ALBANY INTERNATIONAL CORP /DE/
Form 10-K
March 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2006

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: 0-16214

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**14-0462060**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1373 Broadway, Albany, New York	**12204**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock ($0.001 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2006, the last business day of the registrant s most recently completed second quarter, computed by reference to the price at which Common Stock was last sold on such a date, was $1,092,628,405.

The registrant had 26,016,200 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of February 14, 2007.

DOCUMENTS INCORPORATED BY REFERENCE	PART
Portions of the Registrant s Proxy Statement for the Annual Meeting of Shareholders to be held on April 13, 2007.	III

15

TABLE OF CONTENTS

PART I

Item 1.	Business	18
Item 1A.	Risk Factors	25
Item 1B.	Unresolved Staff Comments	31
Item 2.	Properties	31
Item 3.	Legal Proceedings	31
Item 4.	Submission of Matters to a Vote of Security Holders	33

PART II

Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	34
Item 6.	Selected Financial Data	35

Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	36
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	50
Item 8.	Financial Statements and Supplementary Data	51
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	90
Item 9A.	Controls and Procedures	90
Item 9B.	Other Information	90
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	91
Item 11.	Executive Compensation	91
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	92
Item 13.	Certain Relationships, Related Transactions and Director Independence	94
Item 14.	Principal Accountant Fees and Services	94
	PART IV	
Item 15.	Exhibits and Financial Statement Schedule	95

Forward-Looking Statements

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

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

conditions in the industry in which the Company s Paper Machine Clothing segment competes or in the papermaking industry in general, along with general risks associated with economic downturns;

failure to remain competitive in the industry in which the Company s Paper Machine Clothing segment competes;

failure to receive the benefits from the Company s capital expenditures and investments; and

other risks and uncertainties detailed from time to time in the Company s filings with the SEC.

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 the Industry Factors , Risk Factors, and Trends and Challenges sections of this annual report. Although the Company believes the expectations reflected in the Company s forward-looking statements are based upon reasonable assumptions, it is not possible to foresee or identify all factors that could have a material and negative impact on the Company s future performance. The forward-looking statements included or incorporated by reference in this annual report are made on the basis of management s assumptions and analyses, as of the time the statements are made, in light of their experience and perception of historical conditions, expected future developments, and other factors believed to be appropriate under the circumstances.

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

PART I

Item 1. BUSINESS

Albany International Corp. (the Registrant, the Company, or we) and its subsidiaries are engaged in three business segments.

The Paper Machine Clothing segment includes fabrics and belts used in the manufacture of paper and paperboard (PMC or paper machine clothing). The Company designs, manufactures, and markets paper machine clothing for each section of the paper machine. It manufactures and sells more paper machine clothing worldwide than any other company. PMC consists of large continuous belts of custom-designed and custom-manufactured engineered fabrics that are installed on paper machines and carry the paper stock through each stage of the paper production process. PMC products are consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure. The design and material composition of PMC can have a considerable effect on the quality of paper products produced and the efficiency of the paper machines on which it is used. Principal products in the PMC segment include forming, pressing and dryer fabrics, and process belts. A forming fabric assists in sheet formation and conveys the very dilute sheet through the section. Press fabrics are designed to carry the sheet through the presses, where water pressed from the sheet is carried through the press nip in the fabric. In the dryer section, dryer fabrics manage air movement and hold the sheet against heated cylinders to enhance drying. Process belts are used in the press section to increase dryness and enhance sheet properties, as well as in other sections of the machine to improve runnability and enhance sheet qualities. The Company s customers in the PMC segment are paper industry companies, many of which operate worldwide. The Company s manufacturing processes and distribution channels for PMC are substantially the same in each region of the world in which it operates.

The Applied Technologies segment includes the businesses that apply the Company s core competencies in advanced textiles and materials to other industries, including specialty materials and composite structures for aircraft and other applications (Albany Engineered Composites); fabrics, wires, and belting products for the nonwovens and pulp industries (Albany Engineered Fabrics); specialty filtration products for wet and dry applications (Albany Filtration Technologies); industrial belts for tannery, textile and corrugator applications (Albany Industrial Process Belts);and a branded synthetic insulation for home furnishings and technical outerwear (PrimaLoft®). Engineered Fabrics and the Industrial Process Belt businesses, which have similar technology platforms, merged in 2006 into one organization, with a single management, administrative and sales/service team. No class of similar products or services within this segment accounted for 10% or more of the Company s consolidated net sales in any of the past three years.

Albany Door Systems manufactures, sells, and services high-speed, high-performance industrial doors. The business grew from an internal invention applying the company s coated fabric technology to produce a rolling fabric door. Albany s Rapid Roll® doors are produced and sold in Europe, North America, and the Pacific and there are more than 100,000 installations worldwide. No class of similar products or services within this segment accounted for 10% or more of the Company s consolidated net sales in any of the past three years.

Following is a table of net sales by segment for 2006, 2005, and 2004.

(in thousands)	2006	2005	2004
Net Sales			
Paper Machine Clothing	**$ 737,070**	$732,918	$687,885
Applied Technologies	**149,742**	129,303	119,144
Albany Door Systems	**124,646**	116,489	112,773
Consolidated total	**$1,011,458**	$978,710	$919,802

The table setting forth certain sales and balance sheet data that appears in Note 12, Reportable Segments and Geographic Data of the Financial Statements, included under Item 8 of this Form 10-K, is incorporated herein.

Industry Factors

The Company s primary segment, Paper Machine Clothing, accounted for more than 70% of consolidated revenues during 2006. Paper machine clothing is purchased primarily by manufacturers of paper and paperboard.

According to data published by RISI, Inc., world paper and paperboard production volumes have grown at an annual rate of approximately 2.7% over the last ten years. Based on data from Pöyry Forest Industry Consulting, world demand for paper is expected to grow for at least the next decade driven by expected increases in global population and per capita paper consumption in less developed regions of the world. The paper and paperboard industry has been characterized by an evolving but essentially stable manufacturing technology based on the wet-forming papermaking process. This process, of which paper machine clothing is an integral element, requires a very large capital investment. Consequently, management does not believe that a commercially feasible substitute technology to paper machine clothing is likely to be developed and incorporated into the paper production process by paper manufacturers in the foreseeable future. For this reason, management expects that demand for paper machine clothing will continue into the foreseeable future.

The world paper and paperboard industry tends to be cyclical, with periods of healthy paper prices followed by increases in new capacity, which then leads to increased production and higher inventories of paper and paperboard, followed by a period of price competition and reduced profitability among the Company s customers. Although sales of paper machine clothing do not tend to be as cyclical, the Company may experience somewhat greater demand during periods of increased production and somewhat reduced demand during periods of lesser production.

The world paper and paperboard industry experienced a significant period of consolidation and rationalization from approximately 2000 through 2004. During this period, reduced global consumption of paper machine clothing contributed to a decline in the Company s year-on-year sales of paper machine clothing products in each of 2002, 2003 and 2004, after adjusting for currency translation effects.

While significant consolidation among paper and paperboard suppliers slowed after 2004, machine closures, or announcements of additional machine closures, continued during 2005 and 2006 in North America as well as Europe. During this period, a number of older, less efficient machines in areas (such as North America) where significant established capacity existed were closed or were the subject of planned closure announcements, while at the same time a number of newer, faster and more efficient machines began production or plans for the installation of such newer machines were announced in areas of growing demand for paper and paperboard (such as Asia). Management anticipates that this trend is likely to continue in the near term.

At the same time, technological advances in paper machine clothing, while contributing to the papermaking efficiency of customers, have in some cases lengthened the useful life of the Company s products and reduced the number of pieces required to produce the same volume of paper. While the Company is often able to charge higher prices for its products or increase market share in certain areas as a result of these improvements, increased prices and market share may not always be sufficient to offset completely a decrease in the number of fabrics sold.

The Company was largely able to overcome the negative effects of these trends on segment revenues in each of 2005 and 2006; year-on-year sales of paper machine clothing increased in each year, after adjusting for currency translation effects and, in 2006, the effect of a change in contract terms with a major customer.

The Company s strategy for dealing with the trends in this segment is to continue to focus on providing solutions for customers through new products and services, and to continue to reduce costs within this segment. During 2006, the Company reorganized its PMC research and product development function. As a result, the Company s focus has sharpened, leaving it better able to bring more added-value products to market faster. In addition, management continued to pursue cost-saving and process improvement opportunities, and the ongoing investments in new capacity in Asia and Latin America should further improve operating efficiency and further align productive capacity to match shifting global demand.

During 2006, the Company reported that price competition in Europe could have an adverse impact on the Company s operating results in this segment. Sales of paper machine clothing to customers in Europe were significantly lower in the third and fourth quarters of 2006 than in the comparable quarters of 2005, as the Company lost sales on its least differentiated products to lower-priced competitive offerings. These declines also reduced operating income within this segment, as well as overall operating income, during these quarters, compared to the comparable quarters of 2005. Management expects to regain volume as the result of taking action to close the gap between the Company s pricing and that of the competition in late 2006, and is hopeful that it can restore the negative impact on operating income from these developments by the end of 2007.

The Applied Technologies segment has experienced significant growth in net sales during the last few years, due both to the introduction of both new products as well as growth in demand and application for previously existing products. Sales in this segment increased 14.8% during 2006, excluding the effect of changes in currency translation rates, while operating income declined as the Company ramped-up manufacturing and engineering to meet higher order backlog. During 2006, management commented on the significant growth prospects for the businesses within this segment, including Albany Engineered Composites. The principal challenges and opportunities in this segment involve managing this growth opportunity.

The Albany Door Systems segment derives most of its revenue from the sale of high-performance doors, particularly to customers in Europe. The purchase of these doors is normally a capital expenditure item for customers and, as such, market opportunities tend to fluctuate with industrial capital spending. If economic conditions were to weaken, customers may reduce levels of capital expenditures, which could have a negative effect on sales and earnings in the Albany Door Systems segment. The large amount of revenue derived from sales and manufacturing outside the United States could cause the reported financial results for the Albany Door Systems segment to be more sensitive than the other segments of the Company to changes in currency rates.

International Operations

The Company maintains manufacturing facilities in Australia, Brazil, Canada, China, Finland, France, Germany, the United Kingdom, Italy, Mexico, South Korea, Sweden, and the United States. The Company also has a 50% interest in certain companies (see Note 1 of Notes to Consolidated Financial Statements).

The Company s geographically diversified operations allow it to serve its markets efficiently and to provide extensive technical services to its customers. The Company benefits from the transfer of research and development and product innovations between geographic regions. The worldwide scope of the Company s manufacturing and marketing efforts also mitigates the impact on the Company of economic downturns that are limited to a geographic region.

The Company s global presence subjects it to certain risks, including controls on foreign exchange and the repatriation of funds. However, the Company has been able to repatriate earnings in excess of working capital requirements from the countries in which it operates without substantial governmental restrictions and does not foresee any material changes in its ability to continue to do so in the future. In addition, the Company believes that the risks associated with its operations outside the United States are no greater than those normally associated with doing business in these locations.

Marketing, Customers, and Backlog

Paper machine clothing is custom-designed for each user, depending on the type, size, and speed of the paper machine, the machine section, the grade of paper being produced, and the quality of the pulp stock used. Technical expertise, judgment, and experience are critical in designing the appropriate clothing for each position on the machine. As a result, the Company employs highly skilled sales and technical service personnel who work directly with paper mill operating management. The Company s technical service program gives its service engineers field access to the measurement and analysis equipment needed for troubleshooting and application engineering. Sales, service, and technical expenses are major cost components of the Company. The Company employs approximately 1,200 people in the sales and technical functions combined, many of whom have engineering degrees or paper mill experience. The Company s market leadership position reflects the Company s commitment to technological innovation.

Payment terms granted to paper industry customers reflect general competitive practices. Terms vary with product, competitive conditions, and the country of operation. In some markets, customer agreements require the Company to maintain significant amounts of finished goods inventories to assure continuous availability of paper machine clothing.

The Company s Applied Technologies segment has a wide range of customers, with markets that vary from industrial applications to consumer use. Albany Engineered Composites serves primarily the aerospace industry, with custom-designed composite and advanced composite parts for static and dynamic applications. The Engineered Fabrics business is a leading supplier to the nonwovens industry (which includes the manufacture of products such as diapers, personal care and household wipes and fiberglass-reinforced roofing shingles), the wood and cement-based building products industry and the pulp industry. In addition, the Engineered Fabrics business and the Industrial Process Belt business, which serves the corrugator, tannery and textile businesses, merged in 2006 into one organization, with a single management, administrative and sales/service team. Albany Filtration Technologies focuses on wet and dry filtration applications for process industries such as mining, petrochemical and power generation. PrimaLoft® synthetic down is used in high-end retail home furnishings and performance outerwear applications. Each of these technologies is grounded in the Company s core competencies in advanced textiles and materials, structures and coatings.

Albany Door Systems provides high-performance door solutions to industrial and commercial customers. The doors are designed for applications in which frequent use requires fast opening and closing. Rapid Roll® Doors open and close very fast, can be designed to operate automatically with traffic, and have automatic breakaway and reset ability to limit impact damage. The Company has manufacturing locations in Germany, Sweden, the United States, Australia, and China. Albany Door Systems also provides aftermarket service and support for high-performance and other dock and door products from 16 sales and service centers located in Europe and Australia.

Historically the Company experienced its highest consolidated quarterly sales levels in the fourth quarter of each fiscal year. Seasonal sales strength, however, especially in the PMC segment, is now less predictable. Although some businesses within the Applied Technologies segment are influenced by seasonality, the sales growth in the last few years overshadows any cyclical trends. The Albany Door Systems segment typically experiences its highest sales in the fourth quarter of the year.

The Company does not have any customers that individually account for more than 10% of consolidated net sales. The Company s order backlog at December 31, 2006, was $525.0 million, an increase of 2.6% from the prior year-end. Excluding the effect of changes in currency translation rates, backlog decreased approximately 1.7% in comparison to December 31, 2005. The December 31, 2006 backlog by segment was $451.3 million in PMC, $62.5 million in Applied Technologies, and $11.2 million in Albany Doors. The backlog as of December 31, 2006 is generally expected to be invoiced during the next 12 months.

Research and Development

The Company invests in research, new product development, and technical analysis with the objectives of maintaining its technological leadership in the paper machine clothing industry and supporting growth in the Applied Technologies segment. While much research activity supports existing products, the Company also engages in research for new products and product enhancements. New product research has focused primarily on more sophisticated paper machine clothing and has resulted in a stream of new products and enhancements such as HYDROCROSS, SPEEDPLANE and AEROPULSE.

Product engineering and research and development expenses totaled $31.7 million (3% of net sales) in 2006, $28.1 million in 2005, and $27.4 million in 2004. In addition, the Company spent $32.9 million (3% of net sales) in 2006, $30.7 million in 2005, and $29.7 million in 2004 on technical expenditures that are focused on design, quality assurance, and customer support.

The Company conducts its major research at its operations in Mansfield, Massachusetts; Sélestat, France; and Halmstad, Sweden. Additionally, the Company conducts process and product design development activities at manufacturing locations in Göppingen, Germany; Albany, New York; and Menasha, Wisconsin.

The Company holds a number of patents, trademarks, tradenames, and licenses. There are no individual patents that are critical to the continuation of the Company s business. All brand names and product names are tradenames of Albany International Corp. or its subsidiaries. The Company has from time to time licensed some of its patents to one or more competitors, and has been licensed under some competitors patents, in each case mainly to enhance customer acceptance of new products. The revenue from such licenses is less than 1% of consolidated net sales.

Raw Materials and Inventory

Primary raw materials for the Company s products are synthetic fibers and polymer monofilaments, which have generally been available from a number of suppliers. The Company, therefore, has not needed to maintain raw material inventories in excess of its current needs to assure availability. In addition, the Company manufactures polymer monofilaments, a basic raw material for all types of paper machine clothing, at its facility in Homer, New

York, which supplies approximately 36% of its worldwide monofilament requirements. This manufacturing enhances the ability of the Company to develop proprietary products and helps balance the total supply requirements for monofilaments. Polymer monofilaments are petroleum-based products and are therefore sensitive to changes in the price of petroleum and petroleum intermediates.

Competition

The paper machine clothing business includes several companies that compete in all global markets, along with a number of companies that compete primarily on a regional basis. In the paper machine clothing market, the Company believes that it had a worldwide market share of approximately 30% in 2006, while the largest competitors each had a market share of approximately half of the Company s. Market shares vary depending on the country and the type of paper machine clothing produced.

While some competitors in the paper machine clothing industry tend to compete more on the basis of price, and others attempt to compete more on the basis of technology, both are significant competitive factors in this industry. The Company, like its competitors, provides diverse services to customers through its sales and technical service personnel, including (1) consulting on performance of the paper machine, (2) consulting on paper machine configurations, both new and rebuilt, (3) selection and custom manufacture of the appropriate paper machine clothing, and (4) storing fabrics for delivery to the user.

For some of the businesses within the Applied Technologies segment, the competitive dynamics are very similar to the paper machine clothing industry. In other product lines, such as Albany Engineered Composites and PrimaLoft®, competitive success is heavily dependent upon contractual relationships with customers.

The Albany Door Systems segment derives approximately two-thirds of its net sales from the sale of high-performance doors, and the remainder from aftermarket service and support. Competition for sales of high-performance doors is based on product performance and price, while competitive factors in the aftermarket business include technical service ability and proximity to the customer.

Employees

The Company employs approximately 6,150 persons, of whom approximately 67% are engaged in manufacturing the Company s products. Wages and benefits are competitive with those of other manufacturers in the geographic areas in which the Company s facilities are located. In general, the Company considers its relations with its employees to be excellent.

Executive Officers of Company

The following table sets forth certain information with respect to the executive officers of the Company as of March 1, 2007:

Name	Age	Position
Joseph G. Morone	53	President and Chief Executive Officer
William M. McCarthy	56	Executive Vice President Global Planning, Engineering, and Procurement
Michael C. Nahl	64	Executive Vice President and Chief Financial Officer
Daniel A. Halftermeyer	45	Group Vice President PMC Europe
Michael J. Joyce	43	Group Vice President PMC Americas
David B. Madden	50	Group Vice President PMC Asia and Pacific
Frank Kolf	60	Senior Vice President Global Procurement and Supply Chain Management
Ralph M. Polumbo	55	Senior Vice President Human Resources
John C. Standish	43	Senior Vice President Manufacturing, Americas Business Corridor
Richard A. Carlstrom	63	Vice President Controller
Robert A. Hansen	49	Vice President Corporate Research and Development

Name	Age	Position
Kenneth C. Pulver	63	Vice President Global Marketing and Communications
Charles J. Silva, Jr.	47	Vice President General Counsel and Secretary

Name	Age	Position
Dawne H. Wimbrow	49	Vice President Global Information Services and Chief Information Officer
Christopher J. Connally	54	Corporate Treasurer
Joseph M. Gaug	43	Associate General Counsel and Assistant Secretary

Joseph G. Morone joined the Company in 2005. He has served the Company as President and Chief Executive Officer since January 1, 2006, and President since August 1, 2005. He has been a director of the Company since 1996. From 1997 to July 2005, he served as President of Bentley College in Waltham, Massachusetts. Prior to joining Bentley, he served as the Dean of the Lally School of Management and Technology at Rensselaer Polytechnic Institute, where he also held the Andersen Consulting Professorship of Management. He currently serves as a director of Transworld Entertainment Corporation.

William M. McCarthy joined the Company in 1977. He has served the Company as Executive Vice President Global Planning, Engineering and Procurement since January 19, 2006. He previously served as Executive Vice President PMC from March 1, 2005, Group Vice President Technology and the Pacific Region from 2003 to March 1, 2005, Group Vice President Canada, Pacific, and Latin America from 2001 to 2002, and Senior Vice President from 1997 to 2001, and since 1991 has held various positions for Press Fabrics U.S., including Vice President and General Manager, Vice President Marketing, and Technical Director. From 1988 to 1991 he was Technical Director for Continental Europe Press Fabrics.

Michael C. Nahl joined the Company in 1981. He has served the Company as Executive Vice President since March 1, 2005, and Chief Financial Officer since 1983. He served as Senior Vice President from 1983 to March 1, 2005, and prior to 1983 as Group Vice President. From 1965 to 1979 he served in marketing, financial, logistical, analytical, and management positions for the Exxon Corporation, and from 1979 to 1981 he was with General Refractories Corporation as Director of Strategic Planning and Vice President and Chief Financial Officer. He is a Director of GrafTech International Ltd. and of Lindsay Manufacturing Co.

Daniel A. Halftermeyer joined the Company in 1987. He has served the Company as Group Vice President PMC Europe since March 1, 2005, Vice President and General Manager North American Dryer Fabrics from 1997 to March 1, 2005, and Technical Director Dryer Fabrics from 1993 to 1997. He held various technical and management positions in St. Stephen, South Carolina, and Sélestat, France from 1987 to 1993.

Michael J. Joyce joined the Company in 1987. He has served as Group Vice President PMC Americas since March 1, 2007, Vice President Sales and Marketing PMC Americas from March 1, 2005 to March 1, 2007, Vice President Marketing and Application North American Press Fabrics from July 1, 2003 to March 1, 2005, and Vice President Marketing Geschmay Corporate from 2002 to 2003. He held various sales, marketing, technical, and management positions in Kalamazoo, Michigan; Albany; New York; and Greenville, South Carolina, from 1987 to 2002.

David B. Madden joined the Company in 1992. He has served the Company as Group Vice President Asia and Pacific since April 1, 2006, Vice President and General Manager Global Process Belts from 2003 to 2006, Vice President Global Process Belts and Corporate Engineering from 1999 to 2003, and various marketing positions for North America Dryer Fabrics and Global Process Belts from 1992 to 1999. Prior to joining the Company he was with Willamette Industries.

Frank Kolf joined the Company in 2001. He has served the Company as Senior Vice President Global Procurement and Supply Chain Management since January 19, 2006. He previously served the Company as Senior Vice President Administration and Development from 2001. Prior to joining the Company, he served as Executive Vice President and Chief Financial Officer for the Wangner Group.

Ralph M. Polumbo joined the Company in 2006. He has served the Company as Senior Vice President Human Resources since April 3, 2006. From 2004 to April 2006, he served as Head of Human Capital for Deephaven Capital Management. From 1999 to 2004, he served as Vice President Human Resources and Business Integration

for MedSource Technologies. Prior to MedSource, he held the positions of Vice President Integration, and Vice President Human Resources for Rubbermaid. From 1974 to 1994, he held various management and executive positions for The Stanley Works.

John C. Standish joined the Company in 1986. He has served the Company as Senior Vice President Manufacturing, Americas Business Corridor since April 7, 2005. He previously served the Company as Senior Vice President Manufacturing from March 1, 2005, Director, North American Dryer Manufacturing from 2003 to March 1, 2005, Director, PAC Pressing and Process Technology from 2000 to 2003, Manager of the Company s forming and engineered fabrics manufacturing facility in Portland, Tennessee from 1998 to 2000, Production Manager of Albany International B.V. in Europe from 1994 to 1998, Department Manager Press Fabrics Division from 1991 to 1994 and Design Engineer for Albany International Canada from 1986 to 1991. He has been a Director of the Company since 2001.

Richard A. Carlstrom joined the Company in 1972. He has served the Company as Vice President Controller since 1993, Controller since 1980, and Controller of a U.S. division from 1975 to 1980.

Robert A. Hansen joined the Company in 1981. He has served the Company as Vice President Corporate Research and Development since April 2006. He previously served the Company as Director of Technical and Marketing Europe Press Fabrics from 2004. From 2000 to 2004, he served as the Technical Director Press Fabrics, Göppingen, Germany. Previously he had the position of Technical Director in Dieren, The Netherlands, and had also held technical management and research and development positions in the Company s Järvenpää, Finland and Albany, New York facilities.

Kenneth C. Pulver joined the Company in 1968. He has served the Company as Vice President Global Marketing and Communications since April 5, 2005. He previously served the Company as Vice President Corporate Communications since 1997 and as Vice President of Operations for Primaloft from 1992 to 1997. From 1984 to 1992 he served in various marketing positions with Albany Engineered Systems.

Charles J. Silva, Jr. joined the Company in 1994. He has served the Company as Vice President General Counsel and Secretary since 2002 and as Assistant Secretary since 1996. He served as Assistant General Counsel from 1994 until 2002. Prior to 1994, he was an associate with Cleary, Gottlieb, Steen and Hamilton, an international law firm with headquarters in New York City.

Dawne H. Wimbrow joined the Company in 1993. She has served the Company as Vice President Global Information Services and Chief Information Officer since September 2005. She previously served the Company in various management positions in the Global Information Systems organization. From 1980 to 1993, she worked as a consultant supporting the design, development, and implementation of computer systems for various textile, real estate, insurance, and law firms.

Christopher J. Connally joined the Company in 1981. He has served the Company as Corporate Treasurer since August 23, 2005, and as Financial Director, Europe from 2000. Prior to 2000, he served as Controller of several of the Company s business units in the United States and Europe.

Joseph M. Gaug joined the Company in 2004. He has served the Company as Associate General Counsel since 2004 and as Assistant Secretary since 2006. Prior to 2004, he was a principal with McNamee, Lochner, Titus & Williams, P.C., a law firm located in Albany, New York.

The Company is incorporated under the laws of the State of Delaware and is the successor to a New York corporation originally incorporated in 1895, which was merged into the Company in August 1987 solely for the purpose of changing the domicile of the corporation. Upon such merger, each outstanding share of Class B Common Stock of the predecessor New York corporation was changed into one share of Class B Common Stock of the Company. References to the Company that relate to any time prior to the August 1987 merger should be understood to refer to the predecessor New York corporation.

The Company s Corporate Governance Guidelines, Business Ethics Policy, and Code of Ethics for the Chief Executive Officer, Chief Financial Officer, and Controller, and the charters of the Audit, Compensation, and Governance Committees of the Board of Directors are available at the Corporate Governance section of the

Registrant s website (www.albint.com). Stockholders may obtain a copy of any of these documents, without charge, from the Company s Investor Relations Department. The Company s Investor Relations Department may be contacted at:

Investor Relations Department
Albany International Corp.
Post Office Box 1907
Albany, New York 12201-1907
Telephone: (518) 445-2284

Fax: (518) 447-6343
E-mail: investor relations@albint.com

The Company s current reports on Form 8-K, quarterly reports on Form 10-Q, and annual reports on Form 10-K are electronically filed with the Securities and Exchange Commission (SEC), and all such reports and amendments to such reports filed subsequent to November 15, 2002, have been and will be made available, free of charge, through the Company s website (www.albint.com) as soon as reasonably practicable after such filing. The public may read and copy any materials filed by the Company with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, D.C. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company submitted to the New York Stock Exchange the certification required pursuant to Section 303A.12(a) of the Exchange s Corporate Governance Rules in May 2006. The Company submitted to NYSE Area Equities, Inc. (formerly, the Pacific Stock Exchange) a similar certification required pursuant to the governance policies of the Pacific Stock Exchange in June 2006. The Company also filed the certifications required by SEC Rule 13a-14(a) as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2005.

Item 1A. RISK FACTORS

The Company s business, operations, and financial condition are subject to various risks. Some of these risks are described below and in the documents incorporated by reference, and investors should take these risks into account in evaluating any investment decision involving the Company. This section does not describe all risks applicable to the Company, its industry or business, and it is intended only as a summary of certain material factors.

Risks relating to the Company s business and industry

Failure to remain competitive in the industry in which the Company s Paper Machine Clothing segment does business could adversely affect the Company s business, financial condition, and results of operations

The industry in which the Company s Paper Machine Clothing segment does business is very competitive. The Company s Paper Machine Clothing segment accounted for 72.9%, 74.9%, and 74.8% of the Company s consolidated net sales in 2006, 2005, and 2004, respectively. While some competitors in this industry tend to compete more on the basis of price, and others attempt to compete more on the basis of technology, both are significant competitive factors in this industry. The Company s strategy for addressing competition in this industry is to focus on continuous improvement in the technical performance of the Company s products and services in order to deliver greater value to customers than the Company s competitors. During the past three years, the Company has spent an average of 3% of the Company s consolidated net sales on research and development, and the Company expects to spend similar amounts in future periods. Failure to maintain or increase the technical performance of the Company s products in future periods, or to maintain or increase the overall product and service value delivered to customers, could have a material adverse effect on the Company s business, financial condition, and results of operations.

One of the Company s competitors in the Paper Machine Clothing segment has the capability to make and sell paper machines and papermaking equipment as well as other engineered fabrics

While customers historically have viewed the purchase of paper machine clothing and the purchase of paper machines as separate purchasing decisions, the ability to coordinate research and development efforts, and to market

machines and fabrics together could be perceived as providing a competitive advantage. This underscores the importance of the Company s ability to maintain the technical competitiveness and value of the Company s products, and a real or perceived failure to do so could have a material adverse effect on the Company s business, financial condition, and results of operations. Moreover, the Company cannot predict how the nature of competition in this segment may continue to evolve as a result of further consolidation among the Company s competitors, or consolidation involving the Company s competitors and other suppliers to the Company s customers.

Competitive pricing in the PMC industry could adversely affect the Company s net sales and operating income

During 2006 the market for paper machine clothing in Europe was characterized by increased price competition. The Company s net sales in Europe during the third and fourth quarters were negatively affected as the gap between selling prices of the Company and its competitors grew, resulting in lower sales of the Company s least differentiated products. While the Company is hopeful that the negative impact of this on operating income will be overcome during 2007 due to the factors described elsewhere in this report (See Outlook under Item 7), the Company may not succeed as hoped, which could have an adverse impact on profitability.

The Company s current and future capital expenditures and other expenses may not provide the benefit of return on investment

The past several years have seen the closure of paper mills in North America and elsewhere, while new papermaking capacity has been added in Asia and parts of Europe. During this same period, the Company closed and consolidated manufacturing facilities in North America and Europe. The Company expects to continue to make investments in regions of the world, including Asia and Latin America, where the Company anticipates growth. The Company had capital expenditures of $84.5 million, $43.3 million, and $57.1 million in 2006, 2005, and 2004, respectively.

In January 2006, the Company announced a major strategic investment program for paper machine clothing growth. Approximately $150 million will be invested through 2008 in the construction of a new paper machine clothing manufacturing facility in China, in additional forming fabric capacity in Korea and Brazil, and in additional dryer fabric capacity in the Company s existing plant in Panyu, China. The new facility in China will serve as the headquarters of the Company s Pacific Business Corridor and will initially house world-class manufacturing operations for press fabrics.

The Company may not be successful in achieving any of the benefits it hopes to gain from these investments. If the Company is not successful, it could have a negative impact on the Company s growth strategy, financial condition, and results of operations.

The Company may conduct a greater part of its operations in emerging markets in the future, which could involve many uncertainties for the Company in addition to the general risks the Company faces doing business in those markets

As part of the Company s growth strategy, the Company plans to continue to expand its operations, particularly in Asia. The Company also currently has manufacturing facilities in 13 countries; in 2006, 64.3% of consolidated net sales were generated by the Company s non-U.S. subsidiaries. Operations outside of the U.S. are subject to a number of risks and uncertainties, including risks that governments may impose limitations on the Company s ability to repatriate funds; governments may impose withholding or other taxes on remittances and other payments to the Company, or the amount of any such taxes may increase; an outbreak or escalation of any insurrection or armed conflict may occur; governments may seek to nationalize the Company s assets; or governments may impose or increase investment barriers or other restrictions affecting the Company s business. In addition, emerging markets pose other uncertainties, including the protection of the Company s intellectual property, pressure on the pricing of the Company s products, and risks of political instability. The occurrence of any of these conditions could disrupt the Company s business or prevent it from conducting business in particular countries or regions of the world.

The Company receives dividends and other payments or distributions from its non-U.S. operating subsidiaries. If governments were to impose or increase limitations on the Company s ability to repatriate funds or impose or

increase taxes on remittances or other payments, the amount of dividends and other distributions the Company receives from these subsidiaries could be reduced, which could reduce the amount of cash available to satisfy debt obligations and pay dividends.

The Company may incur substantially more debt, which could restrict the Company s ability to pay dividends or make other distributions, among other restrictions

The Company may incur a substantial amount of additional indebtedness in the future. As of December 31, 2006, the Company had borrowed $23 million under its $460 million credit facility. Under this facility, the Company must maintain a leverage ratio (as defined in the agreement) of not greater than 3.50 to 1.00, and an interest coverage ratio (as defined in the agreement) of at least 3.00 to 1.00. As of December 31, 2006, the Company s leverage ratio was 1.61 to 1.00 and its interest coverage ratio was 12.7 to 1.00. The Company may not purchase its Class A common stock or pay dividends unless the Company s leverage ratio remains at or below 2.50 to 1.00 and may not make acquisitions if the Company s leverage ratio would exceed 3.00 to 1.00 after giving pro forma effect to the acquisition. Based on the maximum leverage ratio permitted under these facilities, and the Company s consolidated EBITDA (as defined in the agreement) for 2006, the Company currently could incur an additional $315 million of indebtedness.

Any additional indebtedness incurred could increase the risks associated with substantial leverage. These risks include limiting the Company s ability to make acquisitions or capital expenditures to grow the Company s business, limiting the Company s ability to withstand business and economic downturns, limiting the Company s ability to invest the Company s operating cash flow in the Company s business, and limiting the Company s ability to pay dividends. In addition, any such indebtedness could contain terms that are more restrictive than the Company s current facilities.

The loss of a few major customers could have a material adverse effect on the Company s business, financial condition, and results of operations

While supply agreements with terms of more than a year are not uncommon in the industry in which the Company s Paper Machine Clothing segment does business, they do not typically obligate the customer to purchase any products. Therefore, it is common for competitors in this industry to approach customers, offering new products, lower prices, or both, in an attempt to displace the current supplier or suppliers. In addition, a production disruption at one of the Company s customers in a particular country or region, due to work stoppages, lack of raw materials, or other factors, could have a negative impact on net sales in the Company s Paper Machine Clothing segment. While no individual customer accounted for more than 10% of consolidated net sales during 2006, the loss of a few major customers, or a substantial decrease in such customers purchases from the Company, could have a material adverse effect on the Company s business, financial condition, and results of operations.

There can be no assurance that the growth in sales in the Applied Technologies segment will be continued

The Applied Technologies segment has experienced significant growth in net sales during the last few years, due both to the introduction of both new products as well as growth in demand and application for previously existing products. While the Company continues to make investments for acquisitions and capital investments to grow the Applied Technologies segment, there can be no assurance that the growth in sales enjoyed during the last few years will continue.

Sales in the Company s Albany Door Systems segment depend on capital expenditures of its customers, causing the segment to have greater volatility in earnings

The Albany Door Systems segment derives most of its revenue from the sale of high-performance doors, particularly to customers in Europe. The purchase of these doors is normally a capital expenditure item for customers and, as such, market opportunities tend to fluctuate with industrial capital spending. If economic conditions weaken, customers may reduce levels of capital expenditures, which could have a negative effect on sales and earnings in the Albany Door Systems segment. The large amount of revenue derived from sales and manufacturing outside the United States could cause the reported financial results for the Albany Door Systems segment to be more sensitive to changes in currency rates than the other segments of the Company.

The Company may experience supply constraints due to the Company s reliance on a limited number of suppliers

The Company has relied on a number of suppliers of polymer fiber and monofilaments, key raw materials that the Company uses in the manufacture of paper machine clothing. For the Company s European production facilities, the Company purchases most of its monofilament from third parties. For the Company s North American and Asian production facilities, the Company currently produces a significant portion of the Company s own monofilament needs. While the Company has always been able to meet its raw material needs in the past, the limited number of producers of polymer monofilaments creates the potential for disruption in supply. In addition, if the Company s own monofilament production facility were to shut down or cease production for any reason, including due to natural disaster, labor problems, or otherwise, there is no guarantee that the Company would be able to replace any shortfall. Lack of supply, delivery delays, or quality problems relating to supplied raw materials could harm the Company s production capacity and make it difficult to supply the Company s customers with products on time, which could have a negative impact on the Company s business, financial condition, and results of operations.

The Company is exposed to the risk of increased costs because of higher petroleum and energy prices

Polymer monofilaments are ultimately petroleum-based. In recent years, prices for petroleum, petroleum intermediates, and energy have increased significantly. This increase has led to a corresponding increase in the Company s materials costs. Other market forces that influence the cost and availability of intermediates (such as demand and capacity for applications that have the same basic components, such as benzyne or caprolactam, capacity problems in refineries, natural disasters, etc.) are not controlled by the Company. Future increases or sustained high prices for petroleum and/or petroleum intermediates could lead to additional increases in or sustained high levels of material costs, which could have a material adverse effect on the Company s results of operations.

Fluctuations in currency exchange rates could adversely affect the Company s business, financial condition, and results of operations

The Company operates in many geographic regions of the world and more than half of the Company s business is in countries outside the United States. A substantial portion of the Company s sales is denominated in euros, or other foreign currencies. As a result, changes in the relative values of U.S. dollars, euros and such other currencies impact reported net sales and operating income. If the value of the euro or other currencies were to decline relative to the U.S. dollar, the Company s reported net sales and operating income could decline. In some locations, the profitability of transactions is affe