ALBANY INTERNATIONAL CORP /DE/
Form 10-K
March 02, 2009

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, 2008
OR

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

For the transition period from ______________to _____________

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

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

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

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 o

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 o 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 o

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. o

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 o
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2008, 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 $769,475,038.

The registrant had 26,758,746 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of January 31, 2009.

DOCUMENTS INCORPORATED BY REFERENCE	PART
Portions of the Registrant s Proxy Statement for the Annual Meeting of Shareholders to be held on May 29, 2009.	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 variations of such words or similar expressions are intended, but are not the exclusive means, to identify forward-looking statements. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements.

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

- 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;
- failure to have profitable growth in the Company s emerging businesses; and
- other risks and uncertainties detailed from time to time 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 Industry Factors , Risk Factors, and Trends sections of this annual report. Statements expressing management s assessments of the growth potential of various businesses are not intended as forecasts of actual future growth, and should not be relied on as such. While management believes such assessments to have a reasonable basis, such assessments are, by their nature, inherently uncertain. This release sets forth a number of assumptions regarding these assessments, including historical results and independent forecasts regarding the markets in which these businesses operate. Historical growth rates are no guarantee of future growth, and such independent forecasts could prove incorrect. Although the Company believes the expectations reflected in the Company s 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 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 annual report 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 five business segments.

The Paper Machine Clothing segment includes fabrics and belts used in the manufacture of paper and paperboard (PMC or paper machine clothing). 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 permeable and non-permeable continuous belts of custom-designed and custom-manufactured engineered fabrics that are installed on paper machines and carry the paper stock through each stage of the paper production process. PMC products are consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure. The design and material composition of PMC can have a considerable effect on the quality of paper products produced and the efficiency of the paper machines on which it is used. Principal products in the PMC segment include forming, pressing and dryer fabrics, and process belts. A forming fabric assists in sheet formation and conveys the very 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, some of which operate in multiple regions of the world. The Company s products, manufacturing processes and distribution channels for PMC are substantially the same in each region of the world in which it operates.

Albany Door Systems (ADS) designs, manufactures, sells, and services high-speed, high-performance industrial doors worldwide, for a wide range of interior, exterior, and machine protection industrial applications. Already a high performance door leader, ADS further expanded its market position in North America with the second-quarter 2007 acquisition of the assets and business of R-Bac Industries, the fastest-growing high-performance door company in North America, whose product lines were complementary to Albany s. The business segment also derives revenue from aftermarket sales and service.

The Company s other reportable segments are emerging 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); a variety of products similar to PMC for application in the corrugators, pulp, nonwovens, building products, tannery and textile industries (Albany Engineered Fabrics);and insulation for outdoor clothing, gloves, footwear, sleeping bags and home furnishings (PrimaLoft® Products). No class of similar products or services within these segments 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 2008, 2007, and 2006.

(in thousands)	2008	2007	2006
Paper Machine Clothing	**$ 727,967**	$ 747,278	$ 721,238
Albany Door Systems	**189,348**	152,952	124,646
Engineered Fabrics	**101,118**	101,506	97,638
Engineered Composites	**46,666**	32,955	25,898
PrimaLoft® Products	**21,418**	17,212	17,407
Consolidated total	**$ 1,086,517**	$ 1,051,903	$ 986,827

The table setting forth certain sales 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.

Industry Factors

The Company s primary segment, Paper Machine Clothing, accounted for approximately 67% of consolidated revenues during 2008. 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. Recent economic changes could significantly impact world paper and paperboard demand, and it is likely that total production will be lower in the next five years.

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 has experienced a significant period of consolidation and rationalization since 2000. During this period, a number of older, less efficient machines in areas 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 and South America). 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 lengthened the useful life of many of the Company s products and reduced the number of pieces required to produce the same volume of paper. As the Company introduces new value creating products and services, it is often able to charge higher prices or increase

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market share in certain areas as a result of these improvements. However, increased prices and share have not always been sufficient to offset completely a decrease in the number of fabrics sold.

The factors described above result in a steady decline in the number of pieces of paper machine clothing, while the average fabric size is increasing. The net effect of these trends is that the specific volume of paper machine clothing consumption (measured in kilograms or square meters) has been increasing at a rate of approximately 1% per year over the past several years. Management believes that the effects of a global recession could accelerate or alter the trends described above.

During 2006, the Company reported that price competition in Western Europe had an adverse impact on the Company s operating results in this segment. In the third and fourth quarters of 2006, and in the first two quarters of 2007, sales of paper machine clothing to customers in Western Europe were significantly lower than the same quarter of the previous year.

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. At the same time, the company has focused on the expansion of its aftermarket business which tends to be less sensitive to economic changes than sales of new doors. 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.

The Engineered Fabrics segment derives its revenue from various industries that use fabrics and belts for industrial applications other than the manufacture of paper and paperboard. Approximately 40% of revenue in this segment is derived from sales to the nonwovens industry, which includes the manufacture of diapers, personal care and household wipes, and fiberglass-reinforced roofing shingles. Approximately 30% of segment revenue is derived from sales to markets that are adjacent to the paper industry, and 20% of revenue is derived from the building products market. Segment sales in the European and Pacific regions combined are almost at the same level as sales within the Americas.

The Engineered Composites segment (AEC) serves primarily the aerospace industry, with custom-designed composite and advanced composite parts for static and dynamic applications. AEC has experienced significant growth in net sales during the last few years, due both to the introduction of new products and to growth in demand and application for previously existing products. According to earlier independent estimates, the total aerospace composites market was expected to grow from about $5 billion in 2008 to about $25 billion in 2016. Of that $25 billion market, about $3 billion is addressable by AEC s unique technology, and a total of $13 billion is addressable by a combination of AEC s unique capabilities and its more conventional composites capability. The aerospace composites market is being shaped by two major waves of growth: the current wave, just beginning, is being driven by the new generation of long-haul aircraft, the Boeing 787 and the Airbus A380. Except for the landing gear braces that the Company is developing with Messier-Dowty and one other relatively small project, AEC is not participating in the Boeing 787 wave, as AEC started up far too late to participate in the critical development projects. The current global recession is likely to adversely effect growth in the near term.

The PrimaLoft® Products segment includes sales of insulation for outdoor clothing, gloves, footwear, sleeping bags, and home furnishings. The segment has manufacturing and sales operations in the United States, Europe, and Asia.

International Operations

The Company maintains manufacturing facilities in Australia, Brazil, Canada, China, 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 could also mitigate 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 those 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. Many employees in sales and technical functions 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.

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, the United States, 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.

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.

The Company s other segments have 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.

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.

Historically, the Company had 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. The Albany Door Systems segment typically experiences its highest sales in the fourth quarter of the year. Seasonality is not a significant factor in the Company s other segments.

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, 2008, was $419.6 million, a decrease of 22.5% from the prior year-end. Excluding the effect of changes in currency translation rates, backlog decreased approximately 17.6% in comparison to December 31, 2007. The December 31, 2008 backlog by segment was $368.6 million in PMC, $16.5 million in Albany Doors, $20.4 million in Engineered Fabrics, $12.1 million in Engineered Composites, and $2.0 million in Primaloft. The backlog as of December 31, 2008 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 each business 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 engineered fabrics and has resulted in a stream of new products and enhancements such as ULTRAPLANE, HYDROCROSS, AEROPOINT, SEAM HYDROCROSS, AEROPULSE and EVM BELTS.

Product engineering and research and development expenses totaled $36.6 million in 2008 (3% of sales), $35.9 million in 2007, and $31.7 million in 2006. In addition, the Company spent $29.9 million in 2008 (3% of sales), $32.4 million in 2007, and $32.9 million in 2006 on technical expenditures that are focused on design, quality assurance, and customer support.

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

The Company holds a number of patents, trademarks, trade-names, 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 trade-names 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.

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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 45% 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 2008, 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 technical support 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. Revenues earned from these services are not significant.

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. Revenue recognition for aftermarket sales in the Door Systems segment is recorded when all revenue recognition criteria are met, which is generally at time of delivery and title is transferred to the customer.

For some of the businesses within the Engineered Fabrics 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.

Employees

The Company employs approximately 5,800 persons, of whom approximately 60% 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.

Approximately 100 U.S. employees are union members subject to a total of three collective bargaining agreements. The Company recently renegotiated two of these, and renegotiation of the third will commence shortly. Following renegotiation of the third agreement, the agreements will remain in effect

until 2011. A number of hourly employees outside of the United States are also members of various unions.

Executive Officers of Company

The following table sets forth certain information with respect to the executive officers of the Company as of February 27, 2009:

Name	Age	Position
Joseph G. Morone	55	President and Chief Executive Officer
Michael C. Nahl	66	Executive Vice President and Chief Financial Officer
Daniel A. Halftermeyer	47	Group Vice President PMC Eurasia Business Corridor
Michael J. Joyce	45	Group Vice President PMC Americas and Global Engineered Fabrics
Ralph M. Polumbo	57	Senior Vice President Human Resources and Chief Administrative Officer
John B. Cozzolino	42	Vice President Corporate Treasurer and Strategic Planning
Robert A. Hansen	51	Vice President Corporate Research and Development
David M. Pawlick	47	Vice President Controller
Charles J. Silva, Jr.	49	Vice President General Counsel and Secretary
Dawne H. Wimbrow	51	Vice President Global Information Services and Chief Information Officer
Joseph M. Gaug	45	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.

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 Corporation and a member of JP Morgan Chase and Company s Regional Advisory Board.

Daniel A. Halftermeyer joined the Company in 1987. He has served the Company as Group Vice President PMC Eurasia Business Corridor since August 2008. He previously served the Company as Group Vice President PMC Europe from 2005 to August 2008, Vice President and General Manager North American Dryer Fabrics from 1997 to March 2005, 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.

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Michael J. Joyce joined the Company in 1987. He has served as Group Vice President PMC Americas & Global Engineered Fabrics since January 2009, Group Vice President PMC Americas from March 2007 to January 2009, Vice President Sales and Marketing PMC Americas from March 2005 to March 2007, Vice President Marketing and Application North American Press Fabrics from July 2003 to March 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.

Ralph M. Polumbo joined the Company in 2006 as Senior Vice President - Human Resources and has served as the Chief Administrative Officer (CAO) since September 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.

John B. Cozzolino joined the Company in 1994. He was elected Vice President - Corporate Treasurer and Strategic Planning in February 2009. From 2007 until his appointment as Vice President - Corporate Treasurer and Strategic Planning, 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.

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.

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 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.

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

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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) 445-2242
Fax: (518) 445-2265
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 2008.

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.

The current unfavorable general economic and market conditions have negatively affected our customers and our business, and could continue to negatively affect our customers and materially adversely affect our results of operations

The effects of a global economic and paper industry downturn may exacerbate the effect of the other risks disclosed below, and may also generally have an adverse impact on the Company s business and results of operations.

The Company identifies below a number of risks, the effects of which may be exacerbated by a severe recession. For example, continued unfavorable global economic and paper industry conditions may increase consolidation and rationalization within the paper industry, further reducing global consumption of paper machine clothing. Reduced consumption of PMC could in turn increase the risk of greater price competition within the PMC industry and greater effort by competitors to gain market share at the expense of the Company. Sales in the Company s other business segments may also be adversely affected by an economic downturn.

Deteriorating economic and paper industry 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.

The global financial crisis may have impacts on our business and financial condition that we currently cannot predict

The continued credit crisis and related turmoil in the global financial system may have an impact on our business and our financial condition. Our ability to access the capital markets may be restricted at a time when we would like, or need, to access those markets, which could have an impact on our flexibility to react to changing economic and business conditions. In addition, the cost of debt financing and the proceeds of equity financing may be materially adversely impacted by these market conditions. The credit crisis also could have an impact on our lenders, suppliers, insurers or our customers, causing them to fail to meet their obligations to us.

Developments in alternative media could continue to adversely affect the demand for paper products, which could have an adverse effect on demand for our products

The demand for certain grades of paper has weakened in recent years. Trends in advertising, digital information transmission and storage, and the Internet could have further adverse effects on demand for newsprint as well as coated paper, uncoated specialty papers or other products made by our customers.

If these trends were to accelerate , our customers would likely respond with additional reductions of papermaking capacity, which would adversely affect demand for PMC.

There are a number of factors inhibiting growth in the industry in which the Company s Paper Machine Clothing segment competes

Significant consolidation and rationalization in the paper industry in recent years reduced global consumption of paper machine clothing. Management anticipates consolidation and rationalization, and the resulting downward pressure on PMC revenues, 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. These factors are resulting in a steady decline in the number of pieces of paper machine clothing, while the average PMC fabric size is increasing. The net effect of these trends is that the specific volume of paper machine clothing consumption (measured in kilograms or square meters) has been increasing at a rate of approximately 1% per year over the past several years. If the actual consumption of paper machine clothing were to decrease, the Company s net sales and operating income could be adversely affected.

Competitive pricing in the PMC industry has and could continue to have an adverse effect on the Company s net sales and operating income

The market for paper machine clothing in recent years has been characterized by increased price competition, especially in Europe, which has negatively affected the Company s net sales and operating results in recent periods. The Company expects price competition to remain intense in all PMC markets, especially during periods of customer consolidation and plant closures. The current global recession may increase further intensity in competition which could have an adverse impact on profitability.

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 67.0%, 71.0%, and 73.1% of the Company s consolidated net sales in 2008, 2007, and 2006, 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. 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

Although 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.

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

Although 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. Although no individual customer accounted for more than 10% of consolidated net sales during 2008, 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.

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

The Company had capital expenditures of $129.5 million, $149.2 million, and $84.5 million in 2008, 2007, and 2006, respectively. Additionally, the Company had capitalized software investments of $11.5 million in 2008, $16.0 million in 2007, and $8.8 million in 2006. The investments are part of the Company s three-year restructuring and performance improvement plan.

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.

In addition to the general risks that the Company already faces outside the U.S., the Company is conducting a greater part of its manufacturing operations in emerging markets in the future, which could involve many uncertainties for the Company

The Company currently has manufacturing facilities outside the U.S. In 2008, 63.8% 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.

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A fundamental change in the papermaking process could reduce demand for paper machine clothing

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 were able to develop a commercially viable manner of paper manufacture that did not require paper machine clothing, sales of the Company s products in this segment could be expected to decline significantly.

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

The Company has been engaged in significant restructuring of the global operations of the Company s Paper Machine Clothing segment, including the closing of a number of manufacturing facilities in the United States and Europe. Restructuring activities have included a continuing effort to match the Company s manufacturing capacity to shifting global demand and also changes in the Company s administrative processes to improve efficiency. Future shifting of customer demand, the need to reduce costs, or other factors could cause the Company to determine in the future that additional restructuring steps are required. The Company may also need to incur additional costs in the future if the Company needs to add employees following any such restructuring. 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. The concentration of manufacturing in fewer locations also increases the risk that an interruption of operations at any single location, due to natural disaster, labor problems, or any other reason, might have more of an adverse impact on Company s continued ability to meet customer demand in a timely fashion. Competitors can be quick to attempt to exploit these situations. Although the Company considers these risks, plans each step of the process carefully, and works to reassure customers who could be affected by any such matters that their requirements will continue to be met, the Company could lose customers and associated revenues if the Company fails to plan properly or if the foregoing tactics are ineffective.

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.

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At December 31, 2008, the Company had outstanding debt totaling $543.0 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 asset dispositions and prescribed leverage and interest coverage ratios. 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. In the current economic and financing market, the Company might find it difficult to modify or restructure on attractive terms, or at all, and any modification, restructuring or refinancing would, in the current environment, likely result in additional fees and higher interest expenses.

The Company may incur a substantial amount of additional indebtedness in the future. As of December 31, 2008, the Company had borrowed $190 million under its $460 million revolving credit facility. The Company is required to maintain a leverage ratio of not greater than 3.50 to 1.00 under this facility. The Company is also required to maintain minimum interest coverage of 3.00 to 1.00 under each agreement. As of December 31, 2008, the Company s leverage ratio was 2.54 to 1.00 and the interest coverage ratio was 7.35 to 1.00. The Company may purchase its Common Stock or pay dividends to the extent its leverage ratio remains at or below 3.50 to 1.00, and may make acquisitions for cash provided its leverage ratio would not exceed 3.00 to 1.00 after giving pro forma effect to the acquisition. The Company s ability to borrow additional amounts under the credit agreement is conditional upon the absence of any defaults, as well as the absence of any material adverse change.

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.

Our access to borrowing capacity has been and could continue to be affected by the uncertainty impacting credit markets generally

Our ability to access the capital markets to raise funds through the sale of equity or debt securities is subject to various factors, including general economic and/or financial market conditions. As a result of current economic conditions, including turmoil and uncertainty in the capital markets, credit markets have tightened significantly, which makes obtaining new capital more challenging and more expensive. The current conditions of the financial markets have adversely affected the availability of credit and liquidity resources and our access to capital markets is limited and subject to increased costs until stability re-emerges.

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

The Engineered Composites segment has experienced significant growth in net sales during the last few years, due both to the introduction of new products and to growth in demand and application for previously existing products. While the Company continues to make investments to grow the Engineered Composites segment, there can be no assurance that the growth in sales enjoyed during the last few years will continue. Furthermore, the current global recession has had, and is likely to continue to have, an adverse impact on growth in this segment.

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The long-term growth prospects for the Engineered Composites business is highly dependent upon the Company s ability to secure new development contracts with major aerospace companies, and to perform well in the contracts that are secured.

Sales in the Company s Albany Door Systems segment depend on capital expenditures of its customers, which may cause the segment to be more vulnerable to economic downturns

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. The current economic weakness has resulted in customers reducing levels of capital expenditures, which has had a negative effect on sales and earnings in the Albany Door Systems segment. These effects could continue for as long as the current economic environment persists.

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 been volatile. 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 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.

Material disruption to one of our significant manufacturing plants could adversely affect our ability to generate revenue

As a result of our restructuring, the Company has placed greater reliance on its remaining manufacturing plants. If operations at a significant facility were to be disrupted as a result of equipment failures, natural disasters, work stoppages, power outages or other reasons, our business, financial conditions and results of operations could be adversely affected. Interruptions in production could increase costs and delay delivery of units in production. Production capacity limits could cause us to reduce or delay sales efforts until production capacity is available.

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

The Company relies on various information technology systems to manage its operations. The Company is currently implementing modifications and upgrades to its systems, including replacing legacy systems with successor systems, making changes to legacy systems, and acquiring new systems with new functionality. For example, the Company began its implementation of the SAP enterprise resource planning system in the fourth quarter of 2006. This implementation subjects the Company to inherent costs and risks associated with replacing and changing these systems, including impairment of the Company s ability to fulfill customer orders, potential disruption of the internal control structure, substantial capital expenditures, demands on management time and other risks of delays or difficulties in transitioning to new systems. These systems implementations may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. Any information technology system disruptions, if not anticipated and appropriately mitigated, could have an adverse effect on the Company s business and operations.

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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 affected by the fact that sales are denominated in a currency different from the currency in which the costs to manufacture and distribute the products are denominated. These sales are typically denominated in U.S. dollars while the manufacturing costs are based mainly on currencies that have in the past strengthened, and may in the future strengthen, against the U.S. dollar. Although the Company may enter into foreign currency or other derivative contracts from time to time in order to mitigate volatility in the Company s earnings that can be caused by changes in currency exchange rates, these mitigation measures may not be effective.

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 successfully to resolve any legal proceedings related to compliance matters could have an adverse impact on our results in any period.

As of February 6, 2009, the Company and certain of the Company s subsidiaries were defending against 17,854 asbestos-related claims in various courts in the United States. The Company s subsidiary, Brandon Drying Fabrics, Inc., is also a separate defendant with respect to 8,607 of these claims as of February 6, 2009. The Company anticipates that additional claims will be filed against the Company and Brandon in the future but is unable to predict the number and timing of such future claims. While, based on information currently known, the Company does not currently anticipate any material adverse effect relating to the resolution of these asbestos claims in excess of currently existing insurance limits, litigation is inherently uncertain, particularly when the outcome is dependent primarily on determinations of factual matters to be made by juries. Numerous other defendants in asbestos cases, as well as others who claim to have knowledge and expertise on the subject, have found it difficult to anticipate the outcome of asbestos litigation, the volume of future asbestos claims, and the anticipated settlement or judgment values of those claims. Nevertheless, 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 it should be able to access. The Company s insurance carrier paid 99% of the Company s settlement costs to date and a comparable percentage of the Company s legal costs under a standard reservation of rights. There can be no assurance that current confirmed coverage will be sufficient for all claims to which the Company or Brandon may be subject, or that the Company s or Brandon s insurance carriers will not in the future attempt to deny coverage for some or all pending and future asbestos claims. In such an event, the Company might be required to sue the carriers in order to establish coverage, and there can be no assurance that the Company would prevail in such a suit. In addition, with respect to those cases in which the Company has been named a successor-in-interest to Mt. Vernon Mills, Mt. Vernon has to date assumed the defense of these claims. In the future, Mt. Vernon

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Mills may decide to cease defending these claims or be financially unable to do so. For each of these reasons, there can be no assurance that asbestos litigation will not ultimately have an adverse impact on the Company s business, financial condition, or results of operations.

A substantial portion of the Company s assets includes goodwill, and impairment in the value of the Company s goodwill could adversely affect the Company s assets and net income

Goodwill represented 8.2% and 12.7% of the Company s total assets as of December 31, 2008 and 2007, respectively. In 2008, non-cash charges were recorded of $72.3 million for impairment of goodwill, in accordance with Statement of Financial Accounting Standards 142 Goodwill and Other Intangible Assets. The impairment was primarily due to adverse financial market conditions that caused a significant decrease in the market multiples and increase in the discount rates used in the impairment analysis.

The Company reviews goodwill and other long-lived assets for impairment whenever events such as significant changes in the business climate, plant closures, changes in product offerings, or other circumstances indicate that the carrying value may not be recoverable. The Company performs a test for goodwill impairment at least annually, in the second quarter of each year. If the Company is required to record additional impairment charges in future periods, it would have the effect of decreasing the Company s earnings (or increasing the Company s losses), and the Company s stock price could decline as a result.

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

The Company has pension and postretirement benefit costs and liabilities that are developed from actuarial valuations. As of December 31, 2008, the Company's liabilities under its defined benefit pension and postretirement retirement welfare plans exceeded plan assets by $186.1 million . The Company currently expects 2009 required funding under those plans to be approximately $13.0 million. Inherent in these valuations are key assumptions, including discount rates and return on plan assets, which are updated on an annual basis. The Company is required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in the related pension and postretirement benefit costs or credits may occur in the future due to changes in actual performance of pension plan investments and the assumptions used in the valuations. The amount of annual pension plan funding and annual expense is subject to many variables, including the investment return on pension plan assets and interest rates. Weakness in investment returns and low interest rates could result in higher benefit plan expense and the need to make greater pension plan contributions in future years.

Failure to retain and recruit qualified technical personnel may hinder the Company s growth

The Company competes for qualified personnel in all of its business segments, and in each region of the world. The Company s continued success in developing technological improvements and new applications of its products depends on the Company s ability to recruit and retain highly skilled employees. If the Company is unable to attract and retain qualified technical personnel with adequate skills and expertise, the Company s growth may be hindered and the Company s development programs may be delayed or aborted.

The Company s success is dependent upon its management and employees

The Company s success is dependent upon its management and employees. The loss of senior management employees or any failure to recruit and train needed managerial, sales and technical personnel, could have a material adverse effect on the Company.

The Company may not be able to successfully integrate acquisitions into the Company s operations and/or the expected benefits of such acquisitions may not be realized

The Company s growth strategy may involve the acquisition of one or more businesses. Any such acquisition could involve numerous risks, which may include difficulty in assimilating the operations, technologies, products, and key employees of the acquired businesses; the Company s inability to maintain the existing customers of the acquired businesses or succeed in selling the products or services of the acquired businesses to the Company s existing customers; a diversion of management s attention from other business concerns; the Company s entry into markets in which competitors have a better-established market position than the businesses the Company acquires; the incurrence of significant expenses in completing the acquisitions; and the assumption of significant liabilities, some of which may be unknown at the time of the acquisitions. The Company s inability to execute any acquisitions or integrate acquired businesses successfully could have an adverse effect on the Company s business, financial condition, and results of operations.

Changes in or interpretations of accounting principles could result in unfavorable accounting charges

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported activity.

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 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, structural changes in the Company s businesses, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, 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 had a net deferred tax asset in the U.S. of approximately $80,000,000 at December 31, 2008. The Company has incurred a cumulative loss in the U.S. over the three-year period ending December 31, 2008. T he cumulative loss resulted from restructuring expenses resulting from the three year restructuring plan undertaken by the company, and a large write-off in 2008 related to the bankruptcy of Eclipse, a customer of the Engineered Composites segment, as well as an impairment of U.S. goodwill.

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.

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. The Engineered Composites segment is engaged in designing, developing, and manufacturing components for commercial jet aircraft and defense and technology systems and products. The Company expects this portion of the business to grow in future periods. Although the Company maintains 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 the Company in the future at a cost that is acceptable. Any material liability not covered by insurance could have a material adverse effect on the Company s business, financial condition and results of operations.

The price of our Class A common stock historically has been volatile.

The market price for our Class A common stock has varied between a high of $37.51 and a low of $11.40 during the past year. This volatility may make it difficult for holders to resell our common stock, and the sale of substantial amounts of our Class A common stock could adversely affect the price of our Class A common stock. Our stock price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors, including the other risk factors disclosed in this report.

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 February 23, 2009, 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 54.72% 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 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.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company s principal manufacturing facilities are located in Australia, Brazil, Canada, China, France, Germany, Italy, Mexico, South Korea, Sweden, the United Kingdom, and the United States. The aggregate square footage of the Company s operating facilities in the United States and Canada is approximately 2,698,000 square feet, of which 2,394,000 square feet are owned and 304,000 square feet are leased. The Company s facilities located outside the United States and Canada comprise approximately 2,685,000 square feet, of which 2,553,000 square feet are owned and 132,000 square feet are leased. The Company considers these facilities to be in good condition and suitable for their purpose. The capacity associated with these facilities is adequate to meet production levels required and anticipated through 2009.

Item 3. LEGAL PROCEEDINGS

Albany International Corp. (Albany) 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 previously manufactured by Albany. Albany 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.

Albany was defending against 17,854 claims as of February 6, 2009. This compares with 18,385 such claims as of October 27, 2008, 18,462 claims as of July 25, 2008, 18,529 claims as of May 2, 2008, 18,789 claims as of February 1, 2008, 18,791 claims as of October 19, 2007, 18,813 claims as of July 27, 2007, 19,120 claims as of April 27, 2007, 19,388 claims as of February 16, 2007, 19,416 claims as of December 31, 2006, 24,451 claims as of December 31, 2005, 29,411 claims as of December 31, 2004, 28,838 claims as of December 31, 2003, 22,593 claims as of December 31, 2002, 7,347 claims as of December 31, 2001, 1,997 claims as of December 31, 2000, and 2,276 claims as of December 31, 1999. These suits allege a variety of lung and other diseases based on alleged exposure to products previously manufactured by Albany. The following table sets forth the number of claims filed, the number of claims settled, dismissed or otherwise resolved, and the aggregate settlement amount during the periods presented:

Year ended December 31,	*Opening Number of claims*	*Claims Dismissed, Settled or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve ($$)*
2005	*29,411*	*6,257*	*1,297*	*24,451*	*504*
2006	*24,451*	*6,841*	*1,806*	*19,416*	*3,879*
2007	*19,416*	*808*	*190*	*18,798*	*15*

2008	*18,798*	*523*	*110*	*18,385*	*52*
2009 to date	*18,385*	*547*	*16*	*17,854*	*0*

Albany anticipates that additional claims will be filed against it and related companies in the future, but is unable to predict the number and timing of such future claims. These suits typically involve claims against from twenty to more than two hundred defendants, and the complaints usually fail to identify the plaintiffs work history or the nature of the plaintiffs alleged exposure to Albany s products. Pleadings and discovery responses in those cases in which work histories have been provided indicate claimants with paper mill exposure in approximately 10% of the total claims filed against Albany, and only a portion of those claimants have alleged time spent in a paper mill to which Albany is believed to have supplied asbestos-containing products.

As of February 6, 2009, approximately 12,428 of the claims pending against Albany were pending in Mississippi. Of these, approximately 11,870 are in federal court, at the multidistrict litigation panel (MDL), either through removal or original jurisdiction. (In addition to the 11,870 Mississippi claims pending against the Company at the MDL, there are approximately 888 claims pending against the Company at the MDL removed from various United States District Courts in other states.)

On May 31, 2007 the MDL issued an administrative order that required each MDL plaintiff to provide detailed information regarding, among other things, the alleged asbestos-related medical diagnoses. The order does not require exposure information with this initial filing. The deadline for submission of such filings was December 1, 2007, but the process continued for several months thereafter with defense counsel monitoring filing obligations and reviewing the submissions for compliance. On December 23, 2008, the MDL issued another administrative order providing a mechanism whereby defendants could

seek dismissals against plaintiffs who failed to comply with the prior administrative order. The deadline for such motions was January 31, 2009 with hearings to be scheduled thereafter. The Company cannot currently predict if any dismissals will result from these motions.

With respect to claims in which plaintiffs have complied with the original administrative order, the MDL will at some point begin conducting settlement conferences, at which time the plaintiffs will be required to submit short position statements setting forth exposure information. The Company does not expect the MDL to begin the process of scheduling the settlement conference for several months. Consequently, the Company believes that the effects of the administrative orders will not be fully known or realized for some time.

Based on past experience, communications from certain plaintiffs counsel, and the advice of the Company s Mississippi counsel, the Company expects the percentage of Mississippi claimants able to demonstrate time spent in a paper mill to which Albany supplied asbestos-containing products during a period in which Albany s asbestos-containing products were in use to be considerably lower than the total number of pending claims. However, due to the large number of inactive claims pending in the MDL and the lack of alleged exposure information, the Company does not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

As of February 6, 2009, the remaining 5,426 claims pending against Albany were pending in states other than Mississippi. Pleadings and discovery responses in those cases in which work histories have been provided indicate claimants with paper mill exposure in approximately 25% of total claims reported, and only a portion of those claimants have alleged time spent in a paper mill to which Albany is believed to have supplied asbestos-containing products. For these reasons, the Company expects the percentage of these remaining claimants able to demonstrate time spent in a paper mill to which Albany supplied asbestos-containing products during a period in which Albany s asbestos-containing products were in use to be considerably lower than the total number of pending claims. In addition, over half of these remaining non-Mississippi claims have not provided any disease information. Detailed exposure and disease information sufficient to meaningfully estimate a range of possible loss of a particular claim is typically not available until late in the discovery process, and often not until a trial date is imminent and a settlement demand has been received. For these reasons, the Company does not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

It is the position of Albany and the other paper machine clothing defendants that there was insufficient exposure to asbestos from any paper machine clothing products to cause asbestos-related injury to any plaintiff. Furthermore, asbestos contained in Albany s synthetic products was encapsulated in a resin-coated yarn woven into the interior of the fabric, further reducing the likelihood of fiber release. Although the Company believes it has meritorious defenses to these claims, it has settled certain of these cases for amounts it considers reasonable given the facts and circumstances of each case. The Company s insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of February 6, 2009, the Company had resolved, by means of settlement or dismissal, 22,593 claims. The total cost of resolving all claims was $6,758,000. Of this amount, $6,713,000, or 99%, was paid by the Company s 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 it should be able to access.

Brandon Drying Fabrics, Inc.

Brandon Drying Fabrics, Inc. (Brandon), a subsidiary of Geschmay Corp., which is a subsidiary of the Company, is also a separate defendant in many of the asbestos cases in which Albany is named as a defendant. Brandon was defending against 8,607 claims as of February 6, 2009. This compares with 8,664 such claims as of October 27, 2008, 8,672 claims as of July 25, 2008, 8,689 claims as of May 2, 2008, 8,741 claims as of February 1, 2008 and October 19, 2007, 9,023 claims as of July 27, 2007, 9,089 claims as of April 27, 2007, 9,189 claims as of February 16, 2007, 9,114 claims as of December 31, 2006,

9,566 claims as of December 31, 2005, 9,985 claims as of December 31, 2004, 10,242 claims as of December 31, 2003, 11,802 claims as of December 31, 2002, 8,759 claims as of December 31, 2001, 3,598 claims as of December 31, 2000, and 1,887 claims as of December 31, 1999. The following table sets forth the number of claims filed, the number of claims settled, dismissed or otherwise resolved, and the aggregate settlement amount during the periods presented:

Year ended December 31,	*Opening Number of claims*	*Claims Dismissed, Settled or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve ($$)*
2005	*9,985*	*642*	*223*	*9,566*	*0*
2006	*9,566*	*1182*	*730*	*9,114*	*0*
2007	*9,114*	*462*	*88*	*8,740*	*0*
2008	*8,740*	*86*	*10*	*8,664*	*0*
2009 to date	*8,664*	*58*	*1*	*8,607*	*0*

The Company acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999. Brandon is a wholly-owned subsidiary of Geschmay Corp. In 1978, Brandon acquired certain assets from Abney Mills (Abney), a South Carolina textile manufacturer. Among the assets acquired by Brandon from Abney were assets of Abney s wholly-owned subsidiary, Brandon Sales, Inc. which had sold, among other things, dryer fabrics containing asbestos made by its parent, Abney. It is believed that Abney ceased production of asbestos-containing fabrics prior to the 1978 transaction. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. Under the terms of the Assets Purchase Agreement between Brandon and Abney, Abney agreed to indemnify, defend, and hold Brandon harmless from any actions or claims on account of products manufactured by Abney and its related corporations prior to the date of the sale, whether or not the product was sold subsequent to the date of the sale. It appears that Abney has since been dissolved. Nevertheless, a representative of Abney has been notified of the pendency of these actions and demand has been made that it assume the defense of these actions. Because Brandon did not manufacture asbestos-containing products, and because it does not believe that it was the legal successor to, or otherwise responsible for obligations of Abney with respect to products manufactured by Abney, it believes it has strong defenses to the claims that have been asserted against it. In some instances, plaintiffs have voluntarily dismissed claims against it, while in others it has entered into what it considers to be reasonable settlements. As of February 6, 2009, Brandon has resolved, by means of settlement or dismissal, 8,969 claims for a total of $152,499. Brandon s insurance carriers initially agreed to pay 88.2% of the total indemnification and defense costs related to these proceedings, subject to the standard reservation of rights. The remaining 11.8% of the costs had been borne directly by Brandon. During 2004, Brandon s insurance carriers agreed to cover 100% of indemnification and defense costs, subject to policy limits and the standard reservation of rights, and to reimburse Brandon for all indemnity and defense costs paid directly by Brandon related to these proceedings.

As of February 6, 2009, 6,821 (or approximately 79%) of the claims pending against Brandon were pending in Mississippi. For the same reasons set forth above with respect to Albany s Mississippi and other claims, as well as the fact that no amounts have been paid to resolve any Brandon claims since 2001, the Company does not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

Mount Vernon

In some of these asbestos cases, the Company is named both as a direct defendant and as the successor in interest to Mount Vernon Mills (Mount Vernon). The Company acquired certain assets from Mount Vernon in 1993. Certain plaintiffs allege injury caused by asbestos-containing products alleged to have been sold by Mount Vernon many years prior to this acquisition. Mount Vernon is contractually obligated to indemnify the Company against any liability arising out of such products. The Company denies any liability for products sold by Mount Vernon prior to the acquisition of the Mount Vernon assets. Pursuant to its contractual indemnification obligations, Mount Vernon has assumed the defense of these claims. On this basis, the Company has successfully moved for dismissal in a number of actions.

While the Company does not believe, based on currently available information and for the reasons stated above, that a meaningful estimate of a range of possible loss can be made with respect to such claims, based on its understanding of the insurance policies available, how settlement amounts have been allocated to various policies, its settlement experience, the absence of any judgments against the Company or Brandon, the ratio of paper mill claims to total claims filed, and the defenses available, the Company currently does not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, the Company currently does not anticipate, based on currently available information, that the ultimate resolution of the aforementioned proceedings will have a material adverse effect on the financial position, results of operations or cash flows of the Company. Although the Company cannot predict the number and timing of future claims, based on the foregoing factors and the trends in claims against it to date, the Company does not anticipate that additional claims likely to be filed against it in the future will have a material adverse effect on its financial position, results of operations, or cash flows. The Company is aware that litigation is inherently uncertain, especially when the outcome is dependent primarily on determinations of factual matters to be made by juries. The Company is also aware that numerous other defendants in asbestos cases, as well as others who claim to have knowledge and expertise on the subject, have found it difficult to anticipate the outcome of asbestos litigation, the volume of future asbestos claims, and the anticipated settlement values of those claims. For these reasons, there can be no assurance that the foregoing conclusions will not change.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2008.

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PART II

Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is principally traded on the New York Stock Exchange under the symbol AIN. As of December 31, 2008, there were approximately 9,100 beneficial owners of the Company s common stock, including employees owning shares through the Company s 401(k) defined contribution plan. The Company s cash dividends and the high and low common stock prices per share were as follows:

Quarter Ended	**March 31**	**June 30**	**September 30**	**December 31**
2008				
Cash dividends per share	$ 0.11	$ 0.12	$ 0.12	$ 0.12
Class A Common Stock prices:				
High	$ 37.35	$ 37.51	$ 34.83	$ 26.87
Low	$ 32.34	$ 29.00	$ 26.18	$ 11.40
2007				
Cash dividends per share	$ 0.10	$ 0.11	$ 0.11	$ 0.11
Class A Common Stock prices:				
High	$ 35.98	$ 42.42	$ 42.10	$ 39.48
Low	$ 32.10	$ 36.13	$ 37.23	$ 34.54

Restrictions on dividends and other distributions are described in Note 13 of the Notes to Consolidated Financial Statements (see Item 8).

Disclosures of securities authorized for issuance under equity compensation plans and the performance graph are included under Item 12 of this Form 10-K.

In August 2006, the Company announced that the Board of Directors authorized management to purchase up to 2,000,000 additional shares of its Class A Common Stock. The Board s action authorized management to purchase shares from time to time, in the open market or otherwise, whenever it believes such purchase to be advantageous to the Company s shareholders, and it is otherwise legally permitted to do so. Management has made no share purchases under that authorization.

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Item 6. SELECTED FINANCIAL DATA

The following selected historical financial data have been derived from the Consolidated Financial Statements of the Company (see Item 8). The data should be read in conjunction with those financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations (see Item 7).

(in thousands, except per share amounts)	**2008**	**2007**	**2006**	**2005**	**2004**
Summary of Operations					
Net sales (1)	**$ 1,086,517**	$ 1,051,903	$ 986,827	$ 958,998	$ 901,586
Cost of goods sold (1) (2)	**724,484**	679,612	599,857	570,655	543,696
Restructuring and other (2)	**38,653**	27,625	5,936		54,058
Goodwill impairment charge (3)	**72,305**				
Operating (loss)/income (1)	**(66,917)**	33,196	90,583	115,170	38,648
Interest expense, net (1)	**18,951**	14,946	9,148	10,583	14,636
(Loss)/income from continuing operations (1)	**(82,227)**	15,931	59,069	71,023	8,573
Income/(loss) from discontinued operations	**6,479**	1,851	(1,030)	829	1,812
Net (loss)/income	**(75,748)**	17,782	58,039	71,852	10,385
Basic (losses)/income from continuing operations per share	**(2.76)**	0.54	1.98	2.22	0.26
Basic net (losses)/ income per share	**(2.54)**	0.60	1.95	2.25	0.32
Diluted net (losses)/ income per share	**(2.54)**	0.60	1.92	2.22	0.31
Dividends declared per share	**0.47**	0.43	0.39	0.34	0.30
Weighted average number of shares outstanding - basic	**29,786**	29,421	29,803	31,921	32,575
Capital expenditures	**129,499**	149,215	84,452	43,293	57,129
Financial position					
Cash	**$ 106,571**	$ 73,305	$ 68,237	$ 72,771	$ 58,982
Cash surrender value of life insurance	**47,425**	43,701	41,197	37,778	34,583
Property, plant and equipment, net	**536,576**	525,853	409,056	338,865	380,731
Total assets	**1,405,425**	1,526,977	1,306,547	1,087,047	1,155,760
Current liabilities (4)	**210,177**	242,840	200,255	179,393	213,488
Long-term debt	**530,367**	446,433	354,587	162,597	213,615
Total noncurrent liabilities (4) (5)	**775,352**	700,802	623,503	349,072	407,831
Total liabilities (4) (5)	**985,529**	943,642	823,758	528,465	621,319
Shareholders equity (3) (4) (5)	**419,896**	583,335	482,789	558,582	534,441

(1) In 2008, the Company sold its Filtration Technologies business. Previously reported data for net sales, cost of sales, and operating income for years prior to 2008 have been adjusted to reflect only the activity from continuing operations.

(2) In 2004, 2006, 2007, and 2008 the Company recorded Restructuring and other charges related to cost reduction initiatives.

(3) In 2008 a Goodwill impairment charge of $72.3 million was recorded.

(4) In 2008, the Company determined that there were errors in the reconciliation of its deferred tax, income tax payable, and accounts payable balance sheet accounts. For deferred taxes, the errors were in the accounts related to fixed assets in the United States and Canada, pension obligations in the United States and Germany, and goodwill in Germany. The income tax payable and accounts payable

reconciliation errors related to journal entries made in the consolidation process at the corporate level.

The Company has determined that the reconciliation errors relate to periods prior to 2004. The Company has assessed the materiality of these items in accordance with the SEC s Staff Accounting Bulletin (SAB) No. 99 and concluded that the error was not material to any of its previously reported quarterly or annual financial statements. The Company considered the guidance in SAB 108, under which the correction would be recorded in the 2008 Statement of Operations. However, the Company concluded that such an adjustment would cause the 2008 Statement of Operations to be misleading. Accordingly, the Company has instead reflected the correction of these items as an adjustment to its previously reported balance sheet s . Accordingly, data for 2004 to 2007 in the table above includes increases to current liabilities of $4.3 million, total noncurrent liabilities of $12.0 million, and total liabilities of $16.3 million. Equity was decreased by $16.3 million.

(5) In 2006, the Company adopted the provisions of FAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, which resulted in a $59.6 million increase in pension liabilities and a $41.5 million decrease in shareholders equity.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

The Paper Machine Clothing segment includes fabrics and belts used in the manufacture of paper and paperboard (PMC or paper machine clothing). 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 permeable and non-permeable continuous belts of custom-designed and custom-manufactured engineered fabrics that are installed on paper machines and carry the paper stock through each stage of the paper production process. PMC products are consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure. The design and material composition of PMC can have a considerable effect on the quality of paper products produced and the efficiency of the paper machines on which it is used. Principal products in the PMC segment include forming, pressing and dryer fabrics, and process belts. A forming fabric assists in sheet formation and conveys the very 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, some of which operate in multiple regions of the world. The Company s products, manufacturing processes and distribution channels for PMC are substantially the same in each region of the world in which it operates.

Albany Door Systems (ADS) designs, manufactures, sells, and services high-speed, high-performance industrial doors worldwide, for a wide range of interior, exterior, and machine protection industrial applications. Already a high performance door leader, ADS further expanded its market position in North America with the second-quarter 2007 acquisition of the assets and business of R-Bac Industries, the fastest-growing high-performance door company in North America, whose product lines were complementary to Albany s. The business segment also derives revenue from aftermarket sales and service.

The Company s other reportable segments are emerging 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); a variety of products similar to PMC for application in the corrugators, pulp, nonwovens, building products, tannery and textile industries (Albany Engineered Fabrics);and insulation for outdoor clothing, gloves, footwear, sleeping bags and home furnishings (PrimaLoft® Products). No class of similar products or services within these segments accounted for 10% or more of the Company s consolidated net sales in any of the past three years.

Trends

The Company s primary segment, Paper Machine Clothing, accounted for approximately 67% of consolidated revenues during 2008. 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. Recent economic changes could significantly impact world paper and paperboard demand, and it is likely that total production will be lower in the next five years.

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 has experienced a significant period of consolidation and rationalization since 2000. During this period, a number of older, less efficient machines in areas 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 and South America). 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 lengthened the useful life of many of the Company s products and reduced the number of pieces required to produce the same volume of paper. As the Company introduces new value creating products and services, it is often able to charge higher prices or increase market share in certain areas as a result of these improvements. However, increased prices and share have not always been sufficient to offset completely a decrease in the number of fabrics sold.

The factors described above result in a steady decline in the number of pieces of paper machine clothing, while the average fabric size is increasing. The net effect of these trends is that the specific volume of paper machine clothing consumption (measured in kilograms or square meters) has been increasing at a rate of approximately 1% per year over the past several years. Management believes that the short term effects of a global recession could accelerate or alter the trends described above. Effects of the recession, which were apparent in sales data for the fourth quarter of 2008, especially for Europe and Asia, are likely to continue and could result in PMC sales being lower in 2009.

During 2006, the Company reported that price competition in Western Europe had an adverse impact on the Company s operating results in this segment. In the third and fourth quarters of 2006, and in the first two quarters of 2007, sales of paper machine clothing to customers in Western Europe were significantly lower than the same quarter of the previous year. This also contributed to reduced operating income within this segment, as well as overall operating income, during those quarters.

The Company s response to that pricing disruption has been to initiate a deliberate, intensive three-year process of restructuring and performance improvement initiatives. In PMC, the Company s strategy for the past two years has been to offset the impacts of the maturation of the North American and Western European markets by (a) growing market share in these mature markets, (b) growing with the emerging markets in Asia and South America, and (c) reducing costs significantly through a company-wide, three-year restructuring and process-improvement program.

During this process of adjusting its manufacturing footprint to align with these regional markets, the Company has incurred restructuring charges. Specific charges reported have been incurred in connection with the reduction of PMC manufacturing capacity in the United States, Canada, Finland and Australia, and Doors segment manufacturing in Sweden. The Company has also incurred costs for idle capacity and equipment relocation that are related to the shutdown of these plants, and start-up costs related to the new PMC plant in China. Expenses related to these items are included in Cost of Goods Sold . In addition, the Company also incurred restructuring charges related to the centralization of PMC administrative functions in Europe, and reorganization of the Company s research and development function that has improved the Company s ability to bring value-added products to market faster.

In addition to these restructuring and restructuring-related activities, management has launched significant cost reduction and performance improvement initiatives. In 2006, the Company announced a plan to migrate its global enterprise resource planning system to SAP, and began a strategic procurement initiative designed to establish a world-class supply chain organization and processes that would lead to significant cost savings. Expenses incurred in connection with these actions are included in Selling, general, technical, product engineering and research (STG&R) expenses. These expenses were not allocated to the reportable segments because they are Corporate-wide initiatives.

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 Company s response to this trend includes expansion of its aftermarket business which tends to be less sensitive to economic changes than sales of new doors. 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. Orders for new doors began to drop off at the end of 2008 and into January, and the Company is preparing for a substantial decline in product sales, which will be only partially offset by continued growth in the aftermarket sales. Accordingly, the Company has been taking steps, across the business, to accelerate structural changes that permanently reduce costs.

The Engineered Fabrics segment derives its revenue from various industries that use fabrics and belts for industrial applications other than the manufacture of paper and paperboard. Approximately 40% of revenue in this segment is derived from sales to the nonwovens industry, which includes the manufacture of diapers, personal care and household wipes, and fiberglass-reinforced roofing shingles. Approximately 30% of segment revenue is derived from sales to markets that are adjacent to the paper industry, and 20% of revenue is derived from the building products market. Segment sales in the European and Pacific regions combined are almost at the same level as sales within the Americas. Sales in the fourth quarter of 2008 were 13% lower than the same quarter of 2007, and management expects the top line weakness to continue into 2009, reflecting the effects of the global recession.

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The Engineered Composites segment (AEC) serves primarily the aerospace industry, with custom-designed composite and advanced composite parts for static and dynamic applications. AEC has experienced significant growth in net sales during the last few years, due both to the introduction of new products and to growth in demand and application for previously existing products. The global recession is forcing many of AEC s customers to curtail production sharply, which is putting more pressure on AEC s top line. The net result is that revenue for 2009 is likely to be down by 15 percent as compared to 2008.

The PrimaLoft® Products segment includes sales of insulation for outdoor clothing, gloves, footwear, sleeping bags, and home furnishings. The segment has manufacturing and sales operations in the United States, Europe, and Asia. The economic weakness in retail markets is likely to have a negative effect on 2009 sales in this segment.

Foreign Currency

Albany International operates in many geographic regions of the world and has more than half of its business in countries outside the United States. A substantial portion of the Company s sales are denominated in euros or other currencies. In some locations, the profitability of transactions is affected by the fact that sales are denominated in a currency different from the currency in which the costs to manufacture and distribute the products are denominated. As a result, changes in the relative values of U.S. dollars, euros and other currencies affect revenues and profits as the results are translated into U.S. dollars in the consolidated financial statements.

From time to time, the Company enters into foreign currency or other derivative contracts in order to enhance cash flows or to mitigate volatility in the financial statements that can be caused by changes in currency exchange rates.

Review of Operations
2008 vs. 2007

Net sales increased to $1,086.5 million in 2008, as compared to $1,051.9 million for 2007. Changes in currency translation rates had the effect of increasing net sales by $30.3 million. Excluding the effect of changes in currency translation rates, 2008 net sales increased 0.4% as compared to 2007.

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

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Table 1

(in thousands)	Net sales as reported December 31, 2008	2007	Percent change	Impact of changes in currency translation rates	Percent change excluding currency rate effects
Paper Machine Clothing	$727,967	$747,279	-2.6%	$16,657	-4.8%
Albany Door Systems	189,348	152,951	23.8%	9,824	17.4%
Engineered Fabrics	101,118	101,506	-0.4%	3,533	-3.9%
Engineered Composites	46,666	32,955	41.6%		41.6%
PrimaLoft® Products	21,418	17,212	24.4%	308	22.6%
Total	$1,086,517	$1,051,903	3.3%	$30,322	0.4%