4.7 million for equipment relocations and $2.6 million for idle-capacity costs. Cost of goods sold in 2009 included $3.8 million for equipment relocations and $8.8 million for idle-capacity costs.

Selling, general, technical and research (SGT&R) expenses increased to $195.0 million or 29.1% of net sales in 2010, as compared to $193.4 million or 30.2% of net sales in 2009.

The increase in SGT&R was principally due to the net effect of the changes in the following expense categories:

- U.S. pension and postretirement costs increased by $6.4 million due to amortization of the loss on pension assets that occurred in 2008.
- Revaluation losses on non functional currency assets and liabilities decreased $1.3 million. The increase in revaluation gains was principally due to the euro weakening against the U.S. dollar, and the resulting effects on non-functional currency trade receivables and payables.
- Salary and social costs decreased by $2.8 million as a result of headcount reduction initiatives.
- SAP implementation expense decreased $1.2 million.
- Global information system costs decreased $2.3 million. Bad debt expense decreased $1.0 million in 2010.
- Long-term share based compensation expense increased $3.2 million.
- Gain on sale of a building was $2.5 million.
- Research expense increased $2.9 million as compared to 2009, principally due to higher expenses in support

of AEC programs.

Operating income/(loss) was income of $51.7 million during 2010 compared with a loss of $51.8 million in 2009. The following table presents segment operating income:

	Operating income/(loss) September 30,	
(in thousands)	**2010**	2009
Paper Machine Clothing	**$103,257**	$12,157
Albany Door Systems	**7,713**	(2,471)
Engineered Fabrics	**9,778**	6,620
Engineered Composites	**(6,855)**	(6,451)
PrimaLoft® Products	**6,259**	3,668
Research expense	**(19,273)**	(16,396)
Unallocated expenses	**(49,186)**	(48,935)
Total	**$51,693**	$(51,808)

The increase in operating income was principally due to a decrease of $68.3 million for restructuring costs and a decrease in cost of goods sold as result of those restructuring and cost reduction activities during 2010, as compared to 2009.

Operating income included the following expenses associated with restructuring activities by reportable segment:

	Restructuring and other, net September 30,	
(in thousands)	**2010**	2009
Paper Machine Clothing	**$3,178**	$61,889
Albany Door Systems	**225**	3,563
Engineered Fabrics	**1,012**	2,683
Engineered Composites	**453**	267
PrimaLoft® Products		61
Unallocated expenses	**(1,945)**	2,757
Total	**$2,923**	$71,220

Restructuring charges in 2010 were $2.9 million and were attributable to restructuring actions initiated in 2009. The 2010 restructuring charge included a post-retirement benefit plan curtailment gain of $1.9 million, and a non-cash charge of $1.2 million to write down property, plant, and equipment related to previously announced reductions in manufacturing capacity.

Interest expense, net of interest income, decreased to $12.5 million for 2010, compared to $16.7 million for 2009. The decrease reflects lower average levels of debt outstanding during 2010 at lower average interest rates. Average interest rates are expected to rise throughout the rest of 2010 due to the new terms of our revolving credit facility that was

refinanced on July 16, 2010. See Capital Resources section below for further discussion of borrowings and interest rates.

Other expense/income, net, was expense of $0.6 million for 2010 and income of $45.1 million for 2009. Remeasurements of short-term intercompany balances at operations that held amounts denominated in currencies other than their local currencies resulted in gains of $1.9 million during 2010 and $0.6 million in 2009. The increase in remeasurement gains was principally due to the euro weakening against the U.S. dollar, Canadian dollar, Australian dollar, and Japanese yen. Additionally, the first three quarters of 2009 included $47.4 million in gains on extinguishment of debt.

Income tax expense/benefit was expense of $21.5 million in 2010 and $3.7 million in 2009. In 2010, we liquidated all of our holdings in life insurance policies, which led to a discrete tax charge of $9.4 million. Also in 2010, we repatriated funds held by a subsidiary which resulted in a discrete tax benefit of $1.4 million and recorded an adjustment to estimated taxes that increased earnings by $0.3 million. The net effect of these discrete tax items was an increase to 2010 income tax expense by $7.7 million. 2009 included a tax charge of $18.5 million related to the gain on extinguishment of debt and other discrete items that decreased earnings by $0.5 million.

The estimated full year income tax rate on continuing operations is 36.0% in 2010, as compared to 21.7% in 2009. We expect that our income tax rate, excluding the effect of discrete tax items, will continue to be in the mid-30 percent range during 2010. The higher rate is primarily due to a continued shift in the distribution of income toward higher-tax jurisdictions, the Company s current inability under U.S. GAAP to recognize certain tax benefits from current losses in certain high-tax jurisdictions; the repatriation of current year non-U.S. earnings from certain subsidiaries, and the recent expiration of certain provisions in the U.S. tax code relating to the deferred taxation of income generated by controlled foreign subsidiaries. These matters are not expected to have a material effect on cash taxes at any time during 2010 as we utilize available net operating loss carry forwards.

Net income/loss was income of $17.1 million for 2010, compared to a loss of $37.1 million for 2009. For reasons already described in the above paragraphs, improvements in 2010 net income was due to higher sales, and reductions in production costs, and restructuring costs. 2009 included a $10.0 million charge representing an estimated purchase price adjustment related to the 2008 sale of our discontinued Filtration Technologies business.

Paper Machine Clothing Segment

Net sales in the Paper Machine Clothing segment increased to $450.2 million for 2010 as compared to $438.9 million for 2009. Changes in currency translation rates had the effect of increasing 2010 net sales by $1.4 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 2.3% as compared to 2009 principally due to higher sales volume in the Asia Pacific region.

Gross profit as a percentage of net sales was 41.7% for 2010 compared to 36.8% for 2009. The increase in 2010 was principally due to lower production costs as a result of restructuring and cost reduction activities. 2010 gross profit improved by $6.2 million due to lower idle capacity costs related to previously announced plan closures in Europe and in the US.

Operating income was $103.3 million during 2010 and $12.2 million in 2009. The increase in 2010 is principally due to higher sales, higher profitability reflecting lower costs of production and lower restructuring costs.

Albany Door Systems Segment

Net sales in the Albany Door Systems segment increased to $103.8 million in 2010, compared to $96.1 million in 2009. Changes in currency translation rates had the effect of increasing net sales by $0.5 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 7.5% as compared to 2009. The 2010 increase is principally the result of higher product and aftermarket sales volume across all regions reflecting the recovery of economies around the world.

Gross profit as a percentage of net sales was 34.1% in 2010 and 29.9% in 2009. The increase in 2010 is principally related to higher after-market service sales, which carry a higher level of profitability. 2010 cost of goods sold was also lowered by procurement and production efficiency projects.

Operating income increased to income of $7.7 million in 2010 compared with a loss of $2.5 million in 2009 principally due to the effects of stronger gross profit along with lower restructuring costs.

Engineered Fabrics Segment

Net sales in the Engineered Fabrics segment increased to $66.3 million in 2010, compared to $64.2 million in 2009. Changes in currency translation rates had the effect of increasing net sales by $0.5 million. Excluding the effect of changes in currency translation rates, 2010 net sales increased 2.5% as compared to 2009. The increase in 2010 is principally due to stronger sales volume of tannery and textile products, as compared with 2009.

Gross profit as a percentage of net sales was 33.6% in 2010 and 2009. The consistency in gross profit percentage due to cost reductions offset by $1.1 million in idle capacity costs during 2010, as compared with 2009

Operating income was $9.8 million in 2010 compared with $6.6 million in 2009. The increase in 2010 reflects higher sales and lower SGT&R due to cost reductions, offset in part by higher restructuring costs, as compared with 2009.

Engineered Composites Segment

Net sales in the Engineered Composites segment increased to $30.1 million in 2010, compared to $24.5 million in 2009. The increase reflects growth in projects, involving advanced composite applications, placed into commercial production during 2010.

Gross profit was a loss of $2.5 million in 2010 compared with a loss of $3.2 million in 2009, which reflects higher sales offset by higher fixed costs due to higher salary and social costs associated with an increase in the number of employees from prior year.

The segment operating loss was $6.9 million in 2010 compared with a loss of $6.5 million in 2009. The losses in both years are principally due to the segment s more conventional composites operations, which are located in Boerne, Texas, and primarily focus on business jet applications.

PrimaLoft® Products Segment

Net sales in the PrimaLoft® Products segment increased to $19.3 million in 2010, compared to $16.0 million in 2009. The increase in sales is principally due to higher out-door product sales volume in Europe as a result of targeted marketing programs.

Gross profit as a percentage of net sales was 56.0% in 2010 compared to 47.7% in 2009 reflecting the effect of outsourcing certain production activities to third-party manufacturers.

Operating income increased to $6.3 million in 2010 from $3.7 million in 2009, which reflects higher sales and gross profit in 2010.

International Activities

We conduct more than half of our business operations in countries outside of the United States. As a result, we experience transaction and translation gains and losses because of currency fluctuations. We periodically enter into foreign currency contracts to hedge this exposure (see Notes 6, and 13 of Notes to Consolidated Financial Statements). We believe that the risks associated with its operations and locations outside the United States are not other than those normally associated with operations in such locations.

Backlog

Our backlog of orders that are expected to be invoiced during the next 12 months was $411.3 million as of September 30, 2010, an increase of 12.7% from year-end 2009. The September 30, 2010, backlog by segment was $354.1 million in PMC, $17.1 million in Albany Doors, $16.8 million in Engineered Fabrics, $21.9 million in Engineered Composites, and $1.5 million in PrimaLoft.

Liquidity and Capital Resources

Cash Flow Summary

(in thousands)	Nine Months Ended September 30, **2010**	2009
Net income/(loss)	**$17,102**	($37,139)
Changes in working capital	**(8,346)**	65,472
Other operating items	**61,379**	(8,608)
Net cash provided by operating activities	**70,135**	19,725
Net cash provided by/(used in) investing activities	**30,075**	(45,127)
Net cash (used in)/provided by financing activities	**(90,878)**	39,598
Effect of exchange rate changes on cash flows	**(7,388)**	1,605
Increase in cash and cash equivalents	**1,944**	15,801
Cash and cash equivalents at beginning of period	**97,466**	106,571
Cash and cash equivalents at end of period	**$99,410**	$122,372

Below is our discussion of cash flow activities comparing the nine-months ending September 30, 2010 to the same period of 2009:

Operating activities

Operating activities provided net cash of $70.1 million in 2010 and $19.7 million in 2009.

Depreciation and amortization expense totaled $46.9 million in 2010 and $51.4 million in 2009. The Company expects depreciation and amortization to be a total of $66.0 million for the full year of 2010. For 2011, we expect our depreciation and amortization to be a total of $65.0 million.

Changes in working capital include changes in inventories and accounts receivable. Inventories decreased $14.6 million in 2010 and $26.5 million in 2009. Accounts receivable increased $8.1 million in 2010 and decreased $52.7 million in 2009. The decreases in inventory during 2010 reflects activities to reduce inventory levels and also is the result of lower manufacturing costs being absorbed into inventory due to restructuring and cost reduction activities. The increase in accounts receivable during 2010 is the result of higher sales as compared to 2009.

Cash payments made in connection with restructuring activities, primarily employee severance payments, were $18.9

million in 2010 and $31.9 million in 2009. We expect to pay substantially all of our remaining $5.7 million restructuring accrual as of September 30, 2010 within one year.

The Company s income tax rate on continuing operations, exclusive of discrete tax items, through Q3 is 36 percent and is expected to stay approximately at that level for the rest of the year. Including the utilization of net operating loss carry-forwards and other deferred tax assets, cash paid for income taxes on continuing operations during the first nine months of 2010 was about $7 million and is expected to total about $15 million for the full year. Cash payments for income taxes on continuing operations were $10 million for the first nine months of 2009.

During 2010 we purchased foreign currency options for $1.0 million. The options serve as part of our strategy to mitigate quarterly and annual volatility in operating cash flows and EBITDA caused by the effect of changes in foreign currency rates on sales and costs denominated in currencies other than the U.S. dollar.

Investing Activities

Capital expenditures were $20.5 million in 2010 and $36.4 million in 2009. Capital expenditures in our PMC segment amounted to $12.2 million in 2010 and $20 million in 2009. We estimate capital spending for 2010 to range from $30 million to $35 million, which includes carryover effects of delayed capital spending from 2009 as well as new capital investments for the planned accelerated growth in our AEC business segment. For 2011, we expect our capital spending to be approximately $45.0 to $55.0 million.

During Q1 2010, we acquired certain assets and liabilities of Envico Ltd., a New Zealand based manufacturer and distributor of high performance doors for approximately $1.9 million.

During Q2 2010, we liquidated all of our holdings in life insurance policies, which provided cash of $49.3 million and led to a discrete tax charge of $9.4 million. During Q2 and Q3 2010, we repatriated funds held by a subsidiary which resulted in a discrete tax benefit of $1.4 million and an adjustment to estimated taxes that increased earnings by $0.3 million. The proceeds from these transactions were used to pay-down the Company s revolving debt prior to refinancing and reduce our overall leverage. In addition, under the terms of the new agreement, the impact of cash and the cash surrender value of life insurance policies is limited to $65.0 million for the purposes of calculating net debt in the leverage ratio, as discussed under the Capital Resources section below.

Financing Activities

Cash dividends paid during 2010 and 2009 were $11.1 million and $10.9 million, respectively. Dividends have been declared each quarter since the fourth quarter of 2001. Decisions with respect to whether a dividend will be paid, and the amount of the dividend, are made by the Board of Directors each quarter. To the extent the Board declares cash dividends in the future, we would expect to pay such dividends out of operating cash flow. Future cash dividends will depend on debt covenants and on the Board s assessment of our ability to generate sufficient cash flows.

As described below in the Capital Resources section, in 2009 we entered into several agreements to purchase and retire our previously issued 2.25% convertible notes. Transactions during the first three quarters of 2009 had an aggregate cost of $75.8 million and resulted in gains totaling $47.3 million on extinguishment debt and reduced Long-term debt by $45.7 million.

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

Capital Resources

We finance our business activities primarily with cash generated from operations and borrowings, largely through our revolving credit agreement as discussed below. Our subsidiaries outside of the United States may also maintain working capital lines with local banks, but borrowings under such local facilities tend not to be significant.

As of September 30, 2010, we had a $390 million five-year revolving credit agreement (the new agreement) that was executed on July 16, 2010, which replaces the former $460 million five-year facility agreement made in 2006. During 2010, we made several principal pay-down payments totaling $82.1 million, of which $49.3 million was provided by the redemption of our company-held insurance policies and $32.8 provided by cash flows from operations. As of September 30, 2010, $236 million was outstanding under the new agreement. In addition, $49.8 million in letters of credit were outstanding under the new agreement. The applicable interest rate for borrowings under the agreement is LIBOR plus a spread (all-in), based on the Company s leverage ratio at the time of borrowing. Spreads under the new agreement are higher than under the old agreement, reflecting changes in market spreads. The all-in 9-month average interest rate was 1.90% in 2010 and 2.27% in 2009.

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%.

We also have a $150 million borrowing from the Prudential Insurance Company of America, for which the agreement was amended and restated July 16, 2010. The principal is due in three installments of $50 million each in 2013, 2015, and 2017, and the interest rate is fixed at 6.84%.

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 and to maintain a minimum interest coverage of 3.00 to 1.00 under the credit agreement and Prudential agreement.

As of September 30, 2010, our leverage ratio was 2.26 to 1.00 and our interest coverage ratio was 9.21 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. As of September 30, 2010, we were in compliance with the covenants of debt and credit agreements.

Our ability to borrow additional amounts under the credit agreement is conditional upon the absence of any defaults, as well as the absence of any material adverse change. Based on the maximum leverage ratio and our consolidated EBITDA (as defined in the new agreement), and without modification to any other credit agreements as of September 30, 2010, we would have been able to borrow an additional $104.2 million under our credit agreements.

If our earnings were to decline as a result of continued difficult market conditions or for other reasons, it may impact our ability to maintain compliance with these covenants. If we determined that our compliance with these covenants may be under pressure, we may elect to take a number of actions, including reducing expenses in order to increase earnings, using available cash to repay all or a portion of the outstanding debt subject to these covenants, or seeking to negotiate with lenders to modify the terms or to restructure the debt. Using available cash to repay indebtedness would make the cash unavailable for

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other uses and might affect the liquidity discussions and conclusions above. Entering into any modification or restructuring of our debt would likely result in additional fees or interest payments.

Prior to 2009, we had $180 million principal amount of 2.25% convertible notes that were issued in March 2006. 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), resulting in gains for the extinguishment of debt. In each case, we simultaneously entered into additional agreements to purchase the new notes.

Information pertinent to our note buy-back transactions is noted below:

(in thousands)

Month of agreement	Month of settlement	Par value	Book value	Aggregate cost	Pretax gain on extinguishment of debt
March 2009	March 2009	$7,074	$6,248	$3,360	$2,800
April 2009	April 2009	93,989	83,182	53,515	36,631
May 2009	July 2009	30,500	27,183	18,887	7,906
May 2009	October 2009	20,000	17,958	13,100	4,622
Total		$151,563	$134,571	$88,862	$51,959

The cash used to buy the new notes was provided by our credit agreement. Long-term debt was reduced by $45.7 million (book value less aggregate cost) as a result of these transactions. As of September 30, 2010, $28.4 million principal amount of convertible notes were outstanding, which reflects the reduction in principal amount as a result of the purchases made in March, April, July, and October 2009.

As of September 30, 2010, we drew letters of credit of $49.8 million from the credit agreement in respect of preliminary assessments for income tax contingencies. Income tax contingencies are more fully described in Note 8 of Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements required to be disclosed pursuant to Item 303(a)(4) of Regulation S-K.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) amended authoritative guidance related to accounting and disclosure of revenue recognition for multiple-element arrangements. This guidance provides principles for allocation of consideration among multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. This guidance introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This is effective on a prospective basis for revenue arrangements entered into or materially modified in the fiscal year beginning January 1, 2011, and early adoption is permitted. We are currently evaluating the impact of adopting this guidance.

In April 2010, the FASB issued guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate, with regard to research and development transactions. The guidance allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or

multiple deliverables or units of accounting. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. This is effective prospectively to milestones achieved in the fiscal year beginning January 1, 2011. We are currently evaluating the impact of adopting this guidance.

Outlook

Some of the forgoing paragraphs make reference to EBITDA, which is a non-GAAP measure (see **Non-GAAP Measures** below).

Q3 2010 was a strong quarter for our Company as sales held at Q2 2010 levels, despite summer seasonal effects, and were 4.8% ahead of Q3 2009. Excluding restructuring expense and currency revaluation effects, EBITDA in Q3 2010 was comparable to EBITDA in Q2 2010. Gross margin improved to 37.9%, the order-to-sales ratio strengthened, backlog grew, and each of our businesses made important progress on critical strategic issues during the quarter.

Volatility in currency markets has had a notable impact on results in each of the last two quarters. The sharp decline in the value of the euro during Q2 led to $6.7 million in currency revaluation gains. Those gains were completely reversed in Q3, when an even sharper rise in the value of the euro led to $7.6 million of currency revaluation losses. The comparable figure for Q3 2009 was $0.8 million in currency revaluation losses.

Q3 2010 was a principally strong quarter for our PMC segment achieving a gross margin of 43.5% and operating margin of 25.1%. As we discussed in our Q2 release, Q3 sales in PMC have historically been lower than Q2 because of summer slowdowns. But this year, sales held firm in Q3, while the order backlog, which historically has declined in Q3, grew to its highest point of the year. Meanwhile, pricing remained stable, another important contract negotiation, this one in Europe, was successfully concluded; our emphasis on reducing our customers total cost of ownership continued to gain traction in the market; and we are not scheduled to participate in a major contract negotiation until Q3 2012. As a result, we are less concerned about near-term price instability than we have been in quite some time.

Sales in our AEC business segment were 31.2% ahead of Q3 2009, and both the short- and long-term potential for growth remains promising. For the short term, we continue to see the potential to double sales from Q3 2009 levels by the end of 2011 or early 2012. Looking ahead further, AEC continues to focus on expanding its portfolio of growth opportunities, as evidenced by the recent announcement about the Boeing CLEEN program, and it announced last month that it has selected the site for a new plant, which is expected to employ up to 300 people at peak production in support of Safran s Leap-X engine. Public statements by Airbus officials continue to suggest a final decision regarding re-engining the A320 by the end of the year. Boeing, meanwhile, is reported to be weighing two options: re-engine the 737, or develop an entirely new single-aisle aircraft for entry into service by no later than 2020. Either option is beneficial to AEC. While development of a new single-aisle aircraft by Boeing (or Airbus, for that matter) would delay sales of any replacement engines until later in the decade, it would almost certainly extend the life of such engine programs well beyond the 2020s, and it would accelerate into this decade the opportunity to apply AEC s advanced composite technology to a number of potential applications on the airframe.

Profitability at AEC remained weak in Q3, due entirely to the Boerne operation. However, good progress was made toward turning Boerne toward breakeven, and we continue to expect AEC to generate positive EBITDA in 2011, and positive operating income in 2012.

Our Albany Door Systems business segment is recovering in line with improvements in the economy. Sales were 16.2% ahead of Q3 2009, while operating income increased to $2.5 million. The outlook for Q4, which is the seasonal high for this business, is promising, as the order backlog is 11.0% ahead of the Q3 2009 backlog. The PrimaLoft® Products segment continued its strong performance in Q3. This business hits its seasonal low in the second half of the year, during which it typically generates operating losses. But this quarter, on sales that were 66.4 ahead of Q3 2009, PrimaLoft generated $1.3 million of operating income. We expect the usual seasonal low in Q4 of this year, but the outlook is promising for another strong year in 2011, unless winter is unusually warm in North America and Europe.

Q3 2010 sales in our Engineered Fabrics business segment were lowered to Q3 2009 levels as a result of summer slowdowns, August was particularly weak, which were compounded by weakness in the U.S. housing market. However, sales and order trends suggest a normal seasonal rebound in Q4. And the business made good progress in the quarter in new product development and in laying the foundation for growth in Asia.

In summary, excluding currency effects, Q3 was a strong quarter for our Company. Sales and EBITDA were comparable to Q2 despite seasonal effects; order backlog is strong for this time of year and ahead of last year s levels; pricing in PMC remains stable and no new contract negotiations are pending for two years; and the outlook for AEC, both near and long term, for both sales and profitability, continues to be promising.

Non-GAAP Measures

This Form 10-Q contains certain items, such as earnings before interest, taxes, depreciation, and amortization (EBITDA), EBITDA excluding restructuring charges, costs associated with restructuring initiatives, sales excluding currency effects, and certain income and expense items on a per share basis, that could be considered non-GAAP financial measures. Such items are provided because we believe that, when presented together with the GAAP items to which they relate, they provide additional useful information to investors regarding our operational performance. Presenting increases or decreases in sales, after currency effects are excluded, can give us and investors insight into underlying sales trends. An understanding of the impact in a particular quarter of specific restructuring costs, or gains and losses such as our 2009 gain on extinguishment of debt, and EBITDA can give us and investors additional insight into quarterly performance, especially when compared to quarters in which such items had a greater or lesser effect, or no effect.

The effect of changes in currency translation rates is calculated by converting amounts reported in local currencies into U.S. dollars at the exchange rate of a prior period. That amount is then compared to the U.S. dollar amount reported in the current period. The Company calculates EBITDA by adding Interest expense net, Income taxes, Depreciation, and Amortization to Net income. The Company believes that EBITDA provides useful information to investors because it provides an indication of the strength and performance of the Company s ongoing business operations. While depreciation and amortization are operating costs under GAAP, they are non-cash expenses equal to current period allocation of costs associated with capital and other long-lived investments made in prior periods. While we will continue to make capital and other investments in the future, it is currently in the process of concluding a period of significant investment in plant, equipment, and software. Depreciation and amortization associated with these investments have a significant impact on the Company s net income. EBITDA is also a calculation commonly used by investors and analysts to evaluate and compare the periodic and future operating performance and value of companies. EBITDA, as defined by us, may not be

similar to EBITDA measures of other companies. EBITDA may not be considered a measurement under GAAP, and should be considered in addition to, but not as a substitute for, the information contained in our statements of operations.

The following table contains the calculation of EBITDA and EBITDA excluding restructuring charges:

	Three Months ended		
(in thousands)	September 30 2010	June 30 2010	September 30 2009
Net income/(loss)	$3,627	$7,877	$(5,093)
Interest expense, net	4,833	3,882	4,772
Income tax expense	3,732	15,102	920
Depreciation	13,204	13,309	15,819
Amortization	2,256	2,276	2,051
EBITDA	**27,652**	**42,446**	**18,469**
Restructuring and other, net	842	689	20,231
EBITDA excluding restructuring charges	**28,494**	**43,135**	**38,700**

We disclose certain income and expense items on a per share basis. We believe that such disclosures provide important insight of the underlying quarterly earnings and are financial performance metrics commonly used by investors. We calculate the per share amount for items included in continuing operations by using the effective tax rate utilized during the applicable reporting period and the weighted average number of shares outstanding for the period.

Quarter ended September 30, 2010

(in thousands, except per share amounts)	Pre-tax amounts	Tax Effect	After-tax Effect	Shares Outstanding	Per Share Effect
Restructuring and other, net	$842	$303	$539	31,118	$0.02
Foreign currency revaluation losses	7,644	2,752	4,892	31,118	0.16
Income tax adjustments		1,069	1,069	31,118	0.03

Quarter ended September 30, 2009

					Per

(in thousands, except per share amounts)	Pre-tax amounts	Tax Effect	After-tax Effect	Shares Outstanding	Share Effect
Restructuring and other, net	$20,231	$4,451	$15,780	30,808	$0.51
Gain on extinguishment of debt	(7,914)	(3,086)	(4,828)	30,808	(0.16)
Income tax adjustments		459	459	30,808	0.01

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

a) Disclosure controls and procedures.

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

(b) Changes in internal control over financial reporting.

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

(c) Management s consideration of control failures.

As reported in the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2010, the Company s principal executive officers and principal financial officer evaluated the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of such period (the Second-Quarter Control Review). That review included a review of controls within the Company s system of internal control over financial reporting that failed to detect the errors in restructuring expense related to restructuring activities, and the conversion from local GAAP to US GAAP in France. The nature of these errors, and the revisions made by the Company to its financial statements to correct the errors, were described in Note 2 to the financial statements filed under Item 1 of Part I of such report.

As part of the Second Quarter Control Review, the Company reviewed the specific controls that failed to detect the errors at the end of the fourth quarter of 2009. One failure was directly related to an actuarial calculation of a curtailment event for the pension plan in France. The other control failure related to the account reconciliation process for restructuring related accruals in France.

Such review concluded that the control failures were due to the operation of a control related to curtailment calculations in France, and the specific design of the reconciliation control at the Company s France location. Those deficiencies included the following: a) although the pension data was reviewed before being sent to the actuary, an output review of the Company-provided data used by the actuary was not performed, and b) while the reconciliation control was performed on accounts in France, it was performed only at the local GAAP level, and not the appropriate U.S. GAAP level. In order to rule out the existence of any additional errors in the U.S. GAAP results relating to this entity which, when combined with the known errors, could result in a material misstatement in the Company s financial statements, management reperformed the quarterly control; i.e., the appropriate reconciliation to the U.S.

GAAP accounts related to France, as of the end of the second quarter. As the result of this process, management was able to conclude that the only potential material error in the U.S. GAAP account balances for this entity related to the restructuring accrual. Management then specifically reviewed the U.S. GAAP restructuring accrual for accuracy, based on a review of payment schedules and comparison to the local general ledger. The review also included ensuring that all restructuring expense was appropriately captured, and the results of all this activity were then reviewed by corporate accounting staff.

As an additional measure, in order to ensure that a similar misunderstanding regarding the appropriate U.S. GAAP treatment of restructuring expenses did not exist elsewhere in the Company, the Company then reviewed each Company entity with restructuring activities during 2010. Each accrual was matched to a supporting schedule of payments, and agreed to the general ledger. The accruals were rechecked to ensure that all appropriate restructuring expenses were accurately captured, and the results of all such activity were then reviewed by corporate accounting staff. Management was able to conclude that no such misunderstanding existed at the other applicable locations, and that accruals for restructuring were accurately recorded and supported by appropriate detail.

As the result of a review of accruals for all restructuring activity as of the end of the second quarter, including the accruals in France, management was also able to conclude that there is no reasonable possibility that there were other failures of the control activities at issue.

As part of the Second Quarter Control Review, management was able to confirm that in each other instance where curtailment events occurred in 2009 and 2010, the control over pension curtailment adjustments operated effectively as designed.

Based on the foregoing reviews, such officers concluded that there was no material weakness in the Company s internal control over financial reporting as of the end of the second quarter, and also concluded that the Company s disclosure controls and procedures are effective for ensuring that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms. Such disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in filed or submitted reports is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

As reported in the second quarter report, with respect to the pension plan curtailment error, the Company initiated training activities with its actuaries, management and human resources personnel during the second quarter to ensure that all involved parties understand the nature of the affected pension plans, data that is required, and control procedures that need to be performed. The Company also established a set of reports to be provided by the actuary to enable management to perform a meaningful review of the output. With respect to the other restructuring expense error, the Company amended the reconciliation control so that it is performed on the U.S. GAAP accounts, not the local GAAP accounts. Additionally, the Company implemented controls over the conversion from local GAAP to U.S. GAAP in France, which is the only location where such conversion occurs. The Company also initiated steps to correct any misunderstanding of the proper application of these controls in France.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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 5,170 claims as of October 29, 2010. This compares with 7,343 such claims as of July 23, 2010, and 7,464 claims as of April 29, 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***	***3,963***	***188***	***5,170***	***159***

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 October 29, 2010, 779 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 779 MDL claims, 448 were originally filed in state courts in Mississippi.

With respect to claims remaining at the MDL, the court has begun 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 October 29, 2010, the remaining 4,391 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 October 29, 2010, we had resolved, by means of settlement or dismissal, 35,491 claims. The total cost of resolving all claims was $7.005 million. Of this amount, almost 100%, 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 7,870 claims as of October 29, 2010. This compares with 7,907 such claims as of July 23, 2010 and 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***	***47***	***9***	***7,869***	***0***

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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 October 29, 2010, Brandon has resolved, by means of settlement or dismissal, 9,717 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 October 29, 2010, 6,821 (or approximately 81%) 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.

Item 1A. Risk Factors.

There have been no material changes in risks since December 31, 2009. For discussion of risk factors, refer to Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

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

We made no share purchases during the third quarter of 2010. We remain authorized by the Board of Directors to purchase up to 2 million shares of our Class A Common Stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	**Description**
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)
99.1	Quantitative and qualitative disclosures about market risks as reported at December 31, 2009.

SIGNATURES

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

ALBANY INTERNATIONAL CORP.

(Registrant)

Date: November 4, 2010

By /s/ John B. Cozzolino

John B. Cozzolino
Vice President and Acting Chief Financial Officer (Principal Financial Officer)