ALBANY INTERNATIONAL CORP /DE/
Form 10-K
February 28, 2012

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, 2011
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	(IRS Employer
incorporation or organization)	Identification No.)
216 Airport Drive, Rochester, New Hampshire (Address of principal executive offices)	03867 (Zip Code)

Registrant's telephone number, including area code 603-330-5850

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)

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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 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 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, a non-accelerated filer, or a small reporting company.

Large accelerated filer X 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 Act). Yes _ No X

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2011, 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 $734.9 million.

The registrant had 28.1 million shares of Class A Common Stock and 3.2 million shares of Class B Common Stock outstanding as of December 31, 2011.

DOCUMENTS INCORPORATED BY REFERENCE	PART
Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2012	III

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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 va such words or similar expressions are intended, but are not the exclusive means, to identify forward-looking statements. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements.

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

- Conditions in the industries in which our Machine Clothing segment competes, including the paper industry, along with general risks associated with economic downturns;
- Failure to remain competitive in the industries in which our Machine Clothing segment competes;
- Failure to have achieve or maintain anticipated profitable growth in our Engineered Composites; 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 the "Risk Factors" , "Trends" and "Outlook" sections of this annual report. Statements expressing our assessments of the growth potential of the 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 annual 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 obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained or incorporated by reference in this annual 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.

PART I

Item 1. BUSINESS

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

During the third quarter of 2011, we announced plans to combine our Paper Machine Clothing and Engineered Fabrics operating and reporting segments into a single business segment. The combined segment will be referred to in this and future reports as “Machine Clothing”. This report presents separate segment results for Paper Machine Clothing and Engineered Fabrics through December 31, 2011, by which date these two groups had become fully integrated.

The Machine Clothing segment includes paper machine clothing - engineered fabrics and belts used in the manufacture of paper and paperboard – as well as engineered fabrics and belts used in many other industrial applications.

We design, manufacture, and market paper machine clothing for each section of the paper machine. We manufacture and sell more paper machine clothing worldwide than any other company. Paper machine clothing consists of large permeable and non-permeable continuous belts of custom-designed and custom-manufactured engineered fabrics that are installed on paper machines and carry the paper stock through each stage of the paper production process. Paper machine clothing products are consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure. The design and material composition of paper machine clothing 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 paper machine clothing segment include forming, pressing, and dryer fabrics, and process belts. A forming fabric assists in sheet formation and conveys the very wet sheet (more than 75% water) through the forming section. Press fabrics are designed to carry the sheet through the press section, where water is pressed from the sheet as it passes through the press nip. In the dryer section, dryer fabrics manage air movement and hold the sheet against heated cylinders to enhance drying. Process belts are used in the press section to increase dryness and enhance sheet properties, as well as in other sections of the machine to improve runnability and enhance sheet qualities.

The Machine Clothing segment also supplies consumable fabrics used to process paper pulp, as well as engineered fabrics used in a range of industries other than papermaking. These other products include belts used to make nonwovens, fiber cement building products, roofing shingles, and corrugated sheets used in boxboard, as well as belts used in tannery and textile applications.

We sell our Machine Clothing products directly to customer end-users, which include paper industry companies, nonwovens manufacturers, and building products companies, some of which operate in multiple regions of the world. Our products, manufacturing processes, and distribution channels for Machine Clothing are substantially the same in each region of the world in which we operate. The sales of forming, pressing, and dryer fabrics, individually and in aggregate, accounted for more than 10% of our consolidated net sales during one year or more of the last three years.

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

The PrimaLoft® Products segment includes sales of insulation for outdoor clothing, gloves, footwear, sleeping bags, and home furnishings. This segment has sales operations in the United States, Europe, and Asia, through which it sells products produced by third parties according to the Company's proprietary specifications. This segment also generates a portion of its income as royalties from the licensing of its intellectual property. Approximately one-quarter of this segment's sales in each of the past two years has been to the U.S. military (for high-performance outerwear).

On October 28, 2011, the Company announced that it had entered into an agreement to sell the business and assets of its Albany Door Systems (ADS) segment to ASSA ABLOY AB. The sale transaction was completed on January 11, 2012. The ADS segment was engaged in the design, manufacture, sale, and service of high-speed, high-performance industrial doors worldwide, for a wide range of interior, exterior, and machine protection industrial applications. Details relating to the transaction are reported in Note 2 of Notes to Consolidated Financial Statements.

See "Business Environment and Trends" under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of general segment developments in recent years.

Following is a table of net sales by segment for 2011, 2010, and 2009.

(in thousands)	**2011**	2010	2009
Paper Machine Clothing	**$657,569**	$623,555	$609,897
Engineered Fabrics	**81,642**	77,465	74,908
Engineered Composites	**48,076**	41,867	33,824
PrimaLoft® Products	**27,409**	22,882	18,992
Consolidated total	**$814,696**	$765,769	$737,621

The table setting forth certain sales, operating income, and balance sheet data that appears in Note 3, "Reportable Segments and Geographic Data," of the Financial Statements, included under Item 8 of this Form 10-K, is incorporated herein.

International Operations

We maintain manufacturing facilities in Brazil, Canada, China, France, Germany, Italy, Mexico, South Korea, Sweden, the United Kingdom, and the United States. We also have a 50% interest in a company in Russia (see Note 1 of Notes to Consolidated Financial Statements).

Our geographically diversified operations allow us to serve our markets efficiently and to provide extensive technical services to our customers. We benefit from the transfer of research and development and product innovations between geographic regions. The worldwide scope of our manufacturing and marketing efforts could also mitigate the impact of economic downturns that are limited to a geographic region.

Our global presence subjects us to certain risks, including controls on foreign exchange and the repatriation of funds. However, we have been able to repatriate current earnings in excess of working capital requirements from the countries in which we operate without substantial governmental restrictions and do not foresee any material changes in our ability to continue to do so in the future. In addition, we believe that the risks associated with our operations outside the United States are no greater than those normally associated with doing business in those locations.

Technology, Working Capital, Customers, Seasonality, and Backlog

Machine Clothing is custom-designed for each user, depending on the type, size, and speed of the machine, and the products being produced. Product design is also a function of the machine section, the grade of product being produced, and the quality of the stock used. Technical expertise, judgment, and experience are critical in designing the appropriate clothing for machine, position, and application. As a result, we employ highly skilled sales and technical service personnel who work directly with each customer’s plant operating management. Our technical service programs give our service engineers field access to the measurement and analysis equipment needed for troubleshooting and application engineering in many areas. Sales, service, and technical expenses are major cost components of the Company. Many employees in sales and technical functions have engineering degrees, paper mill experience, or other manufacturing experience in the markets in which they operate. Our market leadership position reflects our commitment to technological innovation.

Payment terms granted to paper industry and other process machine clothing customers reflect general competitive practices. Terms vary with product, competitive conditions, and the country of operation. In some markets, customer agreements require us to maintain significant amounts of finished goods inventories to assure continuous availability of our products. Working capital and payment terms in our other segments follow normal commercial practices.

In addition to supplying paper companies, the Machine Clothing segment 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. These non-paper industries have a wide range of customers, with markets that vary from industrial applications to consumer use.

Albany Engineered Composites primarily serves customers in commercial and military aircraft engine and airframe markets.

PrimaLoft® Products are marketed to customers for use in performance outerwear, high-end retail home furnishings and military applications.

Seasonal trends resulting from paper mill downtime in July, August, and December, can contribute to lower quarterly sales of Machine Clothing in the first, third and fourth quarters of each calendar year. Seasonality is not a significant factor in the other markets served by the Machine Clothing segment, nor in the Engineered Composites segment. Although it enjoyed a strong fourth quarter in 2011, PrimaLoft® Products has traditionally experienced its strongest quarters in the first half of the year.

Total backlog was $376.3 million, $407.6 million, and $354.3 million at December 31, 2011, 2010, and 2009, respectively. Inventory restocking by our Paper Machine Clothing customers led to a strong backlog position at the end of 2010. Backlogs at the end of 2011 were at more normal levels for paper machine clothing. The backlog is generally expected to be invoiced during the next 12 months.

Research and Development

We invest in research, new product development, and technical analysis with the objective of maintaining our technological leadership in each business segment. While much research activity supports existing products, we also engage in research for new products and product enhancements. New product research has focused primarily on more sophisticated paper machine clothing and engineered fabrics and has resulted in a stream of new products and enhancements such as HYDROCROSS, AEROPOINT, SEAM HYDROCROSS, AEROPULSE, SEAMPLANE, KMX, and EVM BELTS.

Product engineering and research and development expenses totaled $31.1 million in 2011, $29.3 million in 2010, and $28.2 million in 2009. In 2011, these costs were 3.8% of total company net sales, including $6.0 million or about 12.4% of net sales spent in our AEC segment.

We conduct our major research and development in Halmstad, Sweden; Manchester, UK; Menasha, Wisconsin and Rochester, New Hampshire. Additionally, we conduct process and product design development activities at locations in Albany, New York; Quebec, Canada; Menasha, Wisconsin; and St. Stephen, South Carolina.

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We have developed, and continue to develop, proprietary intellectual property. Our intellectual property takes many forms, including patents, trademarks, and trade secrets. Our trade secrets include, among other things, manufacturing know-how, and unique processes and equipment. We aggressively protect our proprietary intellectual property, pursuing patent protection when appropriate. Our active portfolio currently contains well over 2,100 patents, and more than 300 new patents are typically granted each year. Because intellectual property in the form of patents is published, we often decide to forgo patent protection and preserve some of our intellectual property as trade secrets. While we consider our total portfolio of intellectual property, including our patents, to be an important competitive advantage, we do not believe that any single patent is critical to the continuation of our business. All brand names and product names are trade names of Albany International Corp. or its subsidiaries. We have from time to time licensed some of our patents to one or more competitors, and have 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 our Machine Clothing and PrimaLoft® Products segments are synthetic fibers and polymer monofilaments, which have generally been available from a number of suppliers. Therefore, we have not needed to maintain raw material inventories in excess of our current needs to assure availability. In addition, we manufacture polymer monofilaments, a basic raw material for all types of Machine Clothing, at our facility in Homer, New York, which supplies approximately 50% of our worldwide monofilament requirements. This manufacturing enhances our ability 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. Carbon fiber and other raw materials used by AEC are available from a number of suppliers, subject to material qualification requirements for specific programs.

Competition

The industries in which our Machine Clothing segment competes includes several companies that compete in all global markets, along with other companies that compete primarily on a regional basis. In the paper machine clothing market, we believe that we had a worldwide market share of approximately 29% in 2011, while the two largest competitors each had a market share of approximately half of ours.

While some competitors in the Machine Clothing segment 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. Some of the Company's paper machine clothing competitors also supply paper machines and papermaking equipment, and endeavor to compete by bundling clothing and equipment sales. We, like our competitors, provide technical support to customers through our sales and technical service personnel, including (1) consulting on performance of the machine, (2) consulting on machine configurations, both new and rebuilt, (3) selection and custom manufacture of the appropriate machine clothing, and (4) storing fabrics for delivery to the user. Revenues earned from these services are reflected in the prices charged for our products.

The primary competitive factor in the markets in which our Albany Engineered Composites segment competes is product performance. Our unique, proprietary capabilities in composites enable us to offer customers the opportunity to displace metal components and, in some cases, conventional composites with lower-weight, high-strength, and potentially high-temperature composites. Achieving lower weight without sacrificing strength is the key to improving fuel efficiency, and is a critical performance requirement in the aerospace industry.

In our PrimaLoft® Products segment, competitive success is dependent upon superior performance of the materials in each of the applications in which we compete.

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Employees

We employ approximately 4,300 persons, of whom approximately 72% are engaged in manufacturing our products. Wages and benefits are competitive with those of other manufacturers in the geographic areas in which our facilities are located. In general, we consider our relations with employees to be excellent.

Approximately 70 U.S. employees working at two different facilities are subject to two separate collective bargaining agreements. The agreement related to employees at the Menands, New York facility will remain in effect until mid-2014, while the agreement related to employees at the Menasha, Wisconsin facility will remain in effect until mid-2012. A number of hourly employees outside of the United States are also members of various unions.

Executive Officers of the Registrant

The following table sets forth certain information with respect to the executive officers of the Company as of February 23, 2012:

Name	Age	Position
Joseph G. Morone	58	President and Chief Executive Officer
John B. Cozzolino	45	Chief Financial Officer and Treasurer
Ralph M. Polumbo	60	Senior Vice President Chief Operating Officer, Albany Engineered Composites
Daniel A. Halftermeyer	50	President Machine Clothing
Robert A. Hansen	54	Senior Vice President and Chief Technology Officer
David M. Pawlick	50	Vice President Controller
Charles J. Silva, Jr.	52	Vice President General Counsel and Secretary
Dawne H. Wimbrow	54	Vice President Global Information Services and Chief Information Officer
Joseph M. Gaug	48	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 University 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 the Presiding Director of Transworld Entertainment Corporation.

John B. Cozzolino joined the Company in 1994. He has served the Company as Chief Financial Officer and Treasurer since February 2011. From September 2010 to February 2011, he served as Vice President – Corporate Treasurer and Strategic Planning/Acting Chief Financial Officer, from February 2009 to September 2010, he served as Vice President – Corporate Treasurer and Strategic Planning, and from 2007 to February 2009, he served the Company as Vice President – Strategic Planning. From 2000 until 2007 he served as Director – Strategic Planning, and from 1994 to 2000 he served as Manager – Corporate Accounting.

Ralph M. Polumbo joined the Company in 2006. He has served as Chief Operating Officer, Albany Engineered Composites, since December 2010. He previously served the Company as Chief Administrative Officer (CAO) from September 2008 to December 2010, and as Senior Vice President – Human Resources from 2006 to 2008. 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.

Daniel A. Halftermeyer joined the Company in 1987. He has served the Company as President – Machine Clothing since February 2012. He previously served the Company as President – Paper Machine Clothing and Engineered Fabrics from August 2011 to February 2012, as President – Paper Machine Clothing from January 2010 until August 2011, Group Vice President – Paper Machine Clothing Europe from 2005 to August 2008, Vice President and General Manager – North American Dryer Fabrics from 1997 to March 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.

Robert A. Hansen joined the Company in 1981. He has served the Company as Senior Vice President and Chief Technology Officer since January 2010, Vice President – Corporate Research and Development from April 2006 to January 2010, and Director of Technical and Marketing – Europe Press Fabrics from 2004 to April 2006. From 2000 to 2004, he served as 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.

David M. Pawlick joined the Company in 2000. He has served the Company as Vice President – Controller since March 2008, and as Director of Corporate Accounting from 2000 to 2008. From 1994 to 2000 he served as Director of Finance and Controller for Ahlstrom Machinery, Inc. in Glens Falls, New York. Prior to 1994, he was employed as an Audit Manager for Coopers & Lybrand.

Charles J. Silva Jr. joined the Company in 1994. He has served the Company as Vice President – General Counsel and Secretary since 2002. 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.

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.

We are incorporated under the laws of the State of Delaware and are 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.

Our 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).

Our 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 our 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-SEC0330. The SEC maintains a website (www.sec.gov) that contains reports, proxy, information statements, and other information regarding issuers that file electronically with the SEC.

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.

There are a number of factors inhibiting revenue growth in the Company's Machine Clothing segment

Significant consolidation and rationalization in the paper industry in recent years has reduced global consumption of paper machine clothing in certain markets. Developments in digital media have adversely affected demand for newsprint and for printing and writing grades of paper in North America and Europe, which has had, and could continue to have, an adverse effect on demand for paper machine clothing in those markets. At the same time, technological advances in papermaking, including in paper machine clothing, while contributing to the papermaking efficiency of customers, have in some cases lengthened the useful life of our products and reduced the number of pieces required to produce the same volume of paper. These factors have had, and in future are likely to have, an adverse effect on paper machine clothing sales, and to keep the rate of any future growth in paper machine clothing sales lower than the rate of growth in paper production.

The market for paper machine clothing in recent years has been characterized by increased price competition, especially in Europe, which negatively affected our net sales and operating results. We expect price competition to remain intense in all paper machine clothing markets, especially during periods of customer consolidation, plant closures, or when major contracts are being renegotiated.

The basic papermaking process, while it has undergone dramatic increases in efficiency and speed, has always relied on paper machine clothing. In the event that a paper machine builder or other person was to develop a commercially viable manner of paper manufacture that did not require paper machine clothing, sales of our products in this segment could be expected to decline significantly. A significant decline in Machine Clothing sales and operating income could have an adverse impact on the Company's ability to fund the growth of Albany Engineered Composites.

Some of the Company's competitors in the Machine Clothing segment have the capability to make and sell paper machines and papermaking equipment as well as other engineered fabrics

Although customers historically have tended to view 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 provide a competitive advantage. This underscores the importance of our ability to maintain the technological competitiveness and value of our products, and a failure to do so could have a material adverse effect on our business, financial condition, and results of operations.

Moreover, we cannot predict how the nature of competition in this segment may continue to evolve as a result of future consolidation among our competitors, or consolidation involving our competitors and other suppliers to our customers.

The Standish family has a significant influence on our Company and could prevent transactions that might be in the best interests of our other stockholders

As of December 31, 2011, J. Spencer Standish and related persons (including Christine L. Standish and John C. Standish, both directors of the Company) and Thomas R. Beecher Jr., as sole trustee of trusts for the benefit of descendants of J. Spencer Standish, held in the aggregate shares entitling them to cast approximately 54% of the combined votes entitled to be cast by all stockholders of the Company. The Standish family has significant influence over the management and affairs of the Company and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. The Standish family currently has, in the aggregate, sufficient voting power to elect all of our directors and determine the outcome of any shareholder action requiring a majority vote. This could have the effect of delaying or preventing a change in control or a merger, consolidation, or other business combination at a premium price, even though it might be in the best interest of our other stockholders.

We are a "controlled company" within the meaning of the Corporate Governance Rules of the New York Stock Exchange (the "NYSE") and qualify for, and rely on, certain exemptions from corporate governance requirements applicable to other listed companies

As a result of the greater than 50% voting power of the Standish family described above, we are a "controlled company" within the meaning of the rules of the NYSE. Therefore, we are not required to comply with certain corporate governance rules that would otherwise apply to us as a listed company on the NYSE. Specifically, we have elected to avail ourselves of the provision exempting a controlled company from the requirement that the Board of Directors include a majority of "independent" directors (as defined by the rules of the NYSE) and the requirement that the Compensation and Governance Committees each be composed entirely of "independent" directors. Should the interests of the Standish family differ from those of other stockholders, the other stockholders would not be afforded such protections as might otherwise exist if our Board of Directors, or these Committees, were controlled by directors who were independent of the Standish family or our management.

There can be no assurance that the expected sales growth in the Engineered Composites segment will be realized

The expected size and steep growth rate of the market for LEAP engines will put significant growth pressure on AEC in the short- and medium-term. In the short term, AEC must fulfill critical product and process design and test milestones, establish key elements of the supply chain, begin construction of the first LEAP composites plant, and continue to hire and train employees required to staff the LEAP operation. In the medium-term, AEC will be required to ramp up these new operations 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.

Future growth and long-term success of AEC beyond the LEAP program will depend, in part, on the success of new commercial and military aircraft programs. AEC is currently working with customers on projects to supply components for a number of commercial, general aviation, and military aircraft programs. AEC may not be successful in obtaining contracts, or may not be successful in the execution of contracts it obtains.

In cases in which AEC secures contracts, cancellation, reductions, or delays of orders or contracts by our customers in any of these programs, including the LEAP program, could also have a material adverse effect on revenues and earnings in this segment in any period. Such events could also result in the write-off of deferred charges that have been accumulated in anticipation of future revenue streams.

Conditions in the paper industry have required, and could further require, the Company to reorganize its operations, which could result in significant expense and could pose risks to the Company's operations

During the last several years, we have engaged in significant restructuring that included the closing of a number of manufacturing operations in North America, Europe, and Australia. These restructuring activities were intended to match manufacturing capacity to shifting global demand, and also to improve the efficiency of manufacturing and administrative processes. Future shifting of customer demand, the need to reduce costs, or other factors could cause us to determine in the future that additional restructuring steps are required. Restructuring involves risks such as employee work stoppages, slowdowns, or strikes, which can threaten uninterrupted production, maintenance of high product quality, meeting of customers' delivery deadlines, and maintenance of administrative processes. Increases in output in remaining manufacturing operations can likewise impose stress on these remaining facilities as they undertake the manufacture of greater volume and, in some cases, a greater variety of products. Competitors can be quick to attempt to exploit these situations. Although we consider these risks, plan each step of the process carefully, and work to reassure customers who could be affected by any such matters that their requirements will continue to be met, we could lose customers and associated revenues if we fail to plan properly, or if the foregoing tactics are ineffective.

The Company may experience supply constraints due to a limited number of suppliers of certain raw materials

There are a limited number of suppliers of polymer fiber and monofilaments, key raw materials used in the manufacture of Machine Clothing, and of carbon fiber and carbon resin, key raw materials used by Albany Engineered Composites. For our Machine Clothing production in Europe and Asia, we purchase most of our monofilament from third parties. For our Machine Clothing production in North America, we currently produce a significant portion of our own monofilament needs. While we have always been able to meet our raw material needs, the limited number of producers of these materials creates the potential for disruptions in supply. Lack of supply, delivery delays, or quality problems relating to supplied raw materials could harm our production capacity and make it difficult to supply our customers with products on time, which could have a negative impact on our business, financial condition, and results of operations.

The recent recession had a significant impact on our customers and our business during 2008 and 2009; a recurrence, or lingering effects of general economic uncertainty, could negatively affect our customers and adversely affect our results of operations

The global recession had a significant negative effect on the Company and the markets in which it competes, and recent forecasts have increased concerns about stagnating or contracting economies in Europe. A return of economic weakness, or a reversal or weakening of the current economic recovery, could have an adverse impact on the Company's business and results of operations.

The Company identifies in this section a number of risks, the effects of which may be exacerbated by an unfavorable economic climate. For example, unfavorable global economic and paper industry conditions may lead to greater consolidation and rationalization within the paper industry, further reducing global consumption of paper machine clothing. Reduced consumption of paper machine clothing could in turn increase the risk of greater price competition within the paper machine clothing industry, and greater efforts by competitors to gain market share at the expense of the Company. Sales of the Company's other Machine Clothing products, as well as in the Company's other business segments, may also be adversely affected by unfavorable economic conditions.

Weak or unstable economic conditions also increase the risk that one or more of our customers could be unable to pay outstanding accounts receivable, whether as the result of bankruptcy or an inability to obtain working capital financing from banks or other lenders. In such a case, we could be forced to write off such accounts, which could have a material adverse effect on our operating results, financial condition, and/or liquidity. Furthermore, many of our businesses design and manufacture products that are custom-designed for a specific customer application, at a specific location. In the event of a customer liquidity issue, the Company could also be required to write off amounts that are included in inventories.

Inflation as a result of changes in prices of commodities and labor costs may adversely impact our financial results of operations.

The Company is a significant user of petroleum-based products and metal components required for the manufacture of our products. The Company also relies on the labor market in many regions of the world to meet our operational requirements. Increases in the prices of such commodities or in labor costs, particularly in regions that are experiencing higher-levels of inflation, could increase our costs, and we may not be able to fully offset the effects through price increases, productivity improvements, and cost-reduction programs.

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

We operate our business in many regions of the world, and currency rate movements can have a significant effect on operating results. Changes in exchange rates can result in revaluation gains and losses that are recorded in Selling, Technical, General and Research expenses or Other income/expense, net. Revaluation gains and losses occur when our business units have intercompany or third-party trade receivable or payable balances in a currency other than their local reporting (or functional) currency. Operating results can also be affected by the translation of sales and costs, for each non-U.S. subsidiary, from the local functional currency to the U.S. dollar. The translation effect on the income statement is dependent on our net income or expense position in each non-U.S. currency in which we do business. A net income position exists when sales realized in a particular currency exceed expenses paid in that currency; a net expense position exists if the opposite is true.

The Company may fail to adequately protect its proprietary technology, which would allow competitors or others to take advantage of its research and development efforts

Proprietary trade secrets are a source of competitive advantage in each of our segments. If our trade secrets were to become available to competitors, it could have a negative impact on our competitive strength. We employ measures to maintain the confidential nature of these secrets, including maintaining employment and confidentiality agreements; maintaining clear policies intended to protect such trade secrets; educating our employees about such policies; clearly identifying proprietary information subject to such agreements and policies; and vigorously enforcing such agreements and policies. Despite such measures, our employees, consultants, and third parties to whom such information may be disclosed in the ordinary course of our business may breach their obligations not to reveal such information, and any legal remedies available to us may be insufficient to compensate our damages.

At December 31, 2011, the Company had outstanding long-term debt totaling $373.1 million. The Company may not be able to repay its outstanding debt in the event that default provisions are triggered due to a breach of loan covenants

Existing borrowing agreements contain a number of covenants and financial ratios that the Company is required to satisfy. The most restrictive of these covenants pertain to prescribed leverage and interest coverage ratios and asset dispositions. Any breach of any such covenants or restrictions would result in a default under such agreements that would permit the lenders to declare all borrowings under such agreements to be immediately due and payable and, through cross-default provisions, could entitle other lenders to accelerate their loans. In such an event, the Company would need to modify or restructure all or a portion of such indebtedness. Depending on prevailing economic conditions at the time, the Company might find it difficult to modify or restructure on attractive terms, or at all.

We may incur a substantial amount of additional indebtedness in the future. As of December 31, 2011, we had borrowed $187.0 million under our $390 million revolving credit facility. Incurrence of additional indebtedness could increase the risks associated with higher leverage. These risks include limiting our ability to make acquisitions or capital expenditures to grow our business, limiting our ability to withstand business and economic downturns, limiting our ability to invest operating cash flow in our business, and limiting our ability to pay dividends. In addition, any such indebtedness could contain terms that are more restrictive than our current facilities.

Almost all of our long-term indebtedness is located in the United States. While we have been successful in recent years bringing significant amounts of cash into the United States to pay down indebtedness in a cost-effective manner, we continue to generate substantial cash offshore, and we may not be as successful in future periods identifying cost-effective strategies for the repatriation of such cash.

The Company must successfully maintain and/or upgrade its information technology systems

We rely on various information technology systems to manufacture and ship our products, manage our assets, inventory and employees, process business transactions, prepare financial and other reports, and conduct other business functions that are critical to our operations. We recently completed a multi-year process of Company-wide modifications and upgrades to our systems, including the replacement of legacy systems, modifications to legacy systems, and the acquisition of new systems with new functionality. Despite these efforts, we may be subject to system failures or disruptions due to power failures, interruptions in telecommunications, natural disasters, viral attacks, or other similar events. Measures that we have adopted to mitigate these risks may, despite our efforts, prove to be ineffective in addressing such failures or disruptions, which could have a materially adverse effect on our ability to conduct these critical business functions.

The Company is subject to legal proceedings and legal compliance risks, and has been named as defendant in a large number of suits relating to the actual or alleged exposure to asbestos-containing products

We are subject to a variety of legal proceedings. Pending proceedings that the Company determines are material are disclosed in Item 3, Legal Proceedings, of this annual report. Litigation is an inherently unpredictable process and unanticipated negative outcomes are always possible. An adverse outcome in any period could have an adverse impact on the Company’s operating results for that period.

We are also subject to a variety of legal compliance risks. While we believe that we have adopted appropriate risk management and compliance programs, the global and diverse nature of our operations means that legal compliance risks will continue to exist and related legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, are likely to arise from time to time. Failure to resolve successfully any legal proceedings related to compliance matters could have an adverse impact on our results in any period.

Changes in performance of pension plan assets and assumptions used to estimate our pension and postretirement benefit costs and liabilities could adversely affect our liabilities and net income

We have pension and postretirement benefit costs and liabilities that are developed from actuarial valuations. As of December 31, 2011, liabilities under our defined benefit pension plans exceeded plan assets by $101.2 million ($38.5 million for the U.S. plan, $62.7 million for non-U.S. plans). Additionally, the liability for unfunded postretirement welfare benefits, principally in the United States, totaled $79.0 million.

In the first quarter of 2012, we disclosed plans to fund and, in some areas, permanently settle part of our global pension liabilities. Our target is to have this plan substantially completed by the end of the second quarter of 2012. We expect that, upon completion of the plan, global unfunded pension liabilities will decline to approximately $30 million. Implementation of these plans could result in pension settlement charges as high as $130 million in 2012.

While annual pension expense associated with these plans, as well as annual cash contributions, should decline significantly, these amounts remain subject to a number of variables, including discount rates and return on plan assets, actuarial assumptions, and differences between actuarial assumptions and actual future experience. Weakness in investment returns on plan assets, changes in discount rates or actuarial assumptions, and actual future experience could result in higher benefit plan expense and the need to increase pension plan contributions in future years, which could have a material effect on our financial condition and results of operations in the periods in which they occur.

The Company is exposed to the risk of increased expense in health-care related costs

We are largely self-insured for some employee and business risks, including health care and workers' compensation programs in the United States. Losses under all of these programs are accrued based upon estimates of the ultimate liability for claims reported and an estimate of claims incurred but not reported, with assistance from third-party actuaries and service providers. However, these liabilities are difficult to assess and estimate due to unknown factors, including the severity of an illness or injury and the number of incidents not reported. The accruals are based upon known facts and historical trends, and management believes such accruals to be adequate. The Company also maintains stop-loss insurance policies to protect against catastrophic claims above certain limits. If actual results significantly differ from estimates, our financial condition, results of operations, and cash flows could be materially impacted by losses under these programs, as well as higher stop-loss premiums in future periods.

Changes in or interpretations of tax rules, structures, country profitability mix, and regulations may adversely affect our effective tax rates

We are a United States-based multinational company subject to tax in the United States and foreign tax jurisdictions. Unanticipated changes in our tax rates, or tax policies of the countries in which we operate, could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in or interpretation of tax rules and regulations in the jurisdictions in which we do business, by structural changes in the Company's businesses, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, or by changes in the valuation of our deferred tax assets and liabilities.

The Company has substantial deferred tax assets that could become impaired and result in a charge to earnings

The Company has a net deferred tax asset in several tax jurisdictions, including a U.S. asset of approximately $81.9 million at December 31, 2011. Realization of this and other deferred tax assets is dependent upon many factors, including generation of future income in specific countries. Lower than expected operating results, organizational changes, or changes in tax laws could result in those deferred tax assets becoming impaired, thus resulting in a charge to earnings.

Our business could be adversely affected by adverse outcomes of pending tax matters

The Company is currently under audit in U.S. and non-U.S. taxing jurisdictions, and the Company's positions on certain tax matters are being contested by tax authorities in those countries. (These matters are discussed in Note 7 of Notes to Consolidated Financial Statements.) While the Company believes that its positions are correct and that it has reserved adequately for such matters, a final adverse outcome with respect to one or more of these matters could have a material adverse impact on the Company's results in any period in which they occur.

The Company's insurance coverage may be inadequate to cover other significant risk exposures

In addition to asbestos-related claims, the Company may be exposed to other liabilities related to the products and services we provide. AEC is engaged in designing, developing, and manufacturing components for commercial jet aircraft and defense and technology systems and products. We expect this portion of the business to grow in future periods. Although we maintain insurance for the risks associated with this business, there can be no assurance that the amount of our insurance coverage will be adequate to cover all claims or liabilities. In addition, there can be no assurance that insurance coverage will continue to be available to us in the future at a cost that is acceptable. Any

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material liability not covered by insurance could have a material adverse effect on our business, financial condition, and results of operations.

In addition to the general risks that the Company already faces outside the U.S., the Company now conducts more of its manufacturing operations in emerging markets than it did in the past, which could involve many uncertainties

We currently have manufacturing facilities outside the U.S. In 2011, 60.2% of consolidated net sales were generated by our non-U.S. subsidiaries. Operations outside of the U.S. are subject to a number of risks and uncertainties, including: governments may impose limitations on our ability to repatriate funds; governments may impose withholding or other taxes on remittances and other payments from our non-U.S. operations, 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 our assets; or governments may impose or increase investment barriers or other restrictions affecting our business. In addition, emerging markets pose other uncertainties, including the protection of our intellectual property, pressure on the pricing of our products, and risks of political instability. The occurrence of any of these conditions could disrupt our business or prevent us from conducting business in particular countries or regions of the world.

The Company is subject to laws and regulations worldwide, changes to which could increase our costs and have a material adverse effect on our financial condition or results of operations

The Company is subject to laws and regulations relating to employment practices and benefits, taxes, import and export matters, corruption, foreign-exchange controls, competition, workplace health and safety, intellectual property, health-care, the environment and other areas. These laws and regulations have a significant impact on our domestic and international operations.

We incur significant expenses to comply with laws and regulations. Changes or additions to laws and regulations, including those related to climate change, could increase these expenses, which could have an adverse impact on our financial condition and results of operations. Such changes could also have an adverse impact on our customers and suppliers, which in turn could adversely impact the Company.

While we have implemented policies and training programs designed to ensure compliance, there can be no assurance that our employees or agents will not violate such laws, regulations or policies, which could have a material adverse impact on our financial condition or results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal manufacturing facilities are located in Brazil, Canada, China, France, Germany, Italy, Mexico, South Korea, Sweden, the United Kingdom, and the United States. The aggregate square footage of our operating facilities in the United States and Canada is approximately 2.1 million square feet, of which 1.9 million square feet are owned and 0.2 million square feet are leased. Our facilities located outside the United States and Canada comprise approximately 3.1 million square feet, of which 3.0 million square feet are owned and 0.1 million square feet are leased. We consider these facilities to be in good condition and suitable for our purpose. The capacity associated with these facilities is adequate to meet production levels required and anticipated through 2012.

Item 3. LEGAL PROCEEDINGS

Asbestos Litigation

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Albany International Corp. is a defendant in suits brought in various courts in the United States by plaintiffs who allege that they have suffered personal injury as a result of exposure to asbestos-containing products that we previously manufactured. We produced asbestos-containing paper machine clothing synthetic dryer fabrics marketed during the period from 1967 to 1976 and used in certain paper mills. Such fabrics generally had a useful life of three to twelve months.

We were defending 4,427 claims as of January 30, 2012.

The following table sets forth the number of claims filed, the number of claims settled, dismissed or otherwise resolved, and the aggregate settlement amount paid each year since 2005:

Year ended December 31,	*Opening Number of Claims*	Claims Dismissed, Settled, or Resolved	*New Claims*	Closing Number of Claims	Amounts Paid to Settle or Resolve (000's)
2005	29,411	6,257	1,297	24,451	$ 504
2006	24,451	6,841	1,806	19,416	3,879
2007	19,416	808	190	18,798	15
2008	18,798	523	110	18,385	52
2009	18,385	9,482	42	8,945	88
2010	8,945	3,963	188	5,170	159
2011	5,170	789	65	4,446	1,111
2012 to date	4,446	25	6	4,427	$ 338

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 sufficiently meaningful to estimate a range of possible loss of a particular claim is typically not available until late in the discovery process, and often not until a trial date is imminent and a settlement demand has been received. For these reasons, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to pending or future claims.

While we believe we have meritorious defenses to these claims, we have settled certain claims for amounts we consider reasonable given the facts and circumstances of each case. Our insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of January 30, 2012, we had resolved, by means of settlement or dismissal, 36,305 claims. The total cost of resolving all claims was $8,453,500. Of this amount, almost 100% was paid by our insurance carrier. The Company has approximately $130 million in confirmed insurance coverage that should be available with respect to current and future asbestos claims, as well as additional insurance coverage that we should be able to access.

Brandon Drying Fabrics, Inc. ("Brandon"), 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 7,878 claims as of January 30, 2012.

The following table sets forth the number of claims filed against Brandon, the number of Brandon claims settled, dismissed or otherwise resolved, and the aggregate settlement amount paid to resolve Brandon claims each year since 2005:

Year ended December 31,	Opening Number of Claims	Claims Dismissed, Settled, or Resolved	*New Claims*	Closing Number of Claims	Amounts Paid to Settle or Resolve (000's)
2005	9,985	642	223	9,566	0
2006	9,566	1,182	730		