ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
November 01, 2016
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, 2016

OR

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

For the transition period from __________ to __________

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	14-0462060
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
216 Airport Drive, Rochester, New Hampshire	03867
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 518-445-2200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [√] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [√] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer [√] Accelerated filer [ ]
Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [√]

The registrant had 28.9 million shares of Class A Common Stock and 3.2 million shares of Class B Common Stock outstanding as of October 24, 2016.

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ALBANY INTERNATIONAL CORP.

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ITEM 1. FINANCIAL STATEMENTS

ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$191,272	$178,789	$566,793	$532,402
Cost of goods sold	118,852	103,045	343,557	325,382
Gross profit	72,420	75,744	223,236	207,020
Selling, general, and administrative expenses	38,042	35,509	120,997	110,674
Technical, product engineering, and research expenses	9,232	10,675	29,640	33,387
Restructuring expenses, net	326	3,717	7,653	13,929
Operating income	24,820	25,843	64,946	49,030
Interest expense, net	3,681	2,671	9,610	8,049
Other (income)/expense, net	242	1,249	(2,103)	784
Income before income taxes	20,897	21,923	57,439	40,197
Income tax expense	7,488	12,243	20,613	20,398
Net income	13,409	9,680	36,826	19,799
Net (loss)/income attributable to the noncontrolling interest	340	22	(111)	100
Net income attributable to the Company	$13,069	$9,658	$36,937	$19,699
Earnings per share attributable to Company shareholders - Basic	$0.41	$0.30	$1.15	$0.62
Earnings per share attributable to Company shareholders - Diluted	$0.41	$0.30	$1.15	$0.62
Shares of the Company used in computing earnings per share:				
Basic	32,104	32,012	32,079	31,965
Diluted	32,141	32,055	32,118	32,028
Dividends per share, Class A and Class B	$0.17	$0.17	$0.51	$0.50

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

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	$13,409	$9,680	$36,826	$19,799
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	36	(17,683)	2,651	(42,581)
Pension/postretirement plan remeasurement	-	-	(170)	-
Amortization of pension liability adjustments:				
Prior service credit	(1,113)	(1,110)	(3,338)	(3,330)
Net actuarial loss	1,296	1,462	3,870	4,428
Payments related to derivatives included in earnings	1,100	587	1,686	1,540
Derivative valuation adjustment	497	(2,672)	(6,936)	(3,892)
Income taxes related to items of other comprehensive income/(loss):				
Pension/postretirement plan remeasurement	-	-	65	-
Amortization of pension liability adjustment	(55)	(123)	(160)	(384)
Payments related to derivatives included in earnings	(418)	(229)	(641)	(601)
Derivative valuation adjustment	(189)	1,042	2,636	1,518
Comprehensive income/(loss)	14,563	(9,046)	36,489	(23,503)
Comprehensive (loss)/income attributable to the noncontrolling interest	340	22	(112)	101
Comprehensive income/(loss) attributable to the Company	$14,223	($9,068)	$36,601	($23,604)

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

ALBANY INTERNATIONAL CORP.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$196,170	$185,113
Accounts receivable, net	170,739	146,383
Inventories	138,688	106,406
Income taxes prepaid and receivable	1,303	2,927
Asset held for sale	5,179	4,988
Prepaid expenses and other current assets	10,078	6,243
Total current assets	522,157	452,060
Property, plant and equipment, net	441,608	357,470
Intangibles, net	57,044	154
Goodwill	134,724	66,373
Income taxes receivable and deferred	78,689	108,945
Other assets	31,400	24,560
Total assets	$1,265,622	$1,009,562
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and loans payable	$343	$587
Accounts payable	36,653	26,753
Accrued liabilities	96,483	91,785
Current maturities of long-term debt	1,462	16
Income taxes payable	12,176	7,090
Total current liabilities	147,117	126,231
Long-term debt	490,003	265,080
Other noncurrent liabilities	98,123	101,544
Deferred taxes and other liabilities	5,256	14,154
Total liabilities	740,499	507,009
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 37,315,016 in 2016 and 37,238,913 in 2015	37	37
Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,235,048 in 2016 and 2015	3	3

Additional paid in capital	425,315	423,108
Retained earnings	512,517	491,950
Accumulated items of other comprehensive income:		
Translation adjustments	(106,439)	(108,655)
Pension and postretirement liability adjustments	(48,023)	(48,725)
Derivative valuation adjustment	(4,719)	(1,464)
Treasury stock (Class A), at cost 8,443,902 shares in 2016 and 8,455,293 shares in 2015	(257,146)	(257,391)
Total Company shareholders' equity	521,545	498,863
Noncontrolling interest	3,578	3,690
Total equity	525,123	502,553
Total liabilities and shareholders' equity	$1,265,622	$1,009,562

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

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
OPERATING ACTIVITIES				
Net income	$13,409	$9,680	$36,826	$19,799
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	16,470	12,953	44,736	39,850
Amortization	1,975	1,790	6,488	5,431
Change in other noncurrent liabilities	(275)	(188)	(6,282)	(1,732)
Change in deferred taxes and other liabilities	(1,712)	7,322	(640)	2,669
Provision for write-off of property, plant and equipment	333	(156)	1,409	259
Gain on disposition of assets	-	-	-	(1,056)
Excess tax benefit of options exercised	(11)	-	(116)	(603)
Compensation and benefits paid or payable in Class A Common Stock	350	290	1,882	1,285
Fair value adjustment on available-for-sale assets	-	3,225	-	3,225
Changes in operating assets and liabilities that provide/(use) cash, net of impact of business acquisition:				
Accounts receivable	4,794	5,100	(6,492)	(4,387)
Inventories	(5,511)	(3,626)	(12,886)	(10,757)
Prepaid expenses and other current assets	(481)	133	(3,302)	(857)
Income taxes prepaid and receivable	(100)	(518)	1,737	(592)
Accounts payable	(4,443)	(3,126)	(1,544)	(4,467)
Accrued liabilities	4,418	3,381	(3,736)	861
Income taxes payable	4,932	3,910	3,999	3,987
Other, net	(4,974)	1,723	(10,252)	6,330
Net cash provided by operating activities	29,174	41,893	51,827	59,245
INVESTING ACTIVITIES				
Purchase of business, net of cash acquired	-	-	(187,000)	-
Purchases of property, plant and equipment	(21,924)	(9,023)	(50,029)	(39,689)
Purchased software	(591)	(252)	(1,262)	(589)
Proceeds from sale or involuntary conversion of assets	4,686	-	6,422	2,797
Net cash used in investing activities	(17,829)	(9,275)	(231,869)	(37,481)
FINANCING ACTIVITIES				
Proceeds from borrowings	13,265	5,198	232,795	44,818
Principal payments on debt	(871)	(37,354)	(23,695)	(47,100)
Debt acquisition costs	-	(41)	(1,771)	(1,671)
Swap termination payment	-	-	(5,175)	-
Proceeds from options exercised	64	75	454	1,799

Excess tax benefit of options exercised	11	-	116	603
Dividends paid	(5,457)	(5,441)	(16,354)	(15,646)
Net cash provided by/(used in) financing activities	7,012	(37,563)	186,370	(17,197)
Effect of exchange rate changes on cash and cash equivalents	1,788	(5,749)	4,729	(12,589)
Increase/(decrease) in cash and cash equivalents	20,145	(10,694)	11,057	(8,022)
Cash and cash equivalents at beginning of period	176,025	182,474	185,113	179,802
Cash and cash equivalents at end of period	$196,170	$171,780	$196,170	$171,780

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

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ALBANY INTERNATIONAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Significant Accounting Policies

Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments and elimination of intercompany transactions necessary for a fair presentation of results for such periods. Albany International Corp. ("Albany") consolidates the financial results of its subsidiaries for all periods presented. The results for any interim period are not necessarily indicative of results for the full year.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in Albany International Corp.'s Consolidated Financial Statements and accompanying Notes. Actual results could differ materially from those estimates.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operation," "Quantitative and Qualitative Disclosures about Market Risk" and the Consolidated Financial Statements and Notes thereto included in Items 1A, 3, 7, 7A and 8, respectively, of the Albany International Corp. Annual Report on Form 10-K for the year ended December 31, 2015.

Except as described herein, there has been no material change to the accounting policies applied to our consolidated results and footnote disclosures. In accordance with the accounting guidance for business combinations, we use the acquisition method of accounting to allocate costs of acquired businesses to the assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. The excess costs of acquired businesses over the fair values of the assets acquired and liabilities assumed are recognized as goodwill. The valuations of acquired assets and liabilities will impact the determination of future operating results. In addition to using management estimates and negotiated amounts, we use a variety of information sources to determine the estimated fair values of the assets and liabilities, including third-party appraisals for the estimated value and lives of identifiable intangible assets and property and equipment. The business and technical judgment of management is used in determining the useful lives of finite-lived intangible assets in accordance with the accounting guidance for goodwill and intangible assets.

***2.* Business Acquisition**

On April 8, 2016, the Company acquired the outstanding shares of Harris Corporation's composite aerostructures business for cash of $187 million, plus the assumption of certain liabilities. The Company funded the cash payable at closing by utilizing proceeds from a $550 million, unsecured credit facility agreement that was completed April 8, 2016 (see Note 14). The acquired entity has been renamed Albany Aerostructures Composites LLC ("AAC"), and is part of the Albany Engineered Composites ("AEC") segment.

The following table summarizes the provisional allocation of the purchase price of AAC to the fair value of the assets and liabilities acquired:

(in thousands)	April 8, 2016
Assets acquired	
Accounts receivable	**$15,688**
Inventories	**17,715**
Prepaid expenses and other current assets	**402**
Property, plant and equipment	**81,701**
Intangibles	**59,360**
Goodwill	**67,034**
Total assets acquired	**$241,900**
Liabilities assumed	
Accounts payable	**$8,745**
Accrued liabilities	**2,364**
Capital lease obligation	**16,927**
Deferred income taxes	**25,318**
Other noncurrent liabilities	**1,546**
Total liabilities assumed	**$54,900**
Net assets acquired	**$187,000**

The Company is continuing to perform procedures to verify the value of assets and liabilities acquired, and the useful lives of amortizable assets. Accordingly, adjustments to the values in the above table may be required in future periods. Goodwill of $67.0 million reflects that the acquisition broadens and deepens AEC's products, experience and manufacturing capabilities, and significantly increases opportunities for future growth. The goodwill is non-deductible for tax purposes.

The seller has provided representations, warranties and indemnities customary for acquisition transactions, including indemnities for certain customer claims identified before closing. As of September 30, 2016, Accounts receivable includes $3.2 million which is expected to be recovered from the seller under the terms of the indemnity arrangement.

In the course of performing its ongoing opening balance sheet procedures during the third quarter of 2016, management identified certain adjustments to the provisional value of assets and liabilities acquired reported in the Form 10-Q for the period ended June 30, 2016. The Consolidated Statement of Income for the third quarter of 2016 includes the cumulative effect of adjusting the provisional amounts, as illustrated in the table below:

(in thousands)	Increase / (decrease) to provisional amount	Additional expense / (income) in third quarter	Expense / (income) recognized in third quarter which relates to second quarter	Line item in the Statement of income affected
Assets:				
Accounts receivable, net	($576)	$ -	$ -	
Inventories, net	(12,024)	(2,291)	(1,282)	Cost of goods sold
Property, plant and equipment, net	(4,101)	1,096	548	Cost of goods sold
Liabilities:				
Obligation under capital lease	(6,888)	(325)	(115)	Interest expense
Deferred income tax liabilities	25,318	-	-	
Other noncurrent liabilities	577	18	8	Interest expense
Net increase to goodwill	$35,708			
Net increase to income before income taxes		$(1,502)	$(841)	

The following table presents operational results of AAC that are included in the Consolidated Statements of Income:

(in thousands, except per share amounts)	Three months ended September 30, 2016	April 8 to September 30, 2016
Net sales	**$20,354**	**$45,990**
Operating income/(loss)	**(1,460)**	**249**
Income/(loss) before income taxes	**(1,642)**	**(377)**
Net loss attributable to the Company	**(985)**	**(226)**
Loss per share:		
Basic	**($0.03)**	**($0.01)**
Diluted	**($0.03)**	**($0.01)**

The Consolidated Statements of Income reflect operational activity of AAC for only the period subsequent to the closing, which affects comparability of results. The following table shows total Company pro forma statements of operations for the three- and nine-month periods ended September 30, 2016 and 2015, as if the acquisition had occurred on January 1, 2015. This pro forma information does not purport to represent what the Company’s actual results would have been if the acquisitions had occurred as of the date indicated, or what such results would be for any future periods.

	Unaudited - Pro forma			
	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share amounts)	**2016**	**2015**	**2016**	**2015**
Combined Net sales	**$191,272**	$198,193	**$588,978**	$591,181
Combined Income before income taxes	**$20,897**	$23,552	**$59,812**	$42,909
Pro forma increase/(decrease) to income before income taxes:				
Acquisition expenses	**-**	-	**5,367**	-
Interest expense related to purchase price	**-**	(1,283)	**(1,382)**	(3,850)
Purchase accounting adjustments:				
Depreciation and amortization on property, plant and equipment, and intangible assets	**548**	(1,821)	**(1,919)**	(4,367)
Valuation of contract inventories	**(1,282)**	970	**1,109**	2,939
Interest expense on asset retirement obligation	**8**	(8)	**(8)**	(25)
Interest expense on capital lease obligation	**(115)**	115	**339**	346
Pro forma Income before income taxes	**20,056**	**21,525**	**63,318**	**37,952**
Pro forma Net Income attributable to the Company	**$12,461**	$8,432	**$40,506**	$18,417

3. Reportable Segments

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

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Net sales				
Machine Clothing	**$143,248**	$154,522	**$437,445**	463,577
Albany Engineered Composites	**48,024**	24,267	**129,348**	68,625
Consolidated total	**$191,272**	$178,789	**$566,793**	$532,202
Operating income/(loss)				
Machine Clothing	**$40,039**	$41,956	**$112,583**	$110,969
Albany Engineered Composites	**(4,529)**	(4,191)	**(14,083)**	(26,635)
Corporate expenses	**(10,690)**	(11,922)	**(33,554)**	(35,304)
Operating income	**24,820**	25,843	**64,946**	49,030
Reconciling items:				
Interest income	**(675)**	(428)	**(1,347)**	(1,205)
Interest expense	**4,356**	3,099	**10,957**	9,254
Other income, net	**242**	1,249	**(2,103)**	784
Income before income taxes	**$20,897**	$21,923	**$57,439**	$40,197

Total assets of the AEC segment increased by approximately $242 million during 2016 due to the acquisition of AAC.

Total capital expenditures for the nine months of 2016 were $53.8 million, including amounts that were included in Accounts payable. In the Consolidated Statements of Cash Flows, capital expenditures and accounts payable were each adjusted by $2.5 million to reflect the non-cash nature of the transactions.

During the first nine months of 2016, the Company recorded expense of $5.4 million for costs directly related to the acquisition. These costs are included in Selling, general and administrative expenses of the AEC segment.

The table below presents restructuring costs by reportable segment (also see Note 5):

	Three months ended September 30,		**Nine months ended June 30,**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Restructuring expenses, net				
Machine Clothing	**($212)**	$3,717	**$5,921**	$13,929
Albany Engineered Composites	**640**	-	**1,787**	-
Corporate expenses	**(102)**	-	**(55)**	-
Consolidated total	**$326**	$3,717	**$7,653**	$13,929

4. Pensions and Other Postretirement Benefit Plans

Pension Plans

The Company has defined benefit pension plans covering certain U.S. and non-U.S. employees. The U.S. qualified defined benefit pension plan has been closed to new participants since October 1998 and, as of February 2009, benefits accrued under this plan were frozen. As a result of the freeze, employees covered by the pension plan will receive, at retirement, only those benefits accrued through February 2009. Benefit accruals under the U.S. Supplemental Executive Retirement Plan ("SERP") were similarly frozen. The eligibility, benefit formulas, and contribution requirements for plans outside of the U.S. vary by location.

Other Postretirement Benefits

The Company also provides certain postretirement life insurance benefits to retired employees in Canada. The Company accrues the cost of providing postretirement benefits during the active service period of the employees. The Company currently funds the plan as claims are paid.

The composition of the net periodic benefit plan cost for the nine months ended September 30, 2016 and 2015 was as follows:

	Pension plans		**Other postretirement benefits**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Components of net periodic benefit cost:				
Service cost	**$1,991**	$2,268	**$190**	$250
Interest cost	**6,110**	5,779	**1,832**	1,831
Expected return on assets	**(6,763)**	(6,418)	**-**	-
Curtailment gain	**(130)**	-	**-**	-
Amortization of prior service cost/(credit)	**28**	36	**(3,366)**	(3,366)
Amortization of net actuarial loss	**1,756**	1,924	**2,114**	2,504
Net periodic benefit cost	**$2,992**	$3,589	**$770**	$1,219

5. Restructuring

During the first quarter of 2016 the Company announced the initiation of discussions with the relevant employee Works Council regarding a proposal to discontinue research and development activities at its Machine Clothing production facility in Sélestat, France. In May 2016, we reached agreement with the Works Council on the restructuring plan and we recorded $2.0 million of restructuring expense in the first nine months of 2016 as our current estimate of the cost for severance, outplacement, and the write-off of equipment. Cost savings associated with this action will reduce research and development expenses in future periods.

Machine Clothing restructuring charges for the first nine months of 2016 also include $1.9 million for the relocation of equipment from our former manufacturing facility in Germany.

Albany Engineered Composites restructuring expenses in 2016 were principally related to the consolidation of the Company's legacy programs into Boerne, Texas.

Machine Clothing restructuring costs in 2015 were principally related to plant closure costs in Göppingen, Germany.

The following table summarizes charges reported in the Consolidated Statements of Income under "Restructuring expenses, net":

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Machine Clothing	**($212)**	$3,717	**$5,921**	$13,929
Albany Engineered Composites	**640**	-	**1,787**	-
Corporate Expenses	**(102)**	-	**(55)**	-
Total	**$326**	$3,717	**$7,653**	$13,929

Nine months ended September 30, 2016 (in thousands)	**Total restructuring costs incurred**	**Termination and other costs**	**Impairment of plant and equipment**	**Benefit plan curtailment/ settlement**
Machine Clothing	$5,921	$5,751	$300	$(130)
Albany Engineered Composites	1,787	1,498	289	-
Corporate Expenses	(55)	(55)	-	-
Total	$7,653	$7,194	$589	$(130)

Nine months ended September 30, 2015 (in thousands)	**Total restructuring costs incurred**	**Termination and other costs**	**Impairment of plant and equipment**	**Benefit plan curtailment/ settlement**
Machine Clothing	$13,929	$10,704	$3,225	$-
Albany Engineered Composites	-	-	-	-
Corporate Expenses	-	-	-	-
Total	$13,929	$10,704	$3,225	$-

We expect that approximately $6.0 million of Accrued liabilities for restructuring at September 30, 2016 will be paid within one year and approximately $1.5 million will be paid in the following year. The table below presents the year-to-date changes in restructuring liabilities for 2016 and 2015, all of which related to termination costs:

(in thousands)	**December 31, 2015**	**Restructuring charges accrued**	**Payments**	**Currency translation/other**	**September 30, 2016**
Total termination costs	$10,177	$7,194	($9,862)	$2	$7,511

(in thousands)	**December 31, 2014**	**Restructuring charges accrued**	**Payments**	**Currency translation/other**	**September 30, 2015**
Total termination costs	$1,874	$10,607	($10,637)	$96	$1,940

6. Other Income, net

The components of other (income)/expense, net are:

(in thousands)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Currency transaction (gains)/losses	**($312)**	$953	**($2,361)**	$404
Bank fees and amortization of debt issuance costs	**106**	219	**652**	764
Gain on sale of investment	**-**	-	**-**	(872)
Other	**448**	77	**(394)**	488
Total	**$242**	$1,249	**($2,103)**	$784

In March 2015, the Company sold its total equity investment in an unaffiliated company, resulting in a gain of $0.9 million. The value of the investment had been written off in 2004.

7. Income Taxes

The following table presents components of income tax expense for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Income tax based on income from continuing operations, at estimated tax rates of 37.5% in 2016 and 38.0% in 2015	**$7,838**	$8,331	**$21,545**	$15,285
Effect of change in estimated tax rate	**(424)**	(1,002)	**-**	-
Income tax expense before discrete items	**7,414**	7,329	**21,545**	15,285
Discrete tax expense/(benefit):				
Provision for/resolution of tax audits and contingencies, net	**-**	4,521	**(825)**	4,505
Adjustments to prior period tax liabilities	**(11)**	(581)	**(254)**	(641)
Other discrete tax adjustments, net	**85**	968	**113**	1,152
Enacted tax legislation	**-**	6	**34**	97
Total income tax expense	**$7,488**	$12,243	**$20,613**	$20,398

The third quarter estimated income tax rate based on continuing operations was 37.5 percent in 2016, compared to 38.0 percent for the same period in 2015.

The Company records the residual U.S. and foreign taxes on certain amounts of current year foreign earnings that have been targeted for repatriation to the U.S. As a result, such amounts are not considered to be permanently reinvested, and the income tax provision before discrete items includes the residual taxes on these earnings to the extent they cannot be repatriated in a tax-free manner. As of September 30, 2016, the Company has recorded a deferred tax liability on $59.0 million of prior year non-U.S. earnings that have been targeted for future repatriation to the U.S.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world and we are currently under audit in various jurisdictions, including Canada, France and Italy. The open tax years range from 2007 to 2015.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may change within a range of $0.0 to a net decrease of $2.3 million, from the reevaluation of uncertain tax positions arising in examinations, in appeals, or in the courts, or from the closure of tax statutes.

In the first quarter of 2016, the Company reached a settlement with the German tax authorities over matters that had been outstanding for many years. The German Tax Authority had denied tax positions taken by the Company related to a 1999 reorganization. In 2009, the Company made a payment of $14.5 million in order to appeal the German Tax Authority decision, and we recorded that payment as an income tax receivable. As additional information became available in recent years, we wrote down the receivable by $6.3 million in 2014 and $6.4 million in 2015 ($5.8 million in the third quarter and $0.6 million in the fourth quarter). In April 2016, we received $3.7 million representing the final settlement of this matter, and accordingly, we adjusted our income tax receivable as of March 31, 2016 to that amount, and recorded a discrete tax benefit of $0.5 million for the first quarter of 2016.

8. Earnings Per Share

The amounts used in computing earnings per share 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 and earnings per share)	**2016**	**2015**	**2016**	**2015**
Net income attributable to the Company	**$13,069**	$9,658	**$36,937**	$19,699
Weighted average number of shares:				
Weighted average number of shares used in calculating basic net income per share	**32,104**	32,012	**32,079**	31,965
Effect of dilutive stock-based compensation plans:				
Stock options	**37**	43	**39**	63
Weighted average number of shares used in calculating diluted net income per share	**32,141**	32,055	**32,118**	32,028
Average market price of common stock used for calculation of dilutive shares	**$42.03**	$33.89	**$38.97**	$37.10
Earnings per share attributable to Company shareholders:				
Basic	**$0.41**	$0.30	**$1.15**	$0.62
Diluted	**$0.41**	$0.30	**$1.15**	$0.62

9. Noncontrolling Interest

The table below presents a reconciliation of income attributable to the noncontrolling interest and noncontrolling equity:

(in thousands)	Nine months ended September 30, 2016	2015
Net (loss)/income of Albany Safran Composites (ASC)	**($374)**	$1,747
Less: Return attributable to the Company's preferred holding	**732**	748
Net (loss)/income of ASC available for common ownership	**($1,106)**	$999
Ownership percentage of noncontrolling shareholder	**10%**	10%
Net (loss)/income attributable to noncontrolling interest	**($111)**	$100
Noncontrolling interest, beginning of year	**$3,690**	$3,699
Net (loss)/income attributable to noncontrolling interest	**(111)**	100
Changes in other comprehensive income attributable to noncontrolling interest	**(1)**	1
Noncontrolling interest	**$3,578**	$3,800

10. Accumulated Other Comprehensive Income (AOCI)

The table below presents changes in the components of AOCI for the period December 31, 2015 to September 30, 2016:

(in thousands)	Translation adjustments	Pension and postretirement liability adjustments	Derivative valuation adjustment	Total Other Comprehensive Income
December 31, 2015	**($108,655)**	**($48,725)**	**($1,464)**	**($158,844)**
Other comprehensive income/(loss) before reclassifications	2,216	330	(4,300)	(1,754)
Interest expense related to swaps reclassified to the Statement of Income, net of tax	-	-	1,045	1,045
Pension and postretirement liability adjustments reclassified to Statement of Income, net of tax	-	372	-	372
Net current period other comprehensive income/(loss)	2,216	702	(3,255)	(337)
September 30, 2016	**($106,439)**	**($48,023)**	**($4,719)**	**($159,181)**

The table below presents changes in the components of AOCI for the period December 31, 2014 to September 30, 2015:

(in thousands)	**Translation adjustments**	**Pension and postretirement liability adjustments**	**Derivative valuation adjustment**	**Total Other Comprehensive Income**
December 31, 2014	**($55,240)**	**($51,666)**	**($861)**	**($107,767)**
Other comprehensive income/(loss) before reclassifications	(44,316)	1,735	(2,374)	(44,955)
Interest expense related to swaps reclassified to the Statement of Income, net of tax	-	-	939	939
Pension and postretirement liability adjustments reclassified to Statement of Income, net of tax	-	714	-	714
Net current period other comprehensive income/(loss)	(44,316)	2,449	(1,435)	(43,302)
September 30, 2015	**($99,556)**	**($49,217)**	**($2,296)**	**($151,069)**

The table below presents the expense/(income) amounts reclassified, and the line items of the Consolidated Statements of Income that were affected for the periods ended September 30, 2016 and 2015.

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Pretax Derivative valuation reclassified from Accumulated Other Comprehensive Income:				
Payments made on interest rate swaps included in Income before taxes(a)	**$1,100**	$587	**$1,686**	$1,540
Income tax effect	**(418)**	(229)	**(641)**	(601)
Effect on net income due to items reclassified from Accumulated Other Comprehensive Income	**$682**	$358	**$1,045**	$939
Pretax pension and postretirement liabilities reclassified from Accumulated Other Comprehensive Income:				
Amortization of prior service credit	**($1,113)**	($1,110)	**($3,338)**	($3,330)
Amortization of net actuarial loss	**1,296**	1,462	**3,870**	4,428
Total pretax amount reclassified (b)	**183**	352	**532**	1,098
Income tax effect	**(55)**	(123)	**(160)**	(384)
Effect on net income due to items reclassified from Accumulated Other Comprehensive Income	**$128**	$229	**$372**	$714

(a) Included in Interest expense.

(b) These accumulated other comprehensive income/(loss) components are included in the computation of net periodic pension cost (see Note 4).

11. Accounts Receivable

Accounts receivable includes trade receivables, and revenue in excess of progress billings on long-term contracts in the AEC segment. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company determines allowances based on historical write-off experience, customer-specific facts and economic conditions. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

As of September 30, 2016 and December 31, 2015, Accounts receivable consisted of the following:

(in thousands)	**September 30, 2016**	**December 31, 2015**
Trade and other accounts receivable	$149,403	$123,179
Bank promissory notes	17,293	15,845
Revenue in excess of progress billings	11,626	15,889
Allowance for doubtful accounts	(7,583)	(8,530)
Total accounts receivable	$170,739	$146,383

In connection with certain sales in Asia Pacific, the Company accepts a bank promissory note as customer payment. The notes may be presented for payment at maturity, which is less than one year.

12. Inventories

Inventories are stated at the lower of cost or market, with cost determined using the first-in-first out method. The Company writes down the inventory for estimated obsolescence and to lower of cost or market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. Once established, the original cost of the inventory less the related inventory allowance represents the new cost basis of such inventories. The AEC segment has long-term contracts under which we incur engineering and development costs that are allocable to parts that will be delivered over multiple years. These costs are included in Work in process in the table below.

As of September 30, 2016 and December 31, 2015, inventories consisted of the following:

(in thousands)	**September 30, 2016**	**December 31, 2015**
Raw materials	**$37,278**	$27,636
Work in process	**59,351**	41,823
Finished goods	**42,059**	36,947
Total inventories	**$138,688**	$106,406

13. 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.

On April 8, 2016, the Company acquired the outstanding shares of Harris Corporation's composite aerostructures business. Management is in the process of determining the fair value of assets and liabilities acquired. Based on procedures performed through September 30, 2016, we acquired amortizable intangible assets of $59.4 million and goodwill of $67.0 million. The amounts are subject to change as management completes its review of assets and liabilities acquired.

Prior to the acquisition, the entire balance of goodwill on our books was attributable to the Machine Clothing business. In the second quarter of 2016, the Company applied the qualitative assessment approach in performing its annual evaluation of Machine Clothing goodwill and concluded that no impairment provision was required. 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 and technology assets that have finite lives. The changes in intangible assets and goodwill from December 31, 2015 to September 30, 2016, were as follows:

(in thousands)	**December 31, 2015**	**Assets acquired April 8, 2016**	**Amortization**		**Currency Translation**	**September 30, 2016**
Amortized intangible assets:						
AEC trade names	$25	$-	$(4	)	$-	**$21**
AEC technology	129	-	(19	)	-	**110**
Customer relationships	-	40,740	(1,354	)	-	**39,386**
Customer contracts	-	16,900	(62	)	-	**16,838**
Other intangibles	-	1,720	(1,031	)	-	**689**
Total amortized intangible assets	$154	$59,360	($2,470	)	$-	**$57,044**
Unamortized intangible assets:						
MC Goodwill	$66,373	$-	$-		$1,317	**$67,690**
AEC Goodwill	-	67,034	-		-	**67,034**
Total unamortized intangible assets:	$66,373	$67,034	$-		$1,317	**$134,724**

The estimated useful lives for intangibles acquired during the second quarter of 2016 are 19 years for customer relationships, 6 years for customer contracts, and 7 to 22 years for other intangibles. The estimate of intangible amortization expense for 2016 and beyond is significantly influenced by the preliminary valuation of intangibles acquired in the second quarter of 2016 and is subject to adjustment when the valuation work is completed. Based on the preliminary valuation, estimated amortization expense of intangibles for the years ending December 31, 2016 through 2020, is as follows:

Year	**Annual amortization (in thousands)**
2016	$3,749
2017	5,119
2018	5,119
2019	5,119
2020	5,119

14. Financial Instruments

Long-term debt, principally to banks and bondholders, consists of:

(in thousands, except interest rates)	**September 30, 2016**	**December 31, 2015**
Private placement with a fixed interest rate of 6.84%, due 2017	**$50,000**	$50,000
Credit agreement with borrowings outstanding at an end of period interest rate of 2.53% in 2016 and 2.36% in 2015 (including the effect of interest rate hedging transactions, as described below)	**425,000**	215,000
Various notes and mortgages, at an average end of period rate of 5.50% in 2016 and 2015, due in varying amounts through 2021	**84**	96
Obligation under capital lease, matures 2022	**16,381**	-
Long-term debt	**491,465**	265,096
Less: current portion	**(1,462)**	(16)
Long-term debt, net of current portion	**$490,003**	$265,080

A note agreement and guaranty ("Prudential Agreement") was originally entered into in October 2005 with the Prudential Insurance Company of America, and certain other purchasers, with interest at 6.84%. The remaining principal under the Prudential Agreement is $50 million, and is due on the maturity date of October 25, 2017. 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 Prudential Agreement contains customary terms, as well as affirmative covenants, negative covenants, and events of default, comparable to those in our current principal credit facility agreement (as described below). The Prudential Agreement has been amended a number of times, most recently in April 2016, in order to maintain terms comparable to 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, 2016, the fair value of this debt was approximately $53.5 million, and was measured using active market interest rates, which would be considered Level 2 for fair value

measurement purposes.

On April 8, 2016, we entered into a $550 million unsecured Five-Year Revolving Credit Facility Agreement (the “Credit Agreement”) which amends and restates the prior $400 million Agreement, entered into on June 18, 2015 (the “Prior Agreement”). Under the Credit Agreement, $425 million of borrowings were outstanding as of September 30, 2016. The applicable interest rate for borrowings was LIBOR plus a spread, based on our leverage ratio at the time of borrowing. At the time of the last borrowing on September 16, 2016, the spread was 1.500%. The spread was based on a pricing grid, which ranged from 1.250% to 1.750%, based on our leverage ratio. Based on our maximum leverage ratio and our Consolidated EBITDA, and without modification to any other credit agreements, as of September 30, 2016, we would have been able to borrow an additional $125 million under the Agreement.

The Credit Agreement contains customary terms, as well as affirmative covenants, negative covenants and events of default comparable to those in the Prior Agreement. The Borrowings are guaranteed by certain of the Company's subsidiaries.

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 (as defined in the Credit Agreement).

In connection with the acquisition of AAC, the Company has a long-term capital lease obligation for real property in Salt Lake City, Utah. The lease has an implied interest rate of 6.08% and matures in 2022.

The following schedule presents future minimum annual lease payments under the capital lease obligation and the present value of the minimum lease payments, as of September 30, 2016.

Years ending December 31,	**(in thousands)**
2016	**$674**
2017	**2,696**
2018	**2,743**
2019	**2,743**
2020	**2,790**
Thereafter	**5,628**
Total minimum lease payments	**17,274**
Less: Amount representing interest	**(893**)
Present value of minimum lease payments	**$16,381**

On May 6, 2016, we terminated our interest rate swap agreements that had effectively fixed the interest rate on up to $120 million of revolving credit borrowings, in order to enter into a new interest rate swap with a greater notional amount, and the same maturity as the Credit Agreement. We paid $5.2 million to terminate the swap agreements and that cost will be amortized into interest expense through June 2020.

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On May 9, 2016, we entered into interest rate hedges for the period May 16, 2016 through March 16, 2021. These transactions have the effect of fixing the LIBOR portion of the effective interest rate (before addition of the spread) on $300 million of indebtedness drawn under the Credit Agreement at the rate of 1.245% during the period. Under the terms of these transactions, we pay the fixed rate of 1.245% and the counterparties pay a floating rate based on the one-month LIBOR rate at each monthly calculation date, which on September 16, 2016 was 0.530%. The net effect is to fix the effective interest rate on $300 million of indebtedness at 1.245%, plus the applicable spread, during the swap period. On September 16, 2016, the all-in-rate on the $300 million of debt was 2.745%.

These interest rate swaps are accounted for as a hedge of future cash flows, as further described in Note 15 of the Notes to Consolidated Financial Statements. No cash collateral was received or pledged in relation to the swap agreements.

Under the Credit Agreement and Prudential Agreement, we are currently required to maintain a leverage ratio (as defined in the agreements) of not greater than 3.50 to 1.00 and minimum interest coverage (as defined) of 3.00 to 1.00.

As of September 30, 2016, our leverage ratio, including the pro-forma effect of the acquisition, was 2.38 to 1.00 and our interest coverage ratio was 12.93 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 3.50 to 1.00 after giving pro forma effect to the acquisition.

Indebtedness under each of the Prudential Agreement 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, 2016.

15. 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. 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. In 2015 we reclassified land and building related to the former manufacturing facility in Germany as Asset held for sale in the accompanying Consolidated Balance Sheets. As of September 30, 2016 and December 31, 2015, we have Level 3 financial assets of $5.2 million and $5.0 million, respectively. The value as of September 30, 2016 was determined based on a contract which is expected to close in the fourth quarter of 2016.

The following table presents the fair-value hierarchy for our Level 1 and Level 2 financial and non-financial assets and liabilities, which are measured at fair value on a recurring basis, and Level 3 non-financial measured at fair value:

	September 30, 2016			**December 31, 2015**		
(in thousands)	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Unobservable inputs (Level 3)**	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Fair Value						
Assets:						
Cash equivalents	**$22,274**	**$-**	**$-**	$5,189	$-	$-
Asset held for sale	**-**	**-**	**5,179**	-	-	4,988
Prepaid expenses and other current assets:						
Foreign currency options	**-**	**148**	**-**	-	-	-
Other Assets:						
Common stock of unaffiliated foreign public company	**762** (a)	**-**	**-**	819	-	-
Liabilities:						
Other noncurrent liabilities:						
Interest rate swaps	**-**	**(2,951)**(b)		-	(2,400)(c)	

(a) Original cost basis $0.5 million
(b) Net of $13.8 million receivable floating leg and $16.8 million liability fixed leg
(c) Net of $7.4 million receivable floating leg and $9.8 million liability fixed leg
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 the unaffiliated 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 unrealized 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.

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

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.

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

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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 Consolidated Statements of Income 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.

The interest rate swaps are accounted for as hedges of future cash flows. The fair value of our interest rate swaps are derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve, and is included in Other assets and/or Other noncurrent liabilities in the Consolidated Balance Sheets. Unrealized gains and losses on the swaps flow through the caption Derivative valuation adjustment in the Shareholders' equity section of the Consolidated Balance Sheets, to the extent that the hedges are highly effective. As of September 30, 2016, these interest rate swaps were determined to be highly effective hedges of interest rate cash flow risk. Any gains and losses related to the ineffective portion of the hedges 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), and amortization related to the swap buyouts, affect earnings. Interest expense related to the current swaps totaled $1.2 million for the nine month period ended September 30, 2016 and $1.5 million for the nine month period ended September 30, 2015. Interest expense related to the swap buyouts totaled $0.5 million for the nine month period ended September 30, 2016 and $0.0 million for the nine month period ended September 30, 2015.

Gains/(losses) related to changes in fair value of derivative instruments that were recognized in Other (income)/expenses, net in the Consolidated Statements of Income were as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Derivatives not designated as hedging instruments				
Foreign currency options	**($218)**	$25	**$237**	$150

16. 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 3,753 claims as of September 30, 2016.

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	4,446	90	107	4,463	530
2013	4,463	230	66	4,299	78
2014	4,299	625	147	3,821	437
2015	3,821	116	86	3,791	164
As of September 30, 2016	**3,791**	**127**	**89**	**3,753**	**$733**

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 to meaningfully 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 September 30, 2016 we had resolved, by means of settlement or dismissal, 37,468 claims. The total cost of resolving all claims was $10.1 million. Of this amount, almost 100% was paid by our insurance carrier. The Company’s insurer has confirmed that although the coverage limits under two (of approximately 23) primary insurance policies have been exhausted, there still remains approximately $3 million in coverage limits under other applicable primary policies, and $140 million in coverage under excess umbrella coverage policies that should be available with respect to current and future asbestos claims.

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 7,707 claims as of September 30, 2016.

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	$-
2006	9,566	1,182	730	9,114	-
2007	9,114	462	88	8,740	-
2008	8,740	86	10	8,664	-
2009	8,664	760	3	7,907	-
2010	7,907	47	9	7,869	-
2011	7,869	3	11	7,877	-
2012	7,877	12	2	7,867	-
2013	7,867	55	3	7,815	-
2014	7,815	87	2	7,730	-
2015	7,730	18	1	7,713	-
As of September 30, 2016	**7,713**	**6**	**-**	**7,707**	**$-**

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 September 30, 2016, Brandon has resolved, by means of settlement or dismissal, 9,899 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.

17. Changes in Shareholders' Equity

The following table summarizes changes in Shareholders' Equity:

(in thousands)	**Common Stock Class A and B**	**Additional paid in capital**	**Retained earnings**	**Accumulated items of other comprehensive income/(loss)**	**Treasury stock**	**Noncontrolling Interest**	**Total Equity**
December 31, 2015	**$40**	**$423,108**	**$491,950**	**($158,844)**	**($257,391)**	**$3,690**	**$502,553**
Net income	-	-	36,937	-	-	(111)	36,826
Compensation and benefits paid or payable in shares	-	1,447	-	-	-	-	1,447
Options exercised	-	570	-	-	-	-	570
Shares issued to Directors'	-	190	-	-	245	-	435
Dividends declared	-	-	(16,370)	-	-	-	(16,370)
Cumulative translation adjustments	-	-	-	2,216	-	(1)	2,215
Pension and postretirement liability adjustments	-	-	-	702	-	-	702
Derivative valuation adjustment	-	-	-	(3,255)	-	-	(3,255)
September 30, 2016	**$40**	**$425,315**	**$512,517**	**($159,181)**	**($257,146)**	**$3,578**	**$525,123**

18. Recent Accounting Pronouncements

In May 2014, an accounting update was issued that replaces the existing revenue recognition framework regarding contracts with customers. There have been several revisions to the update, the latest occurring in May 2016. This accounting update is effective for reporting periods beginning after December 31, 2017. Early adoption is permitted but not before the original effective date, which is for reporting periods beginning after December 31, 2016. We have not determined the impact of this update on our financial statements.

In February 2015, amended accounting guidance was issued which changes the evaluation of variable interest entities regarding whether they should consolidate limited partnerships and similar entities, or whether fees are paid to a decision maker or service provider, or whether they are held by related parties. We adopted this provision as of January 1, 2016 and it did not affect our financial statements.

In April 2015 and August 2015, accounting updates were issued which require that debt issuance costs related to certain types of recognized debt liability be presented in the balance sheet as a direct reduction of that debt, which could result in a minor netting down of assets and liabilities. We adopted this provision as of January 1, 2016 and it did not affect our financial statements.

In May 2015, an accounting update was issued which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share. We adopted this provision as of January 1, 2016 and it did not affect our financial statements.

In July 2015, an accounting update was issued simplifying the measurement of inventory from the lower of cost or market to lower of cost or net realizable value. This accounting update eliminates the requirement for consideration of replacement cost or net realizable value less normal profit margin measurements. This accounting update is effective for reporting periods beginning after December 15, 2016. We do not expect the adoption of this update to have a significant effect on our financial statements.

In September 2015, an accounting update was issued which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. This accounting update was adopted January 1, 2016. Note 2 includes a table of measurement period adjustments related to the Company’s acquisition in the second quarter of 2016.

In January 2016, an accounting update was issued which requires entities to present separately in Other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This accounting update is effective for reporting periods beginning after December 15, 2017. We have not determined the impact of this update on our financial statements.

In February 2016, an accounting update was issued which requires lessees to recognize most leases on the balance sheet. The update may significantly increase reported assets and liabilities. This accounting update is effective for reporting periods beginning after December 15, 2018. We have not determined the impact of this update on our financial statements.

In March 2016, an accounting update was issued which clarifies that a change in counterparty to a derivative contract, through novation, that is part of a hedge accounting relationship does not, by itself, require de-designation of that relationship, as long as all other hedge accounting criteria continue to be met. This accounting update is effective for reporting periods beginning after December 15, 2016. We do not expect the adoption of this update to have a significant effect on our financial statements.

In March 2016, an accounting update was issued which simplifies the transition to the equity method of accounting by eliminating the requirement for an investor to retroactively apply the equity method when its increase in ownership interest, or degree of influence, triggers equity method accounting. This accounting update is effective for reporting periods beginning after December 15, 2016. We do not expect the adoption of this update to have a significant effect on our financial statements.

In March 2016, an accounting update was issued which simplifies several aspects related to the accounting for share-based payment transactions, including the income tax consequences, statutory tax withholding requirements, and classification of excess tax benefits on the statements of cash flows. This accounting update is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted. Adoption of this accounting update could increase the volatility of income tax expense. We have not determined the effect of this update on our financial statements.

In August 2016, an accounting update was issued in order to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This accounting update is effective for reporting periods beginning after December 15, 2017. Early adoption is permitted. We do not expect the adoption of this update to have a significant effect on our financial statements.

In October 2016, an accounting update was issued which modifies the recognition of income tax effects on intracompany transfers of assets, other than inventory. This accounting update is effective for reporting periods beginning after December 15, 2017. We have not determined the effect of this update on our financial statements.

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

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

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," "may," "plan," "pr "should" and variations of such words or similar expressions are intended, but are not the exclusive means, to identify forward-looking statements. Because forward-looking statements are subject to risks and uncertainties, (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) actual results may differ materially from those expressed or implied by the forward-looking statements.

There are a number of risks, uncertainties, and other important factors that could cause actual results to differ materially from the forward-looking statements, including, but not limited to:

- Conditions in the industries in which our Machine Clothing segment competes, including the paper industry, along with general risks associated with macroeconomic conditions;
- Declines in demand for paper in certain regions and market segments that continue at a rate that is greater than anticipated, and growth in demand in other segments or regions that is lower or slower than anticipated;
- Failure to achieve or maintain anticipated profitable growth in our Albany Engineered Composites segment; and
- Other risks and uncertainties detailed in this report.

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 "Business Environment Overview and Trends" sections of this quarterly report, as well as in the "Risk Factors" section of our most recent Annual Report on Form 10-K. Statements expressing our assessments of the growth potential of the Albany Engineered Composites segment are not intended as forecasts of actual future growth, and should not be relied on as such. While we believe such assessments to have a reasonable basis, such assessments are, by their nature, inherently uncertain. This report sets forth a number of assumptions regarding these assessments, including projected timing and volume of demand for aircraft and for LEAP aircraft engines. Such assumptions could prove incorrect. Although we believe the expectations reflected in our forward-looking statements are based on reasonable assumptions, it is not possible to foresee or identify all factors that could have a material and negative impact on our future performance. The forward-looking statements included or incorporated by reference in this report are made on the basis of our assumptions and analyses, as of the time the statements are made, in light of our 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.

Business Environment Overview and Trends

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.

The MC segment is the Company's long-established core business and primary generator of cash. While the paper and paperboard industry in our traditional geographic markets has suffered from well-documented declines in publication grades, the industry is still expected to grow slightly 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. We feel we are now well-positioned in these markets, with high-quality, low-cost production in growth markets, substantially lower fixed costs in mature markets, and continued strength in new product development, field services, and manufacturing technology. Because of pricing pressures and industry overcapacity, the machine clothing and paper industries will continue to face top line pressure. Nonetheless the business has potential for flat earnings in the future. It has been a significant generator of cash, and we seek to maintain the cash-generating potential of this business by maintaining the low costs that we achieved through restructuring, and competing vigorously by using our differentiated products and services to reduce our customers' total cost of operation and improve their paper quality.

The AEC segment, including the Company's second quarter acquisition of Harris Corporation's composite aerostructures business, provides significant growth potential for our Company both near and long term. Our strategy is to grow by focusing our proprietary technology and manufacturing capabilities on high-value aerospace and defense applications. AEC (including Albany Safran Composites, LLC ("ASC"), in which our customer SAFRAN Group owns a 10 percent noncontrolling interest) supplies a number of customers in the aerospace industry. AEC's largest aerospace customer is the SAFRAN Group. Through ASC, AEC develops and sells composite aerospace components to SAFRAN, with the most significant program at present being the production of fan blades and fan cases for the LEAP engine. AEC (through ASC and otherwise) is also developing other new and potentially significant composite products for aerospace (engine and airframe) applications. Other growth programs of note are the fan case for the GE9X engine, airframe components and LiftFan ® parts for the Joint Strike Fighter (JSF) for Rolls Royce, and Boeing Forward Fuselage Frames. AEC is actively engaged in research to develop new applications in the aircraft engine, airframes, and automotive markets.

Consolidated Results of Operations

On April 8, 2016, the Company acquired the outstanding shares of Harris Corporation's composite aerostructures business for $187 million in cash, plus the assumption of certain liabilities. The acquired entity has been renamed Albany Aerostructures Composites LLC ("AAC"), and is part of the AEC segment. Management believes that the acquisition broadens and deepens AEC's products, experience and manufacturing capabilities, and significantly increases opportunities for future growth.

The following table presents operational results of AAC that are included in the Consolidated Statements of Income:

(in thousands)	**Three months ended September 30, 2016**	**April 8 to September 30, 2016**
Net sales	**$20,354**	**$45,990**
Gross profit	**1,697**	**6,670**
Selling, technical, general and research expenses	**3,157**	**6,421**
Operating income/(loss)	**(1,460)**	**249**
Interest expense, net	**182**	**626**
Income/(loss) before income taxes	**(1,642)**	**(377)**

Net sales

The following table summarizes our net sales by business segment:

	Three months ended September 30,		% Change	**Nine months ended September 30,**		% Change
(in thousands, except percentages)	**2016**	**2015**		**2016**	**2015**	
Machine Clothing	**$143,248**	$154,522	-7.3 %	**$437,445**	$463,577	-5.6 %
Albany Engineered Composites	**48,024**	24,267	97.9 %	**129,348**	68,825	87.9 %
Total	**$191,272**	$178,789	7.0 %	**$566,793**	$532,402	6.5 %

Three month comparison

- Changes in currency translation rates had the effect of increasing net sales by $0.2 million during the third quarter of 2016 as compared to 2015.
- Excluding the effect of changes in currency translation rates:
- Net sales increased 6.8% compared to the same period in 2015.
- Net sales in MC decreased 7.4%.
- Net sales in AEC increased 97.8%.
- Compared to the third quarter of 2015, Machine Clothing sales decreased in virtually every region and paper grade. The decrease reflects a return to a more normal seasonal pattern combined with weakness in the publication grades in Europe and Asia.
- AEC sales increased $23.8 million, principally due to the acquisition and growth in the LEAP program.

Nine month comparison

- Changes in currency translation rates had the effect of decreasing net sales by $1.8 million during the first nine months of 2016 as compared to 2015.
- Excluding the effect of changes in currency translation rates:
- Net sales increased 6.8% compared to the same period in 2015.
- Net sales in MC decreased 5.2%.
- Net sales in AEC increased 87.8%.

- Excluding the effect of changes in currency translation rates, the decline in the first nine months of 2016 MC segment sales was principally due to the continuing effect of the significant drop in publication grade sales.
- AEC sales increased $60.5 million, reflecting the acquisition of AAC. The remainder of the increase was principally due to growth in the LEAP program.

Gross Profit

The following table summarizes gross profit/(loss) by business segment:

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands, except percentages)	**2016**	**2015**	**2016**	**2015**
Machine Clothing	**$68,104**	$74,721	**$208,628**	$218,084
Albany Engineered Composites	**4,556**	1,438	**15,329**	(9,891)
Corporate expenses	**(240)**	(415)	**(721)**	(1,173)
Total	**$72,420**	$75,744	**$223,236**	$207,020
% of Net sales	**37.9%**	42.4%	**39.4%**	38.9%

Three month comparison

The decrease in gross profit, compared to the same period in 2015, was principally due to the net effect of the following individually significant items:

- A $6.6 million decrease in MC, principally due to lower sales. MC gross profit margin declined to 47.5% in 2016 from 48.4% in 2015, principally due to the sales decrease.
- The increase in AEC gross profit to $4.6 million in the third quarter of 2016, compared to $1.4 million in the third quarter of 2015, due to higher sales as described above.

Nine month comparison

The increase in gross profit, compared to the same period in 2015, was principally due to the net effect of the following individually significant items:

- The reduction in MC sales described above resulted in a decrease in gross profit of $12.3 million. MC gross profit margin improved to 47.7% in 2016 from 47.0% in 2015, principally due to better capacity utilization.
- The increase in AEC gross profit was principally due to the $14.0 million BR 725 charge in 2015, the acquisition of AAC in 2016, which added $6.7 million to gross profit in 2016, and higher sales in the LEAP program.

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, except percentages)	**2016**	**2015**	**2016**	**2015**
Machine Clothing	**$28,276**	$29,047	**$90,125**	$93,186
Albany Engineered Composites	**8,445**	5,630	**27,624**	16,744
Corporate expenses	**10,553**	11,507	**32,888**	34,131
Total	**$47,274**	$46,184	**$150,637**	$144,061
% of Net sales	**24.7 %**	25.8 %	**26.6 %**	27.1 %

Three month comparison

The increase in STG&R expenses of $1.1 million, compared to the same period in 2015, was principally due to the net effect of the following individually significant items:

- Machine Clothing restructuring actions taken in previous quarters reduced 2016 STG&R expenses by approximately $1.7 million.
- Revaluation of nonfunctional currency assets and liabilities resulted in third-quarter losses of $0.1 million in 2016 and gains of $2.0 million in 2015.
- AAC STG&R expenses were $3.2 million in the third quarter of 2016 and, additionally, we incurred $0.4 million of costs related to integration of the acquired business.

Nine month comparison

The increase in STG&R expenses of $6.6 million, compared to the same period in 2015, was principally due to the net effect of the following individually significant items:

- Machine Clothing restructuring actions taken in previous quarters reduced 2016 STG&R expenses by approximately $6.0 million.
- Revaluation of nonfunctional currency assets and liabilities resulted in losses for the first nine months of $1.7 million in 2016 and gains of $4.5 million in 2015.
- Changes in currency translation rates reduced MC STG&R by $1.5 million, compared to the first nine months of 2015.
- In the first nine months of 2016, AEC recorded expenses of $5.4 million related to the acquisition of AAC.
- AAC STG&R expenses were $6.4 million in the first nine months of 2016.

Research and Development

The following table summarizes expenses associated with internally funded research and development by business segment:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Machine Clothing	**$3,937**	$4,775	**$12,695**	$14,350
Albany Engineered Composites	**2,656**	2,769	**8,247**	8,547
Corporate expenses	**-**	190	**-**	674
Total	**$6,593**	$7,734	**$20,942**	$23,571

Restructuring Expense

In addition to the items discussed above affecting gross profit and STG&R, operating income was affected by restructuring costs of $7.7 million in the first nine months of 2016 and $13.9 million in the comparable period of 2015.

The following table summarizes restructuring expense by business segment:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Machine Clothing	**($212)**	$3,717	**$5,921**	$13,929
Albany Engineered Composites	**640**	-	**1,787**	
Corporate expenses	**(102)**	-	**(55)**	-
Total	**$326**	$3,717	**$7,653**	$13,929

During the first quarter of 2016 the Company announced the initiation of discussions with the relevant employee Works Council regarding a proposal to discontinue research and development activities at its Machine Clothing production facility in Sélestat, France. In May 2016, we reached agreement with the Works Council on the restructuring plan and we recorded $2.0 million of restructuring expense in the first nine months of 2016 as our current estimate of the cost for severance, outplacement, and the write-off of equipment. Cost savings associated with this action will reduce research and development expenses in future periods.

Machine Clothing restructuring charges for the first nine months of 2016 also include $1.9 million for the relocation of equipment from our former manufacturing facility in Germany.

Albany Engineered Composites restructuring expenses in 2016 were principally related to the consolidation of the Company’s legacy programs into Boerne, Texas.

Machine Clothing restructuring costs in 2015 were principally related to plant closure costs in Göppingen, Germany.

For more information on our restructuring charges, see Note 5 to the Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

Operating Income

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

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Machine Clothing	**$40,039**	$41,956	**$112,583**	$110,969
Albany Engineered Composites	**(4,529)**	(4,191)	**(14,083)**	(26,635)
Corporate expenses	**(10,690)**	(11,922)	**(33,554)**	(35,304)
Total	**$24,820**	$25,843	**$64,946**	$49,030

Other Earnings Items

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense, net	**$3,681**	$2,671	**$9,610**	$8,049
Other (income)/expense, net	**242**	1,249	**(2,103)**	784
Income tax expense	**7,488**	12,243	**20,613**	20,398
Net (loss)/income attributable to the noncontrolling interest	**340**	22	**(111)**	100

Interest Expense, net

Compared to 2015, Interest expense, net, increased principally due to borrowings to fund the AAC acquisition, and the interest associated with AAC's capital lease obligation. For more information on borrowings and interest rates, see Note 14 to the Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

Other Income, net

Other income, net included the following individually significant items:

Three month comparison

- Foreign currency revaluations of intercompany balances resulted in third-quarter gains of $0.3 million in 2016 and losses of $1.0 million in 2015.

Nine month comparison

- Foreign currency revaluations of intercompany balances resulted in gains for the first nine months of $2.4 million in 2016 and losses of $0.4 million in 2015.
- A gain of $0.9 million was recorded in the first quarter of 2015 related to the sale of the Company's investment in an unaffiliated company.

Income Tax

The Company has operations which constitute a taxable presence in 18 countries outside of the United States, all of which have income tax rates that were at or below the United States' federal tax rate of 35% during the periods reported. The jurisdictional location of earnings is a significant component of our effective tax rate each year and therefore of our overall income tax expense.

Three month comparison

The Company's effective tax rates for the third quarter of 2016 and 2015 were 35.8% and 55.8%, respectively. The tax rate is affected by recurring items, such as the income tax rate in the U.S. and in non-U.S. jurisdictions and the mix of income earned in those jurisdictions. The rate is also affected by U.S. tax costs on foreign earnings that have been or will be repatriated to the U.S., and by discrete items that may occur in any given year but are not consistent from year to year.

Significant items that impacted the tax rates in the third quarter of 2016 included the following (percentages reflect the effect of each item as a percentage of Income before income taxes):

- A $0.3 million [-1.7%] net tax benefit related to a change in the estimated tax rate for the year, partially offset by discrete tax adjustments.

The income tax rate on continuing operations, excluding the above items, was 37.5%.

Significant items that impacted the 2015 tax rate included the following:

- A $4.5 million [20.6%] discrete income tax expense related to provisions for and settlements of income tax audits.
- A $1.0 million [4.4%] net tax expense due to changes in/establishment of uncertain tax positions.
- A $1.0 million [-4.6%] net tax benefit related to a change in the estimated tax rate for the year.
- A $0.6 million [-2.6%] net tax benefit related to adjustments to prior year tax liabilities.

The income tax rate on continuing operations, excluding the above items, was 38.0%.

Nine month comparison

The Company's effective tax rates for the first nine-month periods of 2016 and 2015 were 35.9% and 50.7% respectively. The tax rate is affected by recurring items, such as the income tax rate in the U.S. and in non-U.S. jurisdictions and the mix of income earned in those jurisdictions. The tax rate is also affected by U.S. tax costs on foreign earnings that have been or will be repatriated to the U.S., and discrete items that may occur in any year but are not consistent from year to year.

Significant items that impacted the 2016 tax rate included the following (percentages reflect the effect of each item as a percentage of income before income taxes):

- A ($0.8) million [-1.4%] discrete income tax benefit related to provisions for and settlements of income tax audits.
- A ($0.3) million [-0.4%] net tax benefit due to changes in/establishment of uncertain tax positions.
- A $0.1 million [0.2%] net tax expense related to other discrete items.

The income tax rate on continuing operations, excluding the above items, was 37.5%.

Significant items that impacted the 2015 tax rate included the following (percentages reflect the effect of each item as a percentage of income excluding the building insurance gain and before income taxes):

- A $4.5 million [11.2%] discrete income tax expense related to provisions for and settlements of income tax audits.
- A $1.2 million [2.9%] net tax expense due to changes in/establishment of uncertain tax positions.

· A $0.5 million [-1.4%] net tax benefit related to other discrete items.

The income tax rate on continuing operations, excluding the above items, was 38.0%.

Segment Results of Operations

Machine Clothing Segment

Business Environment and Trends

MC is our primary business segment and accounted for 77% of our consolidated revenues during the first nine months of 2016. MC products are purchased primarily by manufacturers of paper and paperboard.

According to RISI, Inc., global production of paper and paperboard is expected to grow at an annual rate of approximately 2% over the next five years, driven primarily by secular demand increases in 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 paper machine clothing, 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 paper machine clothing demand.

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 MC manufacturing capacity in the United States, Germany, France, Canada, and Sweden.

Review of Operations

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands, except percentages)	**2016**	**2015**	**2016**	**2015**
Net sales	**$143,248**	$154,522	**$437,445**	463,577
Gross profit	**68,104**	74,721	**208,628**	218,084
% of net sales	**47.5 %**	48.4 %	**47.7 %**	47.0 %
STG&R expenses	**28,276**	29,047	**90,125**	93,186
Operating income	**40,039**	41,956	**112,583**	110,969

Net Sales

Three month comparison

· Changes in currency translation rates had the effect of increasing 2016 sales by $0.2 million.

· Compared to the third quarter of 2015, MC sales decreased in virtually every region and paper grade.

Nine month comparison

- Changes in currency translation rates had the effect of decreasing 2016 sales by $1.9 million.
- Excluding the effect of changes in currency translation rates, MC sales declined 5.2% in the first nine months of 2016, principally due to the continuing effect of the significant drop in publication grade sales.

Gross Profit

Three month comparison

- Gross profit decreased $6.6 million principally due to lower sales. MC gross profit margin declined to 47.5% in 2016 from 48.4% in 2015, principally due to the effect of lower sales.

Nine month comparison

- The reduction in MC sales described above resulted in a decrease in gross profit of $12.3 million. MC gross profit margin improved to 47.7% in 2016 from 47.0% in 2015, principally due to better capacity utilization.

Operating Income

Three month comparison

The decrease in operating income was principally due to the net effect of the following individually significant items:

- Gross profit decreased $6.6 million as described above.
- Restructuring actions taken in 2015 reduced 2016 STG&R expenses by approximately $1.7 million.
- Restructuring charges of $(0.2) million in the third quarter of 2016, compared to $3.7 million in 2015.
- Revaluation of nonfunctional currency assets and liabilities resulted in third quarter losses of $0.1 million in 2016 and gains of $2.0 million in 2015.

Nine month comparison

- Gross profit decreased $9.5 million principally due to lower sales, as described above.
- Restructuring charges of $5.9 million in the first nine months of 2016, compared to $13.9 million in 2015.
- Revaluation of nonfunctional currency assets and liabilities resulted in losses of $1.6 million for the first nine months of 2016 and gains of $4.5 million in 2015.
- Restructuring actions taken in 2015 reduced 2016 STG&R expenses by approximately $6.0 million.

Albany Engineered Composites Segment

Business Environment and Trends

The Albany Engineered Composites (AEC) segment, including Albany Safran Composites, LLC (ASC), in which our customer SAFRAN Group owns a 10 percent noncontrolling interest, provides highly engineered advanced composite structures based on proprietary technology to customers primarily in the aerospace and defense industries. AEC's largest program relates to CFM International's LEAP engine, which is scheduled to enter into service in 2016. AEC, through ASC, is the exclusive supplier of advanced composite fan blades and cases for this program under a long-term supply contract.

On April 8, 2016, the Company acquired the outstanding shares of Harris Corporation's composite aerostructures business for cash of $187 million, plus the assumption of certain liabilities. The acquired entity has been renamed Albany Aerostructures Composites LLC ("AAC"), and is part of Albany Engineered Composites ("AEC") segment.

Review of Operations

Net Sales

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands, except percentages)	**2016**	**2015**	**2016**	**2015**
Net sales	**$48,024**	$24,267	**$129,348**	$68,825
Gross profit	**4,556**	1,438	**15,329**	(9,891)
% of net sales	**9.5 %**	5.9 %	**11.9 %**	-14.4 %
STG&R expenses	**8,445**	5,630	**27,624**	16,744
Operating loss	**(4,529)**	(4,191)	**(14,083)**	(26,635)

Three month comparison

- AEC sales increased $23.8 million, $20.4 million of which was due to the acquired business, the remainder of the increase was principally due to growth in the LEAP program.

Nine month comparison

- AEC sales increased $46.0 million due to the acquisition of AAC.
- The remainder of the sales increase was principally due to growth in the LEAP program.

Gross Profit

Three month comparison

- The improvement in AEC gross profit to $4.6 million in the third quarter of 2016, compared to $1.4 million in the third quarter of 2015, was principally due to higher sales as described above.

Nine month comparison

- The increase in AEC gross profit was principally due to a $14.0 million charge for a revision in the contract profitability of its BR 725 program in the second quarter of 2015.
- The remainder of the increase was due to higher sales, including the effect of the AAC acquisition.

Long-term contracts

AEC has contracts with certain customers, including its contract for the LEAP program, where revenue is determined by cost, plus a defined profit margin. Revenue earned under these arrangements accounted for approximately 41 percent and 53 percent of AEC revenue for the first nine months of 2016 and 2015, respectively.

In addition, AEC has long-term contracts in which the total contract price is fixed. In accounting for those contracts, we estimate the profit margin expected at the completion of the contract and recognize a pro-rata share of that profit during the course of the contract using a cost-to-cost or units of delivery approach. Changes in estimated contract profitability will affect revenue and gross profit when the change occurs, which could have a significant favorable or unfavorable effect on revenue and gross profit in any reporting period. As noted above, we recorded a charge of $14.0 million in the second quarter of 2015 for revisions to estimated costs of our BR 725 contract. Excluding that charge, changes in contract estimates decreased gross profit $1.2 million in the first nine months of 2016, and by $0.3 million in the same period of 2015.

In February 2016, our customer on a long-term contract for the manufacture of composite components for the Rolls-Royce BR 725 engine notified us that they disagreed with our calculation of pricing for the parts to be sold in 2016, which could, potentially, have an adverse effect on the profitability of this contract in the future. While the Company believes that its position is supported by the prior course of dealing between the parties, if the customer's position were to prevail it could have a material effect on operating results in future periods.

Operating Loss

Three month comparison

- Higher sales led to a $3.1 million increase in gross profit, as described above.
- 2016 STG&R expenses included $3.2 million related to the acquisition of AAC.
- Restructuring expenses were $0.6 million in 2016. There was no comparable expense in 2015.

Nine month comparison

- Operating income in 2015 was reduced by the $14 million BR 725 charge.

Liquidity and Capital Resources

Cash Flow Summary

(in thousands)	Nine months ended September 30, 2016	2015
Net income	**$36,826**	$19,799
Depreciation and amortization	**51,224**	45,281
Changes in working capital	**(32,476)**	(9,882)
Gain on disposition of assets	**-**	(1,056)
Changes in other noncurrent liabilities and deferred taxes	**(6,922)**	937
Other operating items	**3,175**	941
Fair value adjustment on available-for-sale assets	**-**	3,225
Net cash provided by operating activities	**51,827**	59,245
Net cash used in investing activities	**(231,869)**	(37,481)
Net cash provided by financing activities	**186,370**	(17,197)
Effect of exchange rate changes on cash flows	**4,729**	(12,589)
Increase/(decrease) in cash and cash equivalents	**11,057**	(8,022)
Cash and cash equivalents at beginning of year	**185,113**	179,802
Cash and cash equivalents at end of period	**$196,170**	$171,780

Operating activities

Cash provided by operating activities was $51.8 million for the first nine months of 2016, compared to $59.2 million in the same period of 2015. The decrease in 2016 reflects higher levels of Accounts receivable, Inventories, and Other assets, principally in the AEC segment. Cash paid for income taxes was $18.2 million and $15.5 million for the first nine months of 2016 and 2015, respectively.

At September 30, 2016, we had $196.2 million of cash and cash equivalents, of which $160.2 million was held by subsidiaries outside of the United States. As disclosed in Note 7 contained in Item 1, “Notes to Consolidated Financial Statements”, we determined that all but $59.0 million of this amount (which represents the amount of prior year earnings to be repatriated to the United States at some point in the future) is intended to be utilized by these non-U.S. operations for an indefinite period of time. Our current plans do not anticipate that we will need additional funds generated from foreign operations to fund our domestic operations or satisfy debt obligations in the United States. In the event that such funds were to be needed to fund operations in the U.S., and if associated accruals for U.S. tax have not already been provided, we would be required to accrue and pay additional U.S. taxes to repatriate these funds.

Investing Activities

Total capital expenditures for the nine months of 2016 were $53.8 million, including amounts that were included in Accounts payable. In the Consolidated Statements of Cash Flows, capital expenditures and accounts payable were each adjusted by $2.5 million to reflect the non-cash nature of that amount. The Company estimates full-year capital expenditure spending of $75 million to $80 million, including capital expenditures for the acquired business.

Financing Activities

Dividends have been declared each quarter since the fourth quarter of 2001. Decisions with respect to whether a dividend will be paid, and the amount of the dividend, are made by the Board of Directors each quarter. To the extent the Board declares cash dividends in the future, we expect to pay such dividends out of operating cash flows. Future cash dividends will also 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, 2016 was held by non-U.S. subsidiaries. Based on cash on hand and credit facilities, we anticipate that the Company has sufficient capital resources to operate for the foreseeable future. We were in compliance with all debt covenants as of September 30, 2016.

On April 8, 2016, we entered into a $550 million unsecured Five-Year Revolving Credit Facility Agreement (the "Credit Agreement") which amends and restates the Prior $400 million Agreement, entered into on June 18, 2015 (the "Prior Agreement"). Under the Credit Agreement, $425 million of borrowings were outstanding as of September 30, 2016. The applicable interest rate for borrowings was LIBOR plus a spread, based on our leverage ratio at the time of borrowing. At the time of the last borrowing on September 16, 2016, the spread was 1.500%. The spread was based on a pricing grid, which ranged from 1.250% to 1.750%, based on our leverage ratio. Based on our maximum leverage ratio and our Consolidated EBITDA, and without modification to any other credit agreements, as of September 30, 2016, we would have been able to borrow an additional $125 million under the Agreement.

On May 6, 2016, we terminated our interest rate swap agreements that had effectively fixed the interest rate on up to $120 million of revolving credit borrowings, in order to enter into a new interest rate swap with a greater notional amount, and the same maturity as the Credit Agreement. We paid $5.2 million to terminate the swap agreements and that cost will be amortized into interest expense through June 2020.

On May 9, 2016, we entered into interest rate hedges for the period May 16, 2016 through March 16, 2021. These transactions have the effect of fixing the LIBOR portion of the effective interest rate (before addition of the spread) on $300 million of indebtedness drawn under the Credit Agreement at the rate of 1.245% during the period. Under the terms of these transactions, we pay the fixed rate of 1.245% and the counterparties pay a floating rate based on the one-month LIBOR rate at each monthly calculation date, which on September 16, 2016 was 0.530%. The net effect is to fix the effective interest rate on $300 million of indebtedness at 1.245%, plus the applicable spread, during the swap period. On September 16, 2016, the all-in-rate on the $300 million of debt was 2.745%.

As of September 30, 2016, our leverage ratio, including the pro-forma effect of the acquisition, was 2.38 to 1.00 and our interest coverage ratio was 12.93 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 3.50 to 1.00 after giving pro forma effect to the acquisition.

For more information, see Note 14 to the Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

Off-Balance Sheet Arrangements

As of September 30, 2016, we have no off-balance sheet arrangements required to be disclosed pursuant to Item 303(a)(4) of Regulation S-K.

Recent Accounting Pronouncements

The information set forth under Note 18 contained in Item 1, "Notes to Consolidated Financial Statements", which is incorporated herein by reference.

Non-GAAP Measures

This Form 10-Q contains certain non-GAAP metrics, including: percent change in net sales excluding currency rate effects (for each segment and the Company as a whole); EBITDA and Adjusted EBITDA (for each segment and the Company as a whole); net debt; and net income per share attributable to the Company, excluding adjustments. Such items are provided because management believes that, when reconciled from 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. EBITDA, or net income with interest, taxes, depreciation, and amortization added back, is a common indicator of financial performance used, among other things, to analyze and compare core profitability between companies and industries because it eliminates effects due to differences in financing, asset bases and taxes. An understanding of the impact in a particular quarter of specific restructuring costs, acquisition expenses, currency revaluation, or other gains and losses, on net income (absolute as well as on a per-share basis), operating income or EBITDA can give management and investors additional insight into core financial performance, especially when compared to quarters in which such items had a greater or lesser effect, or no effect. Restructuring expenses in the MC segment, while frequent in recent years, are reflective of significant reductions in manufacturing capacity and associated headcount in response to shifting markets, and not of the profitability of the business going forward as restructured. Net debt is, in the opinion of the Company, helpful to investors wishing to understand what the Company's debt position would be if all available cash were applied to pay down indebtedness. EBITDA, Adjusted EBITDA and net income per share, excluding adjustments, are performance measures that relate to the Company's continuing operations.

Percent changes in net sales, excluding currency rate effects, is calculated by converting amounts reported in local currencies into U.S. dollars at the exchange rate of a prior period. That amount is then compared to the U.S. dollar amount reported in the current period. The Company calculates EBITDA by removing the following from Net income: Interest expense net, Income tax expense, and Depreciation and amortization. Adjusted EBITDA is calculated by: adding to EBITDA costs associated with restructuring and pension settlement charges; adding (or subtracting) revaluation losses (or gains); subtracting (or adding) gains (or losses) from the sale of buildings or investments; subtracting insurance recovery gains; subtracting (or adding) Income (or loss) attributable to the non-controlling interest in Albany Safran Composites (ASC); and adding expenses related to the Company's acquisition of Harris Corporation's composite aerostructures division. Net income per share, excluding adjustments, is calculated by adding to (or subtracting from) net income attributable to the Company per share, on an after-tax basis: restructuring charges; discrete tax charges (or gains) and the effect of changes in the income tax rate; foreign currency revaluation losses (or gains); acquisition expenses; and losses (or gains) from the sale of investments.

EBITDA, Adjusted EBITDA, and net income per share, excluding adjustments, as defined by the Company, may not be similar to EBITDA measures of other companies. Such measures are not considered measurements under GAAP, and should be considered in addition to, but not as substitutes for, the information contained in the Company's statements of income.

The following tables show the calculation of EBITDA and Adjusted EBITDA:

Three months ended September 30, 2016

(in thousands)	**Machine Clothing**	**AEC**	**Corporate expenses and other**	**Total Company**
Net income (GAAP)	$40,039	($4,529)	($22,101)	**$13,409**
Interest expense, net		-	3,681	**3,681**
Income tax expense	-	-	7,488	**7,488**
Depreciation and amortization	9,032	8,027	1,386	**18,445**
EBITDA (non-GAAP)	49,071	3,498	(9,546)	**43,023**
Restructuring expenses, net	(212)	640	(102)	**326**
Foreign currency revaluation (gains)/losses	86	-	(308)	**(222)**
Acquisition expenses	-	-	-	**-**
Pretax (income)/loss attributable to the noncontrolling interest in ASC	-	(428)	-	**(428)**
Adjusted EBITDA (non-GAAP)	$48,945	$3,710	($9,956)	**$42,699**

Three months ended September 30, 2015

(in thousands)	**Machine Clothing**	**AEC**	**Corporate expenses and other**	**Total Company**
Net income/(loss) (GAAP)	$41,956	($4,191)	($28,085)	$9,680
Interest expense, net	-	-	2,671	2,671
Income tax expense	-	-	12,243	12,243
Depreciation and amortization	9,660	2,981	2,102	14,743
EBITDA (non-GAAP)	51,616	(1,210)	(11,069)	39,337
Restructuring expenses, net	3,717	-	-	3,717
Foreign currency revaluation (gains)/losses	(2,005)	-	957	(1,048)
Pretax income attributable to the noncontrolling interest in ASC	-	(25)	-	(25)
Adjusted EBITDA (non-GAAP)	$53,328	($1,235)	($10,112)	$41,981

Nine months ended September 30, 2016

(in thousands)	**Machine Clothing**	**AEC**	**Corporate expenses and other**	**Total Company**
Net income (GAAP)	$112,583	($14,083)	($61,674)	**$36,826**
Interest expense, net	-	-	9,610	**9,610**
Income tax expense	-	-	20,613	**20,613**
Depreciation and amortization	27,845	17,778	5,601	**51,224**
EBITDA (non-GAAP)	140,428	3,695	(25,850)	**118,273**
Restructuring expenses, net	5,921	1,787	(55)	**7,653**
Foreign currency revaluation (gains)/losses	1,646	5	(2,355)	**(704)**
Acquisition expenses	-	5,367	-	**5,367**
Pretax loss attributable to the noncontrolling interest in ASC	-	36	-	**36**
Adjusted EBITDA (non-GAAP)	$147,995	$10,890	($28,260)	**$130,625**

Nine months ended September 30, 2015

(in thousands)	**Machine Clothing**	**AEC**	**Corporate expenses and other**	**Total Company**
Net income (GAAP)	$110,969	($26,635)	($64,535)	**$19,799**
Interest expense, net	-	-	8,049	**8,049**
Income tax expense	-	-	20,398	**20,398**
Depreciation and amortization	30,077	8,845	6,359	**45,281**
EBITDA (non-GAAP)	141,046	(17,790)	(29,729)	**93,527**
Restructuring expenses, net	13,929	-	-	**13,929**
Foreign currency revaluation (gains)/losses	(4,534)	(17)	406	**(4,145)**
Gain on sale of investment	-	-	(872)	**(872)**
Pretax income attributable to the noncontrolling interest in ASC	-	(115)	-	**(115)**
Adjusted EBITDA (non-GAAP)	$150,441	($17,922)	($30,195)	**$102,324**

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 quarterly per-share amount for items included in continuing operations by using the income tax rate based on income from continuing operations and the weighted-average number of shares outstanding for each period. Year-to-date earnings per-share effects are determined by adding the amounts calculated at each reporting period.

The following tables show the earnings per share effect of certain income and expense items:

Three months ended September 30, 2016	**Pre tax**	**Tax**	**After tax**	**Per Share**
(in thousands, except per share amounts)	**Amounts**	**Effect**	**Effect**	**Effect**
Restructuring expenses, net	$326	$122	$204	$0.01
Foreign currency revaluation gains	222	83	139	0.00
Favorable effect of change in income tax rate	-	425	425	0.01
Net discrete income tax charge	-	74	74	0.00

Three months ended September 30, 2015	**Pre tax**	**Tax**	**After tax**	**Per Share**
(in thousands, except per share amounts)	**Amounts**	**Effect**	**Effect**	**Effect**
Restructuring expenses, net	$3,717	$1,412	$2,305	$0.07
Foreign currency revaluation gains	1,048	398	650	0.02
Favorable effect of change in income tax rate	-	1,002	1,002	0.03
Net discrete income tax charge	-	4,914	4,914	0.15

Nine months ended September 30, 2016	**Pre tax**	**Tax**	**After tax**	**Per Share**
(in thousands, except per share amounts)	**Amounts**	**Effect**	**Effect**	**Effect**
Restructuring expenses, net	$7,653	$2,965	$4,688	0.15
Foreign currency revaluation gains	704	$256	448	0.01
Acquisition expenses	5,367	1,933	3,434	0.11
Net discrete income tax benefit	-	932	932	0.03

Nine months ended September 30, 2015	**Pre tax**	**Tax**	**After tax**	**Per Share**
(in thousands, except per share amounts)	**Amounts**	**Effect**	**Effect**	**Effect**
Restructuring expenses, net	$13,929	$5,280	$8,649	$0.27
Foreign currency revaluation gains	4,145	1,597	2,548	0.08
Gain on sale of investment	872	331	541	0.02
Net discrete income tax charge	-	5,113	5,113	0.16
Charge for revision in estimated contract profitability	14,000	5,180	8,820	0.28

The following table contains the calculation of net income per share attributable to the Company, excluding adjustments:

	Three months ended September 30,		**Nine months ended September 30,**	
Per share amounts (Basic)	**2016**	**2015**	**2016**	**2015**
Net income attributable to the Company (GAAP)	**$0.41**	$0.30	**$1.15**	$0.62
Adjustments:				
Restructuring expenses, net	**0.01**	0.07	**0.15**	0.27
Discrete tax charges/(benefit)	**(0.01)**	0.12	**(0.03)**	0.16
Foreign currency revaluation gains	**-**	(0.02)	**(0.01)**	(0.08)
Acquisition expenses	**-**	-	**0.11**	-
Gain on sale of investment	**-**	-	**-**	(0.02)
Net income attributable to the Company, excluding adjustments (non-GAAP)	**$0.41**	$0.47	**$1.37**	$0.95

The following table contains the calculation of net debt:

(in thousands)	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**

Notes and loans payable	$343	$531	$590	$587
Current maturities of long-term debt	1,462	566	16	16
Long-term debt	490,003	485,215	255,076	265,080
Total debt	**$491,808**	**486,312**	**255,682**	**265,683**
Cash and cash equivalents	196,170	176,025	169,615	185,113
Net debt	**$295,638**	**$310,287**	**$86,067**	**$80,570**

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”, 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. The scope of the Company’s assessment of the effectiveness of its disclosure controls and procedures does not include any disclosure controls and procedures of Albany Aerostructures Composites LLC (AAC) which was acquired in April 2016. This exclusion is in accordance with the SEC's general guidance that a recently acquired business may be omitted from the scope of the assessment in the year of acquisition.

(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. The Company is currently evaluating AAC’s processes, information technology systems, and other components of internal controls over financial reporting as a part of the Company's integration activities, which may result in control changes. Such changes will be disclosed as required by applicable SEC guidance.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information set forth above under Note 16 in Item 1, "Notes to Consolidated Financial Statements" is incorporated herein by reference.

Item 1A. Risk Factors

For discussion of risk factors, refer to Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. As a result of the Company's business acquisition in the second quarter of 2016, we have modified one of the risk factors in that filing, as noted below:

AEC is subject to significant short- and medium-term risks related to execution in the LEAP program, and integration of the composite aerostructures business acquired from Harris Corporation

The expected size and steep growth rate of the market for LEAP engines continues to put significant pressure on AEC to execute in the short- and medium-term. In the short term, AEC must continue to fulfill critical program schedule and production-readiness milestones at its LEAP facilities in Rochester, New Hampshire and Commercy, France, as well as at the third LEAP facility in Queretaro, Mexico, which recently broke ground and is targeted to come on line in 2017. In the medium-term, AEC will be required to continue to ramp up all three LEAP plants to full production. AEC's ability to realize the full growth potential of the LEAP program will depend on how effectively it accomplishes these goals. The Company's recent acquisition of the composite aerostructures business of Harris Corporation also poses a number of risks. Such risks include, but are not limited to, those associated with the assimilation and integration of operations, business systems and business methods, and the diversion of management attention from other business concerns. Failure by AEC to accomplish these LEAP execution goals, or to successfully manage these integration risks, could have a material adverse impact on the amount and timing of anticipated AEC sales and profitability, which could in turn have a material adverse impact on our consolidated financial results.

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

We made no share purchases during the third quarter of 2016. 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 September 30, 2016.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in extensible Business Reporting Language (XBRL), filed herewith:

(i) Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015.
(ii) Consolidated Statements of Comprehensive Income/(Loss) for the three and nine months ended September 30, 2016 and 2015.
(iii) Consolidated Balance Sheets at September 30, 2016 and December 31, 2015.
(iv) Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2016 and 2015.
(v) 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 1, 2016

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