ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
November 02, 2012

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, 2012

OR

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

For the transition period from __________ to __________

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	14-0462060 (IRS Employer Identification No.)
216 Airport Drive, Rochester, New Hampshire (Address of principal executive offices)	03867 (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 28.2 million shares of Class A Common Stock and 3.2 million shares of Class B Common Stock outstanding as of September 30, 2012.

ALBANY INTERNATIONAL CORP.

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

Three Months Ended September 30,			Nine Months Ended September 30,	
2012	2011		2012	2011
$194,589	$200,252	Net sales	$566,606	$589,887
114,938	122,190	Cost of goods sold	340,169	352,697
79,651	78,062	Gross profit	226,437	237,190
41,166	35,947	Selling, general, and administrative expenses	125,335	127,317
12,634	12,666	Technical, product engineering, and research expenses	39,019	41,105
2,739	2,691	Restructuring and other, net	6,149	4,456
-	-	Pension settlement expense	119,735	-
23,112	26,758	Operating income/(loss)	(63,801)	64,312
3,997	4,377	Interest expense, net	12,610	13,939
3,069	(9)	Other expense/(income), net	5,062	4,811
16,046	22,390	Income/(loss) before income taxes	(81,473)	45,562
6,965	7,897	Income tax expense/(benefit)	(32,650)	14,303
9,081	14,493	Income/(loss) from continuing operations	(48,823)	31,259
-	3,316	Income from operations of	4,776	16,307

		discontinued business		
(301)	-	(Loss)/gain on sale of discontinued business	92,376	-
(683)	1,135	Income tax (benefit)/expense on discontinued operations	25,570	5,397
382	2,181	Income from discontinued operations	71,582	10,910
$9,463	$16,674	Net income	$22,759	$42,169
		Earnings per share - Basic		
$0.29	$0.46	Income/(loss) from continuing operations	($1.56)	$1.00
0.01	0.07	Discontinued operations	2.29	0.35
$0.30	$0.53	Net income	$0.73	$1.35
		Earnings per share - Diluted		
$0.29	$0.46	Income/(loss) from continuing operations	($1.55)	$0.99
0.01	0.07	Discontinued operations	2.27	0.35
$0.30	$0.53	Net income	$0.72	$1.34
		Shares used in computing earnings per share:		
31,363	31,278	Basic	31,340	31,255
31,550	31,462	Diluted	31,550	31,476
$0.14	$0.13	Dividends per share	$0.41	$0.38

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

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

Three Months Ended September 30,			Nine Months Ended September 30,	
2012	2011		2012	2011
$9,463	$16,674	Net income	$22,759	$42,169
		Other comprehensive income/(loss), before tax:		
11,121	(48,693)	Foreign currency translation adjustments	3,899	(8,950)
-	-	Pension settlement	118,350	-
-		Pension plan remeasurement	(24,617)	-
		Amortization of pension liability adjustment		
22	22	Transition obligation	59	66
(595)	(908)	Prior service cost/(credit)	(2,412)	(2,723)
1,739	2,175	Net actuarial loss	6,186	6,525
(235)	(2,517)	Derivative valuation adjustment	(899)	(4,033)
		Income taxes related to items of other comprehensive (loss)/income:		
-	-	Pension settlement	(39,146)	-
-	-	Pension plan remeasurement	7,270	-
(361)	(400)	Amortization of pension liability adjustment	(1,188)	(1,199)
92	982	Derivative valuation adjustment	351	1,573
11,783	(49,339)	Other comprehensive income, net of tax	67,853	(8,741)
$21,246	($32,665)	Comprehensive income/(loss)	$90,612	$33,428

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

ALBANY INTERNATIONAL CORP.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$173,939	$118,909
Accounts receivable, net	170,825	147,511
Inventories	121,696	129,803
Income taxes receivable and deferred	19,918	30,010
Prepaid expenses and other current assets	9,583	13,349
Current assets of discontinued operations	-	67,351
Total current assets	495,961	506,933
Property, plant and equipment, net	422,356	438,953
Intangibles	904	1,079
Goodwill	75,066	75,469
Deferred taxes	110,777	134,644
Other assets	25,633	23,383
Noncurrent assets of discontinued operations	-	50,467
Total assets	$1,130,697	$1,230,928
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and loans payable	$276	$424
Accounts payable	27,232	32,708
Accrued liabilities	114,426	105,104
Current maturities of long-term debt	33,066	1,263
Income taxes payable and deferred	3,973	8,766
Current liabilities of discontinued operations	-	22,446
Total current liabilities	178,973	170,711
Long-term debt	289,129	373,125
Other noncurrent liabilities	110,360	185,596
Deferred taxes and other credits	56,060	71,529
Noncurrent liabilities of discontinued operations	-	14,117
Total liabilities	634,522	815,078
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 36,629,604 in 2012 and 36,540,842 in 2011	37	37

Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,236,098 in 2012 and 2011	3	3
Additional paid in capital	393,801	391,495
Retained earnings	431,954	422,044
Accumulated items of other comprehensive income:		
Translation adjustments	(16,944)	(19,111)
Pension and postretirement liability adjustments	(51,871)	(118,104)
Derivative valuation adjustment	(3,141)	(2,594)
Treasury stock (Class A), at cost 8,467,873 shares in 2012, and 8,479,487 shares in 2011	(257,664)	(257,920)
Total shareholders' equity	496,175	415,850
Total liabilities and shareholders' equity	$1,130,697	$1,230,928

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

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

Three Months Ended September 30, 2012	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
		OPERATING ACTIVITIES		
$9,463	$16,674	Net income	$22,759	$42,169
		Adjustments to reconcile net income to net cash provided by operating activities:		
13,953	14,407	Depreciation	42,638	42,933
1,593	2,261	Amortization	4,862	6,750
210	188	Noncash interest expense	824	565
1,478	(11,021)	Change in long-term liabilities, deferred taxes and other credits	(116,374)	(11,045)
-	40	Provision for write-off of property, plant and equipment	200	104
-	-	Write-off of pension liability adjustment due to settlement	118,350	-
301	-	(Gain) on disposition of assets	(92,376)	(1,022)
(26)	(18)	Excess tax benefit of options exercised	(37)	(53)
392	679	Compensation and benefits paid or payable in Class A Common Stock	1,795	1,969
		Changes in operating assets and liabilities, net of business acquisitions and divestitures:		
3,655	(17,091)	Accounts receivable	(6,870)	(10,186)
8,505	4,062	Inventories	8,376	(13,250)
746	281	Prepaid expenses and other current assets	(251)	(2,192)
(4,216)	(2,897)	Accounts payable	(4,241)	1,005
5,707	9,226	Accrued liabilities	13,071	5,136
1,768	5,738	Income taxes payable	(762)	10,597
(359)	(25)	Other, net	(2,242)	822
43,170	22,504	Net cash provided by/(used in) operating activities	(10,278)	74,302
		INVESTING ACTIVITIES		
(11,047)	(4,261)	Purchases of property, plant and equipment	(25,237)	(18,155)
(146)	(346)	Purchased software	(154)	(2,098)
-	-	Proceeds from sale of assets	-	2,860
-	-	Proceeds from sale of discontinued operations	150,654	-
(11,193)	(4,607)	Net cash (used in)/provided by investing activities	125,263	(17,393)
		FINANCING ACTIVITIES		
7,000	741	Proceeds from borrowings	45,164	1,385
(29,131)	(29,090)	Principal payments on debt	(98,354)	(37,087)
811	114	Proceeds from options exercised	1,079	415

26	18	Excess tax benefit of options exercised	37	53
(4,390)	(4,066)	Dividends paid	(12,528)	(11,560)
(25,684)	(32,283)	Net cash (used in) financing activities	(64,602)	(46,794)
3,054	(12,892)	Effect of exchange rate changes on cash and cash equivalents	4,647	(2,648)
9,347	(27,278)	Increase/(decrease) in cash and cash equivalents	55,030	7,467
-	(306)	Change in cash balances of discontinued operations	-	(1,282)
164,592	151,694	Cash and cash equivalents at beginning of period	118,909	117,925
$173,939	$124,110	Cash and cash equivalents at end of period	$173,939	$124,110

The accompanying notes are an integral part of the consolidated 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 (U.S. GAAP). 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. The December 31, 2011 financial position data included herein was derived from the audited consolidated financial statements included in the 2011 Form 10-K but does not include all disclosures required by U.S. GAAP. 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, 2011.

Effective with the first quarter of 2012, we merged our Paper Machine Clothing (PMC) and Engineered Fabrics (EF) business segments. The combined segment is called Machine Clothing (MC). The change was made to better align financial reporting with our organizational structure. In the fourth quarter of 2011, we announced the sale of our Albany Doors business (ADS) and, beginning with the fourth quarter of 2011, we presented the results of that business as a discontinued operation. Additionally, in the second quarter of 2012, the Company announced the sale of its PrimaLoft® Products business and, the Company is now presenting the results of that business as a discontinued operation. On July 20, 2012, the Company filed a Form 8-K and a Form 8-K/A with tables that illustrate the effects of these changes on previously-issued financial statements.

2. Discontinued Operations

In October, 2011 we entered into a contract to sell the assets and liabilities of our Albany Door Systems business to Assa Abloy AB for $130 million. Closing on the transaction occurred on January 11, 2012. Under the terms of the contract, Assa Abloy AB acquired our equity ownership of Albany Doors Systems GmbH in Germany, Albany Door Systems AB in Sweden, and other ADS affiliates in Germany, France, the Netherlands, Turkey, Poland, Belgium, New Zealand, and other countries, as well as the remaining ADS business assets, most of which are located in the United States, Australia, China, and Italy. In the second quarter of 2012, the purchaser completed certain legal registration activities in China, allowing the parties to complete the transfer of assets and liabilities of the ADS business in that country.

In the first quarter of 2012 the Company recorded a pre-tax gain of $58.0 million, including $17.4 million which was payable by the purchaser as of March 31, 2012. In the second quarter of 2012, we recorded adjustments to the sale transaction which had the effect of reducing the gain by $0.3 million. The initial purchase price of $130 million included $13 million to be paid in July 2013. We recorded the value of that consideration on a present value basis and, as of September 30, 2012, we have a receivable of $12.6 million included in Accounts receivable. Additionally, in March 2012, we agreed with the purchaser on certain post-closing adjustments and in April 2012, we received a payment of $5.0 million to reflect that agreement.

In May 2012, we announced an agreement to sell our PrimaLoft® Products business for $38.0 million and that transaction closed on June 29, 2012. The Company recorded a pre-tax gain of $35.0 million as result of that sale. The purchase price included $4.0 million which is held in escrow and is included in Accounts receivable as of September 30, 2012.

In the third quarter of 2012, the Company recorded various adjustments that reduced the gains on disposition by $0.3 million, and also adjusted the tax expense allocated to discontinued operations by $0.7 million.

In accordance with the applicable accounting guidance for discontinued businesses, the associated results of operations and financial position are reported separately in the accompanying Consolidated Statements of Income and Balance Sheets. Cash flows of the discontinued operation were combined with cash flows from continuing operations in the consolidated statements of cash flows.

The table below summarizes operating results of the discontinued operations:

(in thousands)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net sales	$ -	$49,760	$19,774	$155,990

Income from operations of discontinued business before tax	-	3,316	4,776	16,307
(Loss)/gain on disposition of discontinued operations	(301)	-	92,376	-
Income tax (benefit)/expense	(683)	1,135	25,570	5,397

The table below summarizes major categories of assets and liabilities for the discontinued businesses that are included in the accompanying balance sheets:

	Primaloft®	Albany Door Systems	Total
(in thousands)	December 31, 2011	December 31, 2011	December 31, 2011
Assets of Discontinued Operations:			
Cash	$ -	$ 13,545	$ 13,545
Accounts receivable, net of allowance for doubtful accounts	1,338	35,120	36,458
Inventories	3,846	12,661	16,507
Property, plant and equipment, net	563	6,344	6,907
Goodwill and intangibles	-	39,227	39,227
Other current and noncurrent assets	60	5,114	5,174
Total assets of discontinued operation	$ 5,807	$ 112,011	$ 117,818
Liabilities of Discontinued Operations:			
Accounts payable	$ 955	$ 8,300	$ 9,255
Accrued liabilities	545	10,883	11,428
Other current liabilities	-	1,763	1,763
Liabilities for defined benefit pension plans	-	9,513	9,513
Other noncurrent liabilities	52	4,552	4,604
Total liabilities of discontinued operation	$ 1,552	$ 35,011	$ 36,563

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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:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(in thousands)	2012	2011	2012	2011
Net Sales				
Machine Clothing	$177,471	$188,334	$518,881	$555,993
Engineered Composites	17,118	11,918	47,725	33,894
Consolidated total	$194,589	$200,252	$566,606	$589,887
Operating income				
Machine Clothing	$44,918	$48,867	$120,760	$136,847
Engineered Composites	(312)	(1,434)	(653)	(3,621)
Research expense	(6,734)	(6,400)	(20,052)	(20,777)
Unallocated expenses	(14,760)	(14,275)	(163,856)	(48,137)
Operating income/(loss) before reconciling items	23,112	26,758	(63,801)	64,312
Reconciling items:				
Interest expense, net	3,997	4,377	12,610	13,939
Other expense/(income), net	3,069	(9)	5,062	4,811
Income/(loss) from continuing operations before income taxes	$16,046	$22,390	($81,473)	$45,562

The table below presents pension settlement and restructuring costs by reportable segment for the three and nine month periods ended September 30, 2012 and 2011:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(in thousands)	2012	2011	2012	2011
Pension settlement				
Unallocated expenses	$ -	$ -	$ 119,735	$ -
Restructuring expense				
Machine Clothing	$2,739	$2,610	$6,315	$3,215
Engineered Composites	-	-	-	57
Unallocated expenses	-	81	(166)	1,184
Consolidated total	$2,739	$2,691	$6,149	$4,456

The 2012 restructuring expense was principally related to a reduction in workforce in Sweden and the previously announced curtailment of manufacturing in New York and Wisconsin. Those costs were partially offset by a reduction in accruals related to the relocation of the Company’s headquarters. The 2011 restructuring expense was principally due to the same integration and the substantial completion of the SAP conversion project.

Except for the merger of PMC and Engineered Fabrics into Machine Clothing, there were no material changes in the total assets of reportable segments for the nine months ended September 30, 2012.

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 also provide certain medical, dental and life insurance benefits ("Other Postretirement Benefits") for retired United States and Canadian 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, 2012 and 2011 are, as follows:

	Pension Plans		Other Postretirement Benefits	
(in thousands)	2012	2011	2012	2011
Service cost	$2,554	$2,547	$804	$684
Interest cost	9,824	15,102	2,766	2,864
Expected return on plan assets	(9,436)	(11,943)	-	-
Amortization:				
Transition obligation	59	66	-	-
Prior service cost/(credit)	339	27	(2,751)	(2,750)
Net actuarial loss	3,774	4,266	2,412	2,259
Settlement charge	119,735	-	-	-
Net periodic benefit costs	$126,849	$10,065	$3,231	$3,057

In the first quarter of 2012, the Company announced a plan to significantly reduce its pension plan liabilities by settling certain pension obligations, which led to settlement charges totaling $119.7 million for the first six months of 2012. In the first quarter of 2012, we recorded a settlement charge of $9.2 million related to the extinguishment of our pension plan liability in Sweden. In the second quarter of 2012, we recorded settlement charges totaling $110.5 million related to settling a majority of the defined benefit pension plan liabilities in the United States and Canada. As a result of settling these pension liabilities and making additional voluntary contributions, the combined unfunded pension liability declined from $101.2 million as of December 31, 2011 to $26.9 million at June 30, 2012, when the settlement actions were completed.

5. Restructuring

Restructuring expenses in 2012 were principally related to a reduction in workforce in Sweden and the previously announced curtailment of manufacturing in New York and Wisconsin. Those costs were partially offset by a reduction in accruals related to the relocation of the Company’s headquarters. The restructuring activities in Sweden are related to lower demand for paper machine clothing in Europe.

The following tables summarize charges reported in the Statement of Income under “Restructuring and other, net” for 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2012	2011	2012	2011
Machine Clothing	$2,739	$2,610	$6,315	$3,215
Engineered Composites	-	-	-	57
Unallocated expenses	-	81	(166)	1,184
Total	$2,739	$2,691	$6,149	$4,456

Nine months ended September 30, 2012 (in thousands)	Total restructuring costs incurred	Termination and other costs	Impairment of plant and equipment	Benefit plan charge
Machine Clothing	$6,315	$6,315	$ -	$ -
Engineered Composites	-	-	-	-
Unallocated expenses	(166)	380	(546)	-
Total	$6,149	$6,695	($546)	$ -

Nine months ended September 30, 2011 (in thousands)	Total restructuring costs incurred	Termination and other costs	Impairment of plant and equipment	Benefit plan charge
Machine Clothing	$3,215	$2,901	$89	$225
Engineered Composites	57	57	-	-
Unallocated expenses	1,184	1,184	-	-
Total	$4,456	$4,142	$89	$225

The tables below present year-to-date summaries of changes in restructuring liabilities for 2012 and 2011:

(in thousands)	Restructuring charges accrued December 31, 2011	New accruals	Payments	Currency translation/ other	Restructuring charges accrued September 30, 2012
Termination costs	$6,979	$6,579	($6,395)	$6	$7,169

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

	December 31, 2010				September 30, 2011
Termination costs	$2,809	3,962	($2,206)	$46	$4,611

We expect that substantially all accruals for restructuring liabilities as of September 30, 2012 will be paid within one year.

6. Other expense/(income), net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2012	2011	2012	2011
Currency transactions	$2,174	($814)	$2,873	$2,564
Bank fees and amortization of debt issuance costs	605	263	1,814	789
Letter of credit fees	191	361	961	1,633
Other, net	99	181	(586)	(175)
Total	$3,069	($9)	$5,062	$4,811

7. Income Taxes

The following table presents components of income tax expense/(benefit) for the three and nine month periods ended September 30, 2012 and 2011:

(in thousands)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Income tax expense/(benefit) based on income from continuing operations, at estimated tax rates of 35.4% in 2012 and 34.6% in 2011, respectively	$5,681	$7,753	$13,545	$15,778
Settlement of pension plan	-	-	(39,460)	-
Provision for change in estimated tax rates	1,968	241	-	-
Income tax from continuing operations before discrete items	7,649	7,994	(25,915)	15,778
Discrete tax expense(benefit):				
Provision for/resolution of tax audits and contingencies	454	-	(5,597)	(1,378)
Adjustments to prior period tax liabilities	(912)	21	(912)	21
Enacted legislation change	(226)	(118)	(226)	(118)
Total income tax (benefit)/expense from continuing operations	$6,965	$7,897	($32,650)	$14,303

The third quarter estimated effective tax rate on continuing operations was 35.4 percent in 2012, as compared to 34.6 percent for the same period in 2011. The increase in the rate was primarily due to a change in the distribution of income and loss among the various countries in which we operate.

We conduct business globally and, as a result, the Company or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. We are currently under audit in the U.S. and non-U.S. tax jurisdictions, including but not limited to Canada, Germany and France. Tax reserves are recorded for the outcome of these uncertainties in accordance with US GAAP.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may change within a range of a net increase of $0 million to a net decrease of $2.0 million, from the re-evaluation of certain uncertain tax positions arising in examinations, in appeals, or in the courts, or from the closure of tax statutes. Not included in the range is $22.4 million of tax benefits in Germany related to a 1999 reorganization that have been challenged by the German tax authorities in the course of an audit of tax years 2000-2003. In 2008 the German Federal Tax Court denied tax benefits to other taxpayers in a case involving German tax laws relevant to our reorganization. One of these cases involved a non-German party, and in the ruling in that case, the German Federal Tax Court acknowledged that the German law in question may be violative of European Union ("EU") principles and referred the issue to the European Court of Justice ("ECJ") for its determination on this issue. In September 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. Although we were required to pay approximately $12.9 million to the German tax authorities in order to continue to pursue the position, we believe that it is more likely than not that the relevant German law is violative of EU principles and accordingly we have not accrued tax expense on this matter. As we continue to monitor developments, it may become necessary for us to accrue tax expense and related interest.

The Company is in the process of evaluating its tax-planning strategies to determine if an action could be taken to reduce or eliminate its valuation allowances on certain deferred tax assets. It is reasonably possible that over the next twelve months that these actions could result in recognition of a discrete tax benefit in the range of $9 to $14 million.

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8. Earnings Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except market price data)	2012	2011	2012	2011
Net income available to common shareholders	$9,463	$16,674	$22,759	$42,169
Weighted average number of shares:				
Weighted average number of shares used in calculating basic net income per share	31,363	31,278	31,340	31,255
Effect of dilutive stock-based compensation plans:				
Stock options	35	75	58	112
Long-term incentive plan	152	109	152	109
Weighted average number of shares used in calculating diluted net income per share	31,550	31,462	31,550	31,476
Effect of stock-based compensation plans that were not included in the computation of diluted earnings per share because to do so would have been antidilutive	-	-	-	-
Average market price of common stock used for calculation of dilutive shares	$19.92	$22.24	$21.46	$23.78
Net income per share:				
Basic	$0.30	$0.53	$0.73	$1.35
Diluted	$0.30	$0.53	$0.72	$1.34

As of September 30, 2012 and 2011, there was no dilution resulting from the convertible debt instrument, purchased call option, and warrant that are described in Note 11.

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, 2011	36,540,842	3,236,098	(8,479,487)	31,297,453
June 30, 2012	36,589,304	3,236,098	(8,467,873)	31,357,529
September 30, 2012	36,629,604	3,236,098	(8,467,873)	31,397,829

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9. Inventories

Inventories consist of the following:

(in thousands)	September 30, 2012	December 31, 2011
Finished goods	$52,436	$61,540
Work in process	43,810	39,552
Raw material and supplies	25,450	28,711
Total inventories	$121,696	$129,803

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.

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10. 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 utilize two market-based approaches and an income approach. Under the market-based approaches, we utilize information regarding the Company as well as publicly available industry information to determine earnings multiples and sales multiples. Under the income approach, we determine 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.

The entire balance of goodwill on our books is attributable to the Machine Clothing business. In the second quarter of 2012 the Company applied the qualitative assessment approach (See Recent Accounting Pronouncements footnote) in performing its annual evaluation of goodwill and concluded that no impairment provision was required. In addition, there were no amounts at risk due to the large spread between the fair and carrying values.

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, 2012 to September 30, 2012, were as follows:

(in thousands)	Balance at December 31, 2011	Amortization	Currency Translation	Balance at September 30, 2012
Amortized intangible assets:				
AEC trade names	$43	($4)	$ -	$39
AEC customer contracts	808	(152)	-	656
AEC technology	228	(19)	-	209
Total amortized intangible assets	$1,079	($175)	$ -	$904
Unamortized intangible assets:				
Goodwill, Machine Clothing reporting unit	$75,469	$ -	($403)	$75,066

Estimated amortization expense of amortized intangible assets for the years ending December 31, 2012 through 2016 is as follows:

Year	Annual Amortization (in thousands)
2012	$231

2013	231
2014	231
2015	231
2016	29

11. Financial Instruments

Long-term debt consists of:

(in thousands, except interest rates)	September 30, 2012	December 31, 2011
Convertible notes, par value $28,437, issued in March 2006 with fixed contractual interest rates of 2.25%, due in 2026	$28,052	$27,228
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 3.95% in 2012 and 3.61% in 2011, due in 2015	134,000	187,000
Various notes and mortgages relative to operations principally outside the United States, at an average end of period rate of 3.05% in 2012 and 3.05% 2011, due in varying amounts through 2021	10,143	10,160
Long-term debt	322,195	374,388
Less: current portion	(33,066)	(1,263)
Long-term debt, net of current portion	$289,129	$373,125

A note agreement and guaranty ("the Prudential agreement") was entered into in 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, 2012, the fair value of the note agreement was approximately $174.6 million. This was measured using active market interest rates which qualifies the Prudential notes as a level 2 instrument in the hierarchy for inputs used in measuring fair value.

On July 16, 2010, we entered into a $390 million unsecured five-year revolving credit facility agreement, under which $134 million of borrowings are outstanding as of September 30, 2012. The 2010 credit agreement replaces the previous $460 million credit agreement made in 2006. The applicable interest rate for borrowings under the 2010 agreement, as well as under the former agreement, is LIBOR plus a spread, based on our leverage ratio at the time of borrowing.

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 our maximum leverage ratio and our consolidated EBITDA (as defined in the credit agreement), and without modification to any other credit agreements, as of September 30, 2012 we would have been able to borrow an additional $256 million under the credit 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 2010 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, 2012 was 0.46%. 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, the applicable spread was 225 basis points, yielding an effective annual rate of 4.29%. This interest rate swap is accounted for as a hedge of future cash flows, as further described in Note 12 of the Notes to Consolidated Financial Statements.

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

As of September 30, 2012, our leverage ratio was 1.06 to 1.00 and our interest coverage ratio was 13.56 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.

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 23.2078 shares per $1,000 principal amount of notes (equivalent to a conversion price of $43.09 per share of Class A common stock). As of September 30, 2012, $28.4 million principal amount of convertible notes were outstanding, with a fair value of approximately $28.3 million. This was measured using quoted prices in active markets, which qualifies the convertible notes as a level 2 instrument in the hierarchy for inputs used in measuring fair value. These amounts reflect the reduction in principal amount and fair value as a result of purchases made in 2009.

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 23.2078 shares per $1,000 principal amount of notes (equivalent to a conversion price of $43.09 per share of Class A common stock). The exact amount payable upon conversion would be determined in accordance with the terms of the indenture pursuant to which the notes were issued and will be based on a daily conversion value calculated on a proportionate basis by reference to the volume-weighted average price of our Class A common stock for each day during a twenty-five day period relating to the conversion.

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

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

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

Pursuant to the hedge transactions, if we deliver notice to the counterparties of any conversion of the notes on or prior to March 15, 2013, the counterparties are in the aggregate obligated to deliver to the Company the number of shares of Class A common stock that we are obligated to deliver to the holders of the notes with respect to such conversion, exclusive of any shares deliverable by the Company by reason of any additional (or “make whole”) premium relating to the notes or by reason of any election by the Company to unilaterally increase the conversion rate. The note hedge and warrant transactions had a net cost of $14.7 million. Pursuant to the warrant transactions, we sold a total of 4.1 million warrants, each exercisable to buy a single share of Class A common stock at an initial strike price of $52.25 per share. The warrants are American-style warrants (exercisable at any time), and expire over a period of sixty trading days beginning on September 15, 2013. If the warrants are exercised when they expire, we may choose either net cash or net share settlement. If the warrants are exercised before they expire, they must be net share settled. If we elect to net cash settle the warrants, we will pay cash in an amount equal to, for each exercise of warrants, (i) the number of warrants exercised multiplied by (ii) the excess of the volume weighted average price of the our Class A common stock on the expiration date of such warrants (the “settlement price”) over the strike price. Under net share settlement, we will deliver to the warrant holders a number of shares of our Class A common stock equal to, for each exercise of warrants, the amount payable upon net cash settlement divided by the settlement price.

As of September 30, 2012, the carrying amounts of the debt and equity components of our bifurcated convertible debt instrument were $28.1 million and $25.5 million, respectively. The equity component is included in additional paid-in capital in the equity section of the balance sheet.

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 Sheets 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 $43.09 per share in the case of the Senior Notes and $49.20 per share in the case of the warrants. The purchased call option is antidilutive and is excluded from the diluted earnings per share calculation.

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

We were in compliance with all debt covenants as of September 30, 2012.

12. Fair Value Measurements

Fair value is defined 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	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
Fair Value at September 30, 2012			
Assets:			
Cash equivalents	$41,656	$41,656	$ -
Common stock of foreign public company	591	591	-
Foreign exchange contracts	123	-	123
Liabilities:			
Interest rate swap	(5,150)	-	(5,150)
Fair Value at December 31, 2011			
Assets:			
Cash equivalents	$30,287	$30,287	$ -
Common stock of foreign public company	577	577	-
Foreign exchange contracts	1	-	1
Liabilities:			
Interest rate swap	(4,251)	-	(4,251)

During the nine months ended September 30, 2012, 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 in the Shareholders' Equity section of the Consolidated Balance Sheets rather than in the Consolidated Statements of Income. When the security is sold or impaired, gains and losses are reported on the Consolidated Statements of Income. 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 and forward contracts that are valued using quoted prices in active markets obtained from independent pricing sources. These instruments are measured using market foreign exchange prices and are recorded in the Consolidated Balance Sheets as Other current assets and Accounts payable, as applicable. Changes in fair value of these instruments are recorded as gains or losses within Other expense/(income), net. Gains for the nine months ended September 30, 2012 and 2011 were $0.0 million and $0.6 million.

When exercised, the foreign currency instruments are net settled with the same financial institution that bought or sold them. 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, General, Technical, Product Engineering, and Research expenses or Other expense/income, 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, 2012.

As described in Note 11 of the Notes to Consolidated Financial Statements, 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 outstanding borrowings 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, 2012 as Other noncurrent liabilities of $5.1 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. Interest expense related to the swap totaled $1.2 million and $1.4 million for the nine months ended September 30, 2012 and 2011, respectively.

Fair value amounts of derivative instruments were as follows:

(in thousands)	Balance sheet caption	September 30, 2012	December 31, 2011
Asset Derivatives			
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Other assets	$123	$1
Total asset derivatives not designated as hedging instruments		$123	$1
Total asset derivatives		$123	$1
Liability Derivatives			
Derivatives designated as hedging instruments:			
Interest rate swap	Other noncurrent liabilities	($5,150)	($4,251)
Total liability derivatives designated as hedging instruments		($5,150)	($4,251)
Total liability derivatives		($5,150)	($4,251)
Total derivatives		($5,027)	($4,250)

Gains/(losses) on changes in fair value of derivative instruments were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
(in thousands)	2012	2011	2012	2011
Derivatives designated as hedging instruments				
Interest rate swap [1]	$144	($1,535)	$548	($2,460)
Derivatives not designated as hedging instruments				
Foreign exchange options [2]	(71)	(469)	47	(211)
Foreign exchange contracts [2]	0	(382)	0	(382)

1 Unrealized losses are recognized in Other comprehensive income, net of tax. This derivative was an effective hedge of interest rate cash flow risk for the nine months ended September 30, 2012.

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

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13. Contingencies

Asbestos Litigation

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 4,443 claims as of October 17, 2012.

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	8,945	3,963	188	5,170	159
2011	5,170	789	65	4,446	1,111
2012 to date	4,446	73	70	4,443	530

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.

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 pending or future claims.

While we believe we have meritorious defenses to these claims, we have settled certain claims 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 17, 2012, we had resolved, by means of settlement or dismissal, 36,353 claims. The total cost of resolving all claims was $8,646,000. Of this amount, almost 100% was paid by our insurance carrier. The Company has over $125 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"), 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 7,873 claims as of October 17, 2012.

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	1,182	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	7,907	47	9	7,869	0
2011	7,869	3	11	7,877	0
2012 to date	7,877	6	2	7,873	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. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. 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. As of October 17, 2012, Brandon has resolved, by means of settlement or dismissal, 9,727 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.

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.

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.

Although 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.

NAFTA Audits

The Company's affiliate in Mexico was notified in November 2010 that Mexican customs authorities expected to issue demands for duties on certain imports of PMC from the Company and the Company's affiliate in Canada for which the Company has claimed duty-free treatment under the North American Free Trade Agreement ("NAFTA").

The notices result from a decision by the Mexican Servicio de Administración Tributaria ("SAT") to invalidate NAFTA certificates provided by the Company on products shipped to its Mexican affiliate during the years 2006 through 2008. The Demand Notices arose from an SAT audit during 2010, at the conclusion of which the SAT determined that the Company had failed to provide documentation sufficient to show that the certificates were validly issued, and declared the certificates issued during this period to be invalid. The Company believes that the certificates of origin were valid and properly issued and therefore commenced administrative appeals with SAT disputing its resolutions.

In December 2011, while these appeals were pending, SAT revoked its earlier declarations of invalidation with respect to the certificates of origin at issue in 28 of the 36 open audits, and ordered a further review of such certificates. To date, the Company has been informed by SAT that it has completed its review of 19 of the 28 audits, concluded that the certificates of origin in 19 of those 28 audits were valid, and that the shipments identified in those 19 audits entitled to NAFTA's duty-free treatment. SAT is continuing to review the certificates of origin in the remaining 9 open audits where the original declaration was revoked. SAT is also still considering the Company's appeal with regard to the 8 open audits where the original declaration invalidating the certificates of origin have not yet been revoked.

Based on discussions with SAT, the Company currently expects that it will be given an opportunity to present evidence to SAT officials to establish the origin for NAFTA purposes of all of the shipments covered by the above-described audits still under review, and that it will be able to establish that a very high percentage of the shipments at issue were entitled to NAFTA treatment. For the small percentage of shipments for which the Company may not be able to establish qualification for duty-free treatment under NAFTA, the Company may be required to pay duties and penalties. The Company currently does not expect any such amounts to be material. The Company also does not believe that it faces any material risk of certificates being invalidated with respect to any period other than the 2006 through 2008 audit period. For this reason, the Company does not feel that this matter is likely to have a material adverse effect on the Company's financial position, results of operations and cash flows.

14. 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, 2011	$37	$3	$391,495	$422,044	($139,809)	($257,920)	$415,850
Net income	-	-	-	22,759	-	-	22,759
Dividends declared	-	-	-	(12,849)	-	-	(12,849)
Compensation and benefits paid or payable in Class A Common Stock	-	-	1,190	-	-	256	1,446
Options exercised	-	-	1,116	-	-	-	1,116
Cumulative translation adjustment	-	-	-	-	3,899	-	3,899
Pension settlement	-	-	-	-	79,204	-	79,204
Pension plan remeasurement	-	-	-	-	(17,347)	-	(17,347)
Change in pension liability adjustment	-	-	-	-	2,645	-	2,645
Change in derivative valuation adjustment	-	-	-	-	(548)	-	(548)
September 30, 2012	$37	$3	$393,801	$431,954	($71,956)	($257,664)	$496,175

15. Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) amended authoritative guidance related to common fair value measurements and disclosure requirements. This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. This pronouncement changes certain fair value measurement principles and enhances the disclosure requirements, particularly for level 3 fair value measurements, and is effective for reporting periods beginning on or after December 15, 2011. This pronouncement was adopted effective January 1, 2012 and did not have a material effect on our financial statements.

In June and December 2011, the FASB issued guidance that eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This guidance was adopted effective January 1, 2012 and concerns presentation and disclosure only and did not have a material impact on our financial statements.

In September 2011, the FASB issued guidance intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. This pronouncement is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance did not have a material effect on our financial statements.

Forward-looking statements

This quarterly report and the documents incorporated or deemed to be incorporated by reference in this quarterly report contain statements concerning our future results and performance and other matters that are “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will,” “ and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward-looking statements are subject to certain risks and uncertainties (including, without limitation, those set forth in the Company’s most recent Annual Report on Form 10-K or prior Quarterly Reports on Form 10-Q) that could cause actual results to differ materially from the Company’s historical experience and our present expectations or projections.

Forward-looking statements in this quarterly report include, without limitation, statements about future economic and paper industry conditions; sales, EBITDA, Adjusted EBITDA and operating income expectations in future periods in each of the Company’s businesses and for the Company as a whole, the timing and impact of certain production and development programs in the Company’s AEC business segment; 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 revaluation gains and losses, and the Company’s ability to reduce costs. Furthermore, a change in any one or more of the foregoing factors could have a material effect on the Company’s financial results in any period. Such statements are based on current expectations, and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Statements expressing management’s assessments of the growth potential of its businesses, or referring to earlier assessments of such potential, are not intended as forecasts of actual future growth, and should not be relied on as such. While management believes such assessments to have a reasonable basis, such assessments are, by their nature, inherently uncertain. This quarterly report and earlier reports set forth a number of assumptions regarding these assessments, including historical results, independent forecasts regarding the markets in which these businesses operate, and the timing and magnitude of orders for our customers’ products. Historical growth rates are no guarantee of future growth, and such independent forecasts and assumptions could prove materially incorrect, in some cases.

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 of 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 our 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. In addition, the results of operations below reflect a previously reported segment reclassification, as described in Note 1 to our Consolidated Financial Statements.

Overview

Our reportable segments: Machine Clothing (MC) and Albany Engineered Composites (AEC) draw on the same advanced textiles and materials processing capabilities, and compete on the basis of proprietary, product-based advantage that is grounded in those core capabilities. As a result, technology and manufacturing advances in one tend to benefit the other.

MC is the Company's long-established core business and primary generator of cash. While the paper industry in our traditional geographic markets has suffered from well-documented overcapacity in the publication grades, especially newsprint, the industry is still expected to grow on a global basis, driven by demand for packaging and tissue grades, as well as the expansion of paper consumption and production in Asia and South America. Although we no longer consider the MC industry as having significant growth potential, our MC business has significant prospects for long-term cash-generation. We feel we are now well-positioned in this industry, with high-quality, low-cost production in growth markets, substantially lower fixed costs in mature markets, and continued strength in new product development and field services. We seek to maintain the cash-generating potential of this business by maintaining the low costs that we achieved through restructuring and performance improvement, and competing vigorously by using our differentiated products and services to reduce our customers' total cost of operation and improve their paper quality.

We believe that AEC provides the greatest growth potential, both near and long term, for our Company. Our strategy is to grow organically by focusing our proprietary technology on high-value aerospace and defense applications that cannot be served effectively by conventional composites. AEC supplies a number of customers in the aerospace industry. AEC's most significant aerospace customer is the SAFRAN Group, for whom we make braces for the Boeing 787-8 main landing gear, outer guide vanes for the CFM-56 engine, and fan blades and other components for the LEAP engine. AEC is also developing other new and potentially significant composite products for aerospace (engine and airframe) applications.

Consolidated Results of Operations

Net sales

The following table summarizes our net sales by business segment:

(in thousands)	Three months ended September 30, 2012	2011	% Change	Nine months ended September 30, 2012	2011	% Change
Machine Clothing	$177,471	$188,334	-5.8%	$518,881	$555,993	-6.7%
Engineered Composites	17,118	11,918	43.6%	47,725	33,894	40.8%
Total	$194,589	$200,252	-2.8%	$566,606	$589,887	-3.9%

Three month comparison

- Changes in currency translation rates had the effect of decreasing net sales by $5.4 million during 2012.
- Excluding the effect of changes in currency translation rates, 2012 net sales decreased 0.1%.
- A transition to new contract terms with a major customer in North America, accelerating the transfer of inventory ownership to that customer, increased Q3 2012 net sales by $8 million, and will have a smaller positive residual impact on sales over the next two quarters.
- For Machine Clothing, sales in the Americas and Asia held firm in Q3 2012, while as expected, sales in Europe continued to deteriorate.
- AEC continued its string of strong quarters principally due to improved revenues from existing programs, including Landing Braces, LEAP-X, and Joint Strike Fighter advanced composite materials. The development program for the fan module of the LEAP engine remains on schedule.

Nine month comparison

- Changes in currency translation rates had the effect of decreasing net sales by $13.2 million during 2012.
- Excluding the effect of changes in currency translation rates, 2012 net sales decreased 1.7%.
- For Machine Clothing, an especially weak Q1 led to lower nine-month performance.
- Continued progress in managing the growth opportunities in LEAP and other programs led to a year-to-date sales increase of 40.8% at AEC.

Gross Profit

The following table summarizes gross profit by business segment:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2012	2011	2012	2011
Machine Clothing	$79,195	$79,338	$225,440	$240,828
Engineered Composites	1,515	(300)	4,218	(164)
Unallocated expenses	(1,059)	(976)	(3,221)	(3,474)
Total	$79,651	$78,062	$226,437	$237,190
% of Net Sales	40.9%	39.0%	40.0%	40.2%

Three month comparison

The increase in gross profit during 2012 was principally due to the net effect of the following:

- Gross profit margins in MC increased from 42.1 percent in 2011 to 44.6 percent in 2012, driven by high plant utilization in the Americas and favorable geographical sales mix.
- Higher sales in AEC and improved pricing in certain programs.

Nine month comparison

The decrease in gross profit during 2012 was principally due to lower net sales and plant utilization in MC during Q1. Q1 2011 gross profit was increased by unusually high production levels due to inventory restocking in MC.

Selling, Technical, General, and Research (STG&R)

The following table summarizes STG&R by business segment:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2012	2011	2012	2011
Machine Clothing	$31,539	$27,861	$98,365	$100,766
Engineered Composites	1,827	1,134	4,871	3,400
Research	6,734	6,400	20,052	20,777
Unallocated expenses	13,700	13,218	41,066	43,479
Total	$53,800	$48,613	$164,354	$168,422
% of Net Sales	27.6%	24.3%	29.0%	28.6%

Three month comparison

STG&R expenses were higher than 2011, principally due to the net effect of the following:

- Revaluation of nonfunctional-currency assets and liabilities resulted in a loss of $1.4 million in Q3 2012 as compared to a gain of $5.8 million in Q3 2011.
- Changes in currency translation rates decreased 2012 expense by $2.4 million

Nine month comparison

STG&R expenses were lower than 2011, principally due to the net effect of the following:

- Revaluation of nonfunctional-currency assets and liabilities resulted in a loss of $0.5 million for 2012 and gain of $1.8 million for 2011.
- Machine Clothing expenses in 2011 were reduced by a $1.0 million gain on the sale of a building.
- Changes in currency translation rates decreased 2012 expense by $6.4 million.

Operating Income/(loss)

The following table summarizes operating (loss)/income by business segment:

	Three months ended		Nine months ended	
	September 30,		September 30,	
(in thousands)	2012	2011	2012	2011
Machine Clothing	$44,918	$48,867	$120,760	$136,847
Engineered Composites	(312)	(1,434)	(653)	(3,621)
Research expense	(6,734)	(6,400)	(20,052)	(20,777)
Unallocated expenses - pension settlements	-	-	(119,735)	-
Unallocated expenses - other	(14,760)	(14,275)	(44,121)	(48,137)
Total	$23,112	$26,758	($63,801)	$64,312

Three month comparison

In addition to the items discussed above affecting gross profit, STG&R and operating income, $2.7 million of restructuring charges were incurred in the third quarter of each year (see table below).

Nine month comparison

In addition to the items discussed above affecting gross profit, STG&R and operating loss in 2012 was increased by the following:

- Pension settlement charges of $119.7 million in 2012 for US, Canada, and Sweden.
- 2012 results included restructuring charges of $6.1 million as compared to $4.5 for 2011.

Restructuring Expense

The following table summarizes restructuring expense by business segment:

	Three months ended		Nine months ended	
	September 30,		September 30,	
(in thousands)	2012	2011	2012	2011
Machine Clothing	$2,739	$2,610	$6,315	$3,215
Engineered Composites	-	-	-	57
Unallocated expenses	-	81	(166)	1,184

Total	$2,739	$2,691	$6,149	$4,456

Restructuring charges in Q3 2012 were principally associated with restructuring actions in Sweden which are expected to contribute to lower costs starting in the fourth quarter of 2012. The restructuring activities are related to lower demand for paper machine clothing in Europe.

Restructuring charges in Q3 2011 were principally due to organizational changes associated with the substantial completion of the SAP conversion project.

Other Earnings Items

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2012	2011	2012	2011
Interest expense, net	$3,997	$4,377	$12,610	$13,939
Other expense/(income), net	3,069	(9)	5,062	4,811
Income tax (benefit)/expense	6,965	7,897	(32,650)	14,303
Income from discontinued operations	382	2,181	71,582	10,910
Net income	$9,463	$16,674	$22,759	$42,169

Interest Expense, net

The decrease in interest expense, net is principally the result of lower levels of outstanding debt. The average balance outstanding under the revolving credit agreement during the nine-month periods of 2012 and 2011 was $151.2 million and $225.3 million, respectively. The weighted average interest rate was 3.75% during Q3 2012, compared to a rate of 3.58% during Q3 2011. See the Capital Resources section below for further discussion of borrowings and interest rates.

Other Expense/ (Income), net

Three month comparison

Other expense/(income), net, included the following:

- Revaluation of non-functional-currency intercompany balances resulted in losses of $2.2 million in Q3 2012 and a gain of $0.8 million in 2011.

Nine month comparison

Other expense/(income), net, included the following:

- Revaluation of non-functional-currency intercompany balances resulted in losses of $2.9 million in 2012 and $2.6 million in 2011.

Income Tax (Benefit)/Expense

Three month comparison

Income tax expense of $7.0 million was recognized in 2012 as compared to tax expense of $7.9 million in 2011, principally due to the net effect of the following:

- The Company's effective income tax rate from continuing operations, exclusive of the pension settlement charge, effect of change in estimated tax rate and discrete tax items, was 35.4 percent for the third quarter of 2012 and 34.6 percent for the third quarter of 2011.
- The increase in the effective income tax rate was primarily due to a change in the distribution of income and loss amongst the various countries within which the Company operates.
- Changes in the estimated income tax rate and discrete tax adjustments recorded in the third quarter each year increased income taxes by $1.3 million in 2012 and $0.1 million in 2011.

Nine month comparison

Year to date Income tax benefit includes favorable discrete tax adjustments of $6.7 million in 2012 and $1.5 million in 2011. Additionally, 2012 includes an income tax benefit of $39.5 million related to pension settlement charges. The Company's effective income tax rate, exclusive of the pension settlement charge and discrete items, was 35.4 percent in 2012 and 34.6 percent in 2011.

Income from Discontinued Operations

In the first quarter of 2012, the Company completed the sale of its Albany Door Systems business and, in the second quarter, the Company completed the sale of its PrimaLoft® Products business. In the third quarter, we recorded adjustments that decreased by $0.3 million the gain on sale of those businesses. For the nine months ended September 30, 2012, we recorded a pre-tax gain of $92.4 million for the sale of those businesses.

Outlook

In Machine Clothing, we anticipate a sharp slowdown at the end of this year across all of our markets, followed by a very slow start to next year. Additionally, we expect continued weakness in 2013 in European Machine Clothing and intense price competition. For AEC, the development program for the fan module of the LEAP engine remains on schedule, with important milestones scheduled for 2013.

Segment Results of Operations

Machine Clothing Segment

Business Environment and Trends

Machine Clothing (MC) is our primary business segment and accounted for 92% of our consolidated revenues during 2012. MC is comprised of two main product areas, paper machine clothing and engineered fabrics (EF). Paper machine clothing (PMC) is purchased primarily by manufacturers of paper and paperboard. EF manufactures products similar to PMC, but for customers in industries other than paper. The largest portion of revenue in this segment is derived from sales to the nonwovens industry, which includes the manufacture of diapers, personal care and household wipes. Other markets that are served by this segment are businesses adjacent to the paper industry, and manufacturers of tannery, textile and building products.

According to RISI, Inc., global production of paper and paperboard is expected to grow at an annual rate of 2-4% over the next five years, driven primarily by secular demand increases in the Asia and South America, with stabilization in the mature markets of Europe and North America.

Shifting demand for paper, across different paper grades as well as across geographical regions, continues to drive the elimination of papermaking capacity in areas with significant established capacity, primarily in the mature markets of Europe and North America. At the same time, the newest, most efficient machines are being installed in areas of growing demand, including Asia and South America generally, as well as tissue and towel paper grades in all regions. Recent technological advances in PMC, while contributing to the papermaking efficiency of customers, have lengthened the useful life of many of our products and had an adverse impact on overall PMC demand. These factors help to explain why PMC revenue growth grows at a lesser rate than growth in paper production.

The Company’s manufacturing and product platforms position us well to meet these shifting demands across product grades and geographic regions. Our strategy for meeting these challenges continues to be to grow share in all markets, with new products and technology, and to maintain our manufacturing footprint to align with global demand, while we offset the effects of inflation through continuous productivity improvement.

We have incurred significant restructuring charges in recent periods as we reduced PMC manufacturing capacity in the United States, Canada, Germany, Finland, France, Sweden, and Australia. We have also incurred costs for idle capacity and equipment relocation that were related to the shutdown of these plants, and underutilized costs related to our PMC plant in China. Expenses related to these items were included in “Cost of Goods Sold” in the periods in which they were incurred. In addition, we incurred restructuring charges related to the centralization of administrative functions in Europe, and reorganization of our research and development function that has improved our ability to bring value-added products to market faster.

Review of Operations

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2012	2011	2012	2011
Net sales	$177,471	$188,334	$518,881	$555,993
Gross profit	79,195	79,338	225,440	240,828
% of net sales	44.6%	42.1%	43.4%	43.3%

Operating income	44,918	48,867	120,760	136,847

Net Sales

Three month comparison

- Changes in currency translation rates had the effect of decreasing net sales by $5.4 million during 2012.
- Excluding the effect of changes in currency translation rates, 2012 net sales decreased 2.9%.
- A transition to new contract terms with a major customer in North America, accelerating the transfer of inventory ownership to that customer, increased Q3 2012 net sales by $8 million, and will have a smaller positive residual impact on sales over the next two quarters.
- Americas and Asia sales held firm in Q3 2012, while as expected, sales in Europe continued to deteriorate. Compared to Q3 2011, sales in Europe declined 18%.

Nine month comparison

- Changes in currency translation rates had the effect of decreasing net sales by $13.2 million during 2012.
- Excluding the effect of changes in currency translation rates, 2012 net sales decreased 4.3%.
- A transition to new contract terms with a major customer in North America, accelerating the transfer of inventory ownership to that customer, increased Q3 2012 net sales by $8 million, and will have a smaller positive residual impact on sales over the next two quarters.
- An especially weak Q1 led to lower nine-month performance.

Gross Profit

Three month comparison

The increase in gross profit percentage during 2012 was primarily due to high plant utilization in the Americas and favorable geographic sales mix.

Nine month comparison

Gross profit percentage was slightly higher in 2012 was principally due to the net effect of the following:

· Higher plant utilization during Q2 and Q3 2012.

· Q1 2011 gross profit was increased by unusually high production levels due to inventory restocking in MC.

Operating Income

Three month comparison

In addition to the items discussed above affecting gross profit and operating income, $2.7 million of restructuring charges were incurred in the third quarter of each year. Revaluation of nonfunctional currency assets and liabilities resulted in a loss of $1.4 million in Q3 2012 as compared to a gain of $5.8 million in Q3 2011.

Nine month comparison

In addition to the items discussed above affecting gross profit and STG&R, operating income in 2012 was decreased by the following:

- $15.4 million decrease due to lower gross profit principally due to lower sales.
- Revaluation of non-functional currency balances resulted in a loss of $0.4 million in 2012 and gains of $1.8 million in 2011.
- Q3 2012 included restructuring charges of $6.3 million as compared to $3.2 for 2011.

Outlook

For the immediate future, we expect the quarterly volatility that we have experienced since the 2009 recession to continue. We anticipate a sharp slowdown at the end of this year across all of our markets, followed by a very slow start to next year, just as we experienced in Q4 2011 and Q1 2012. Given the greater economic uncertainty, the slowdown at the end of this year has the potential to be more severe than last year. For 2013, we expect continued weakness in demand in Europe and given the structural conditions there, a near certainty of price deterioration.

Engineered Composites Segment

Business Environment and Trends

AEC provides custom-designed advanced composite structures based on proprietary technology to customers in the aerospace and defense industries. AEC's largest current development program relates to the LEAP engine being developed by CFM International. Under this program, AEC is developing a family of composite parts, including fan blades, to be incorporated into the LEAP engine. In 2011, approximately 25% of this segment's sales were related to U.S. government contracts or programs.

Review of Operations

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2012	2011	2012	2011
Net sales	$17,118	$11,918	$47,725	$33,894
Gross profit	1,515	(300)	4,218	(164)
% of net sales	8.8%	-2.5%	8.8%	-0.5%
Operating (loss)/income	(312)	(1,434)	(653)	(3,621)

Net Sales

Three month comparison

- The 44% increase in 2012 net sales was principally due to improved revenues from existing programs, including Landing Braces, LEAP-X and Joint Strike Fighter advanced composite materials.

Nine month comparison

The 41% increase in 2012 net sales was principally due to improved revenues from existing programs, including LEAP-X and Joint Strike Fighter advanced composite materials.

Gross Profit

Three and six month comparisons

The increase in 2012 gross profit was principally due to higher sales and improved pricing in some of the legacy programs.

Operating (Loss)/Income

Three and nine month comparison

The decrease in 2012 operating loss was principally due to the higher net sales and improved gross margins.

Outlook

The development program for the fan module of the LEAP engine remains on schedule; the most important near-term milestones are production of parts for CFM’s first LEAP engine test (currently scheduled for Q3 2013) and construction of Plant 1 (scheduled for completion mid-2013).

Our longer term R&D activities continue to expand, including a growing array of joint R&D activities with Safran directed at both low- and high-temperature applications: activities aimed at airframe applications; and an exploration of applications in the automotive industry. Construction of AEC’s new 45,000-square-foot advanced composites R&D Center will be completed in Q4 of this year. Boeing’s ground test of the ceramic composite engine nozzle, delayed by availability of the test engine, is also scheduled for late in Q4.

Liquidity and Capital Resources

Cash Flow Summary

	Nine months ended September 30,	
(in thousands)	2012	2011
Net income	$22,759	$42,169
Depreciation and amortization	47,500	49,683
Changes in working capital	7,081	(8,068)
Gain on disposition of assets	(92,376)	(1,022)
Changes in long-term liabilities, deferred taxes and other credits	(116,374)	(11,045)
Write-off of pension liability adjustment	118,350	-
Other operating items	2,782	2,585
Net cash (used in)/provided by operating activities	(10,278)	74,302
Net cash provided by/(used in) investing activities	125,263	(17,393)
Net cash (used in)/provided by financing activities	(64,602)	(46,794)
Effect of exchange rate changes on cash and cash equivalents	4,647	(2,648)
Increase in cash and cash equivalents	55,030	7,467
Change in cash balances of discontinued operations	-	(1,282)
Cash and cash equivalents at beginning of year	118,909	117,925
Cash and cash equivalents at end of period	173,939	124,110

Below is our discussion of cash flow activities comparing the nine months ending September 30, 2012 to the same period of 2011:

Operating activities

The decrease in cash provided by operating activities in 2012 was principally due to contributions to pension plans, which is included in Changes in long-term liabilities, deferred taxes and other credits in the above table. As part of the Company's previously disclosed plan to fund and, in some areas, settle part of our pension liabilities in the U.S., Canada, and Sweden, $30 million of cash was used to settle the Swedish pension liabilities in Q1, we contributed $30 million in Q1 and $20 million in Q2 to the U.S. pension plan, and subsequently settled two-thirds of our U.S. pension obligations, and $18 million was contributed in Q2 to the plan in Canada to fully fund the plan and settle about half of the plan obligation. As a result of the funding and settlement activities, the global unfunded pension liability decreased from $101.2 million at December 31, 2011 to $26.9 million at June 30, 2012, when the settlement actions were completed. With the completion of this plan, approximately $215 million of pension plan obligations were settled, and pension expense has been reduced by $7-8 million per year.

Changes in working capital include changes in inventories and accounts receivable. Inventories decreased $8.4 million in 2012, but increased $13.3 million in 2011. Accounts receivable increased $6.9 million in 2012, but decreased $10.2 million in 2011.

Depreciation and amortization expense totaled $47.5 million in 2012 and $49.7 million in 2011. For the full year 2012, we expect our depreciation and amortization to total $63.0 million.

As previously disclosed, the Company reached a settlement in Q1 with the Canadian Revenue Agency (CRA) related to reassessment notices for tax years 2001 to 2008. Letters of credit of $50 million in the aggregate, required by the CRA during this process, were released by the CRA in Q2. Year to date Income tax expense includes favorable discrete tax adjustments of $6.7 million in 2012 and $1.5 million in 2011. Additionally, 2012 includes an income tax benefit of $39.5 million related to pension settlement charges.

The Company’s effective income tax rate, exclusive of discrete items, was 35.4 percent in 2012 and 34.6 percent in 2011. Including the utilization of net operating loss carry-forwards and other deferred tax assets, cash paid for income taxes during the first three quarters of 2012 was $13.7 million, and is expected to be approximately $15 million in for the full year.

Investing Activities

Capital expenditures, including purchased software, were $25.4 million during the first nine months of 2012 and $20.3 million for the same period of 2011. We estimate capital spending for the full year of 2012 to be approximately $35 - $40 million.

During Q2 2012, the Company completed the sale of PrimaLoft® Products. Of the $38 million sale price, $34 million was received in June, with the remainder, subject to any post-closing adjustments, expected to be received in December 2013. During Q1 2012, the Company completed the sale of Albany Door Systems. At June 30, $122 million of the $135 million sale price had been received, with the remainder expected to be received in July 2013. We sold one U.S. manufacturing property during the first quarter of 2011 for $1.7 million in cash proceeds.

Financing Activities

Cash dividends paid were $12.5 million during the first nine months of 2012 and $11.6 million during the first nine months of 2011. Dividends have been declared each quarter since the fourth quarter of 2001. Decisions with respect to whether a dividend will be paid, as well as the amount of the dividend, if applicable, 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 flows. Future cash dividends will depend on debt covenants and on the Board's assessment of our ability to generate sufficient cash flows.

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. Substantially all of our cash balance at September 30, 2012 was held non-U.S. subsidiaries.

We have a $390 million five-year revolving credit agreement that was executed during 2010. During 2012 we paid down outstanding debt under this agreement of $53 million, leaving $134 million outstanding as of September 30, 2012. These debt payments were made possible by our ability to repatriate cash from non-U.S. accounts in a tax efficient manner.

The applicable interest rate for borrowings under the agreement is LIBOR plus a spread (all-in), based on our leverage ratio at the time of borrowing. Spreads under the 2010 agreement are higher than under the old agreement, reflecting changes in market spreads. As of September 30 the all-in interest rate was 3.67% in 2012 and 3.95% in 2011.

In connection with our 2010 credit agreement, we entered into interest rate swap agreements that have the effect of fixing the LIBOR portion of the effective interest rate (before addition of the spread) on $105.0 million of the indebtedness drawn under the credit agreement at the rate of 2.04% until these swap agreements expire on July 16, 2015. Under the terms of hedging 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. On September 30, 2012, the applicable spread was 225 basis points, yielding an effective annual rate of 4.29%.

We have a $150.0 million borrowing from the Prudential Insurance Company of America, for which the agreement was amended and restated during 2010. The principal is due in three installments of $50.0 million each in 2013, 2015, and 2017, and the interest rate is fixed at 6.84%.

We also have $28.4 million principal amount of 2.25% convertible notes outstanding that were issued March 2006. The notes are convertible upon the occurrence of specified events, as described in Note 11 of Notes to Consolidated

Financial Statements.

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

As of September 30, 2012, our leverage ratio was 1.06 to 1.00 and our interest coverage ratio was 13.56 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. As of September 30, 2012, we were in compliance with the covenants of our 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, 2012, we would have been able to borrow an additional $256 million under our credit agreements.

Off-Balance Sheet Arrangements

As of September 30, 2012, 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 May 2011, the Financial Accounting Standards Board (FASB) amended authoritative guidance related to common fair value measurements and disclosure requirements. This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. This pronouncement changes certain fair value measurement principles and enhances the disclosure requirements, particularly for level 3 fair value measurements, and is effective for reporting periods beginning on or after December 15, 2011. This pronouncement was adopted effective January 1, 2012 and did not have a material effect on our financial statements.

In June and December 2011, the FASB issued guidance that eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This guidance was adopted effective January 1, 2012 and concerns presentation and disclosure only and did not have a material impact on our financial statements.

In September 2011, the FASB issued guidance intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a "qualitative" assessment to determine whether further impairment testing is necessary. This pronouncement is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance did not have a material effect on our financial statements.

Non-GAAP Measures

This Form 10-Q contains certain items, such as earnings before interest, taxes, depreciation, and amortization (EBITDA), EBITDA from continuing operations, Adjusted EBITDA, pension settlement charges, sales excluding currency effects, effective income tax rate exclusive of income tax adjustments, net debt, and certain income and expense items on a per share basis, that could be considered non-GAAP financial measures. Such items are provided because management believes that, when presented together with the GAAP items to which they relate, they provide additional useful information to investors regarding the Company's operational performance. Presenting increases or decreases in sales, after currency effects are excluded, can give management and investors insight into underlying sales trends. An understanding of the impact in a particular quarter of specific restructuring costs, or other gains and losses, on operating income or EBITDA can give management 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 Income tax adjustments by adding discrete tax items to the effect of a change in tax rate for the reporting period. The Company calculates its effective Income tax rate, exclusive of Income tax adjustments, by removing Income tax adjustments from total Income tax expense, then dividing that result by Income before tax. The Company calculates EBITDA by adding Interest expense net, Income taxes and Depreciation and Amortization to Net income. Adjusted EBITDA is calculated by adding to EBITDA, costs associated with restructuring and pension settlement charges and then adding or subtracting revaluation losses or gains and subtracting building share gains. The Company believes that EBITDA and Adjusted EBITDA provide useful information to investors because they provide an indication of the strength and performance of the Company's ongoing business operations, including its ability to fund discretionary spending such as capital expenditures and strategic investments, as well as its ability to incur and service debt. While depreciation and amortization are operating costs under GAAP, they are noncash expenses equal to current period allocation of costs associated with capital and other long-lived investments made in prior periods. While restructuring expenses, foreign currency revaluation losses or gains, pension settlement charges, and building sale gains have an impact on the Company's net income, removing them from EBITDA can provide, in the opinion of the Company, a better measure of operating performance. 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 the Company, may not be similar to EBITDA measures of other companies. Such EBITDA measures may not be considered measurements under GAAP, and should be considered in addition to, but not as a substitute for, the information contained in the Company's statements of income.

The following tables contain the calculation of EBITDA from continuing operations and Adjusted EBITDA from continuing operations:

	Three Months ended September 30, 2012				Nine Months ended September 30, 2012			
(in thousands)	Machine Clothing	AEC	Research and Unallocated	Total Company	Machine Clothing	AEC	Research and Unallocated	Total Company
	$ 44,918	$(312)	$ (35,525)	$ 9,081	$ 120,760	$ (653)	$ (168,930)	$ (48,823)

Income from continuing operations								
Interest expense, net	-	-	3,997	3,997	-	-	12,610	12,610
Income tax (benefit)/expense	-	-	6,965	6,965	-	-	(32,650)	(32,650)
Depreciation and amortization	11,469	1,471	2,606	15,546	35,267	4,325	7,741	47,333
EBITDA from continuing operations	56,387	1,159	(21,957)	35,589	156,027	3,672	(181,229)	(21,530)
Restructuring and other, net	2,739	-	-	2,739	6,315	-	(166)	6,149
Foreign currency revaluation losses/(gains)	1,401	3	2,176	3,580	446	3	2,884	3,333
Pension plan settlement charges	-	-	-	-	-	-	119,735	119,735
Adjusted EBITDA from continuing operations	$ 60,527	$1,162	$ (19,781)	$ 41,908	$ 162,788	$3,675	$ (58,776)	$ 107,687

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(in thousands)	Three Months ended September 30, 2011 Machine Clothing	AEC	Research and Unallocated	Total Company	Nine Months ended September 30, 2011 Machine Clothing	AEC	Research and Unallocated	Total Company
Income from continuing operations	$ 48,867	$ (1,434)	$ (32,940)	$ 14,493	$ 136,847	$(3,621)	$ (101,967)	$ 31,259
Interest expense, net	-	-	4,377	4,377	-	-	13,939	13,939
Income tax (benefit)	-	-	7,897	7,897	-	-	14,303	14,303
Depreciation and amortization	12,049	1,241	2,642	15,932	36,220	3,640	7,670	47,530
EBITDA from continuing operations	60,916	(193)	(18,024)	42,699	173,067	19	(66,055)	107,031
Restructuring and other, net	2,610	-	81	2,691	3,215	57	1,184	4,456
Foreign currency revaluation losses/(gains)	(5,775)	-	(814)	(6,589)	(1,825)	2	2,567	744
Gain on sale of building	-	-	-	-	(1,008)	-	-	(1,008)
Adjusted EBITDA from continuing operations	$ 57,751	$ (193)	$ (18,757)	$ 38,801	$ 173,449	$ 78	$ (62,304)	$ 111,223

The Company discloses certain income and expense items on a per share basis. The Company believes that such disclosures provide important insight into underlying quarterly earnings and are financial performance metrics commonly used by investors. The Company calculates 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.

(in thousands, except per share amounts)	Three Months ended September 30, 2012 Pre-tax amounts	Tax effect	After-tax effect	Shares outstanding	Per share effect
Restructuring and other, net from continuing operations	$ 2,739	$ 970	$ 1,769	31,363	$ 0.06
Foreign currency revaluation losses from continuing operations	3,580	1,267	2,313	31,363	$ 0.07
Negative effect of change in income tax rate	-	1,968	1,968	31,363	$ 0.06
Discrete income tax benefit from continuing operations	-	684	684	31,363	$ 0.02

(in thousands, except per share amounts)	Nine Months ended September 30, 2012 Pre-tax amounts	Tax effect	After-tax effect	Shares outstanding	Per share effect
Restructuring and other, net from continuing operations	$ 6,149	$ 2,177	$ 3,972	31,340	$ 0.13
Foreign currency revaluation losses from continuing operations	3,333	1,180	2,153	31,340	$ 0.07
Pension settlement charge	119,735	39,460	80,275	31,340	$ 2.56

Discrete income tax benefit from continuing operations	-	6,735	6,735	31,340	$ 0.21

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(in thousands, except per share amounts)	Three Months ended September 30, 2011 Pre-tax amounts	Tax effect	After-tax effect	Shares outstanding	Per share effect
Restructuring and other, net from continuing operations	$ 2,691	$ 931	$ 1,760	31,278	$ 0.06
Foreign currency revaluation gains from continuing operations	6,589	2,280	4,309	31,278	$ 0.14
Negative effect of change in tax rate	-	241	241	31,278	$ 0.01
Discrete tax benefit from continuing operations	-	97	97	31,278	$ -

(in thousands, except per share amounts)	Nine Months ended September 30, 2011 Pre-tax amounts	Tax effect	After-tax effect	Shares outstanding	Per share effect
Restructuring and other, net from continuing operations	$ 4,456	$ 1,542	$ 2,914	31,255	$ 0.09
Foreign currency revaluation losses from continuing operations	744	257	487	31,255	$ 0.02
Gain on sale of former manufacturing building	1,008	349	659	31,255	$ 0.02
Discrete tax benefit from continuing operations	-	1,475	1,475	31,255	$ 0.05

The Company defines net debt as total debt minus cash. Management views net debt, a non-GAAP financial measure, as a measure of the Company's ability to reduce debt, add to cash balances, pay dividends, repurchase stock, and fund investing and financing activities. A reconciliation of total debt to net debt as of September 30, 2012, June 30, 2012 and December 31, 2011, is shown below:

The following table contains the calculation of net debt:

(in thousands)	September 30, 2012	June 30, 2012	December 31, 2011
Notes and loans payable	$ 276	$ 357	$ 424
Current maturities of long-term debt	33,066	30,355	1,263
Long-term debt	289,129	313,632	373,125
Total debt	322,471	344,344	374,812
Cash	173,939	164,592	118,909
Net debt	$ 148,532	$ 179,752	$ 255,903

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.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Asbestos Litigation

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 4,443 claims as of October 17, 2012.

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	8,945	3,963	188	5,170	159
2011	5,170	789	65	4,446	1,111
2012 to date	4,446	73	70	4,443	530

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.

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 pending or future claims.

While we believe we have meritorious defenses to these claims, we have settled certain claims 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 17, 2012, we had resolved, by means of settlement or dismissal, 36,353 claims. The total cost of resolving all claims was $8,646,000. Of this amount, almost 100% was paid by our insurance carrier. The Company has over $125 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”), 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 7,873 claims as of October 17, 2012.

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	1,182	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	7,907	47	9	7,869	0
2011	7,869	3	11	7,877	0
2012 to date	7,877	6	2	7,873	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. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. 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. As of October 17, 2012, Brandon has resolved, by means of settlement or dismissal, 9,727 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.

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.

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.

Although 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.

NAFTA Audits

The Company's affiliate in Mexico was notified in November 2010 that Mexican customs authorities expected to issue demands for duties on certain imports of PMC from the Company and the Company's affiliate in Canada for which the Company has claimed duty-free treatment under the North American Free Trade Agreement ("NAFTA").

The notices result from a decision by the Mexican Servicio de Administración Tributaria ("SAT") to invalidate NAFTA certificates provided by the Company on products shipped to its Mexican affiliate during the years 2006 through 2008. The Demand Notices arose from an SAT audit during 2010, at the conclusion of which the SAT determined that the Company had failed to provide documentation sufficient to show that the certificates were validly issued, and declared the certificates issued during this period to be invalid. The Company believes that the certificates of origin were valid and properly issued and therefore commenced administrative appeals with SAT disputing its resolutions.

In December 2011, while these appeals were pending, SAT revoked its earlier declarations of invalidation with respect to the certificates of origin at issue in 28 of the 36 open audits, and ordered a further review of such certificates. To date, the Company has been informed by SAT that it has completed its review of 19 of the 28 audits, concluded that the certificates of origin in 19 of those 28 audits were valid, and that the shipments identified in those 19 audits entitled to NAFTA's duty-free treatment. SAT is continuing to review the certificates of origin in the remaining 9 open audits where the original declaration was revoked. SAT is also still considering the Company's appeal with regard to the 8 open audits where the original declaration invalidating the certificates of origin have not yet been revoked.

Based on discussions with SAT, the Company currently expects that it will be given an opportunity to present evidence to SAT officials to establish the origin for NAFTA purposes of all of the shipments covered by the above-described audits still under review, and that it will be able to establish that a very high percentage of the shipments at issue were entitled to NAFTA treatment. For the small percentage of shipments for which the Company may not be able to establish qualification for duty-free treatment under NAFTA, the Company may be required to pay duties and penalties. The Company currently does not expect any such amounts to be material. The Company also does not believe that it faces any material risk of certificates being invalidated with respect to any period other than the 2006 through 2008 audit period. For this reason, the Company does not feel that this matter is likely to have a material adverse effect on the Company's financial position, results of operations and cash flows.

Item 1A. Risk Factors .

There have been no material changes in risks since December 31, 2011. For discussion of risk factors, refer to Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

We made no share purchases during the second quarter of 2012. 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. Mine Safety Disclosures

Not Applicable.

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, 2011.
101	The following financial information from the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in eXtensible Business Reporting Language (XBRL), filed herewith:

(i) Consolidated Balance Sheets at September 30, 2012 and December 31, 2011,

(ii) Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011,

(iii) Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2012 and 2011.

(iv) Notes to Consolidated Financial Statements
As provided in Rule 406T of Regulation S-T, this information shall not be deemed “filed” for purposes of Sections 11 and 12 of the Securities Act and Section 18 of the Securities Exchange Act or otherwise subject to liability under those sections.

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 2, 2012

By /s/ John B. Cozzolino
John B. Cozzolino
Chief Financial Officer and Treasurer
(Principal Financial Officer)

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