

ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
November 05, 2010
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended: September 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.
(Exact name of registrant as specified in its charter)

Delaware

14-0462060

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

1373 Broadway, Albany, New York

12204

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

The registrant had 27,914,472 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of September 30, 2010.

ALBANY INTERNATIONAL CORP.

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ALBANY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

Three Months Ended September 30,			Nine Months Ended September 30,	
2010	2009*		2010*	2009*
\$228,414	\$217,931	Net sales	\$669,737	\$639,695
141,879	144,013	Cost of goods sold	420,138	426,858
86,535	73,918	Gross profit	249,599	212,837
67,541	61,173	Selling, technical, general and research expenses	194,983	193,425
842	20,231	Restructuring and other, net	2,923	71,220
18,152	(7,486)	Operating income/(loss)	51,693	(51,808)
4,833	4,772	Interest expense, net	12,540	16,692
5,920	(8,086)	Other expense/(income), net	648	(45,106)
7,399	(4,172)	Income/(loss) from continuing operations before income taxes	38,505	(23,394)
3,732	920	Income tax expense	21,461	3,654
3,667	(5,092)	Income/(loss) before associated companies	17,044	(27,048)
(40)	(1)	Equity in (loss)/income of associated companies	58	(91)
3,627	(5,093)	Income/(loss) from continuing operations	17,102	(27,139)
		(Loss) from discontinued operations		(10,000)
\$3,627	\$(5,093)	Net income/(loss)	\$17,102	\$(37,139)
		Income/(loss) from continuing operations per share:		
\$0.12	\$(0.17)	Basic	\$0.55	\$(0.89)
\$0.12	\$(0.17)	Diluted	\$0.55	\$(0.89)

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		(Loss) from discontinued operations per share:		
		Basic		\$(0.33)
		Diluted		\$(0.33)
		Net income/(loss) per share:		
\$0.12	\$(0.17)	Basic	\$0.55	\$(1.22)
\$0.12	\$(0.17)	Diluted	\$0.55	\$(1.22)
		Shares used in computing earnings per share:		
31,118	30,808	Basic	31,040	30,529
31,211	30,808	Diluted	31,145	30,529
\$0.12	\$0.12	Dividends per share	\$0.36	\$0.36

* Includes revisions to correct previously reported amounts (see Note 2).

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

ALBANY INTERNATIONAL CORP.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	September 30, 2010	December 31, 2009*
ASSETS		
Cash and cash equivalents	\$99,410	\$97,466
Accounts receivable, net	175,304	168,523
Inventories	157,116	172,433
Income taxes receivable and deferred	39,486	42,613
Prepaid expenses and other current assets	15,181	9,712
Total current assets	486,497	490,747
Property, plant and equipment, net	492,482	514,475
Investments in associated companies	3,155	3,001
Intangibles	4,614	5,216
Goodwill	116,322	120,037
Deferred taxes	136,636	144,274
Cash surrender value of life insurance policies		49,135
Other assets	20,801	18,264
Total assets	\$1,260,507	\$1,345,149
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and loans payable	\$11,911	\$15,296
Accounts payable	44,130	52,618
Accrued liabilities	116,138	116,600
Current maturities of long-term debt	12	11
Income taxes payable and deferred	6,446	3,639
Total current liabilities	178,637	188,164
Long-term debt	412,476	483,922
Other noncurrent liabilities	180,268	185,067
Deferred taxes and other credits	68,326	65,383
Total liabilities	839,707	922,536

Commitments and Contingencies

SHAREHOLDERS' EQUITY

Preferred stock, par value \$5.00 per share;

authorized 2,000,000 shares; none issued		
Class A Common Stock, par value \$.001 per share; authorized 100,000,000 shares; issued 36,399,000 in 2010 and 36,149,115 in 2009	36	36
Class B Common Stock, par value \$.001 per share; authorized 25,000,000 shares; issued and outstanding 3,236,098 in 2010 and 2009	3	3
Additional paid in capital	387,342	382,674
Retained earnings	386,258	380,335
Accumulated items of other comprehensive income:		
Translation adjustments	(5,603)	4,167
Pension and post retirement liability adjustments	(87,332)	(86,303)
Derivative valuation adjustment	(1,873)	
	<u>678,831</u>	<u>680,912</u>
Less treasury stock (Class A), at cost 8,484,528 shares in 2010 and 8,496,739 shares in 2009	258,031	258,299
Total shareholders' equity	<u>420,800</u>	<u>422,613</u>
Total liabilities and shareholders' equity	<u>\$1,260,507</u>	<u>\$1,345,149</u>

* Includes revisions to correct previously reported amounts (see Note 2).

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

ALBANY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

Three Months Ended September 30,			Nine Months Ended September 30,	
2010	2009		2010*	2009*
		OPERATING ACTIVITIES		
\$3,627	\$(5,093)	Net income/(loss)	\$17,102	\$(37,139)
		Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
		Equity in losses/(earnings) of associated companies	(58)	91
40	1	Depreciation	40,454	44,912
13,204	15,819	Amortization	6,486	6,457
2,256	2,051	Noncash interest expense	565	2,093
188	321	Gain on early retirement of debt		(47,366)
	(7,935)	Settlement of accreted debt discount		(10,144)
	(2,687)	Provision for deferred income taxes, other credits and long-term liabilities	8,390	(32,933)
(2,825)	(20,907)	Provision for write-off of property, plant and equipment	3,209	13,832
116	12,223	Gain on disposition of assets	(2,454)	
(2,454)		Provision for impairment of investment		2,624
	158	Decrease/(increase) in cash surrender value of life insurance		(1,669)
		Provision for purchase price adjustment of discontinued operation		10,000
		Stock option expense		70
(12)		Excess tax benefit of options exercised	(12)	
1,790	71	Compensation and benefits paid or payable in Class A Common Stock	4,799	3,425
		Changes in operating assets and liabilities, net of business acquisitions and divestitures:		
(7,783)	15,387	Accounts receivable	(8,127)	52,691
2,626	17,937	Inventories	14,644	26,474
(3,289)	(1,814)	Prepaid expenses and other current assets	(5,319)	49
(3,671)	(505)	Accounts payable	(8,115)	(29,608)
7,487	(1,638)	Accrued liabilities	(1,206)	17,527
(431)	94	Income taxes payable	(110)	(2,849)
(1,556)	(516)	Other, net	(113)	1,188
9,313	22,967	Net cash provided by operating activities	70,135	19,725

INVESTING ACTIVITIES				
(4,029)	(8,053)	Purchases of property, plant and equipment	(17,944)	(33,917)
	(10,000)	Purchase price adjustment from sale of discontinued operations		(10,000)
(644)	(217)	Purchased software	(2,590)	(2,525)
3,209		Proceeds from sale of assets	3,209	
		Acquisitions, net of cash acquired	(1,902)	
	2,033	Cash received from life insurance policy terminations	49,302	2,272
	(957)	Premiums paid for life insurance policies		(957)
(1,464)	(17,194)	Net cash (used in)/provided by investing activities	30,075	(45,127)
FINANCING ACTIVITIES				
576	18,264	Proceeds from borrowings	6,728	123,314
(12,369)	(5,496)	Principal payments on debt	(82,124)	(10,129)
	(16,199)	Early retirement of debt		(62,701)
(11)	8	Proceeds from options exercised	125	8
12		Excess tax benefit of options exercised	12	
(4,471)		Debt issuance costs	(4,471)	
(3,729)	(3,692)	Dividends paid	(11,148)	(10,894)
(19,992)	(7,115)	Net cash (used in)/provided by financing activities	(90,878)	39,598
8,880	3,006	Effect of exchange rate changes on cash flows	(7,388)	1,605
(3,263)	1,664	(Decrease)/increase in cash and cash equivalents	1,944	15,801
102,673	120,708	Cash and cash equivalents at beginning of period	97,466	106,571
\$99,410	\$122,372	Cash and cash equivalents at end of period	\$99,410	\$122,372

* Includes revisions to correct previously reported amounts (see Note 2).

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

ALBANY INTERNATIONAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of only normal, recurring adjustments, necessary for a fair presentation of results for such periods. The results for any interim period are not necessarily indicative of results for the full year. The preparation of financial statements for interim periods does not require all of the disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2009.

See Note 2 for revisions to prior period financial statements.

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2. Revisions to Financial Statements

As reported in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2010, we discovered that fourth quarter 2009 restructuring expense, as reported in our fourth quarter 2009 and full-year 2009 financial statements, failed to include an additional \$1.6 million of severance and related costs associated with restructuring activities in France. The error detected during the second quarter 2010 closing process is in addition to a charge of \$1.7 million detected and reported in the first quarter 2010 to correct an error in the actuarial calculation of a curtailment gain, also related to restructuring activities in France, that also should have been reported in the fourth quarter of 2009. Additionally in the second quarter of 2010, we detected an error in the conversion from French GAAP to US GAAP that resulted in an understatement of expense in 2008 totaling \$0.3 million. We have assessed the impact of these adjustments on the 2009 and 2008 financial statements and on projected 2010 full-year results, and have determined that no prior period financial statements have been materially misstated. In accordance with the provisions of ASC 250.10.S99, we have revised previously reported results to correct the errors described above, and other previously disclosed errors.

The following tables show the financial statement revisions for all periods affected:

(in thousands, except per share data)	2010 by	2009		2009 by quarter			2008	
	quarter	Q1	YTD	Q4	Q3	Q2	Q1	YTD
As previously reported:								
Consolidated Statement of Operations								
Cost of goods sold	\$	136,644	\$577,135	\$150,277	\$144,013	\$143,671	\$139,174	\$724,484
Selling, technical, general, and research expenses		66,076	260,053	66,628	61,173	64,633	67,619	317,992
Restructuring and other, net		3,113	69,168	(2,052)	20,231	33,810	17,179	38,653
Goodwill and intangible impairment charge			1,011		1,011			72,305
Operating income/(loss)		8,040	(36,322)	16,497	(8,497)	(29,555)	(14,767)	(66,917)
Income/(loss) from continuing operations before income taxes		6,496	(7,078)	17,327	(5,183)	1,560	(20,782)	(90,690)
Income tax expense/(benefit)		2,239	15,579	11,765	1,080	4,339	(1,605)	(5,666)
Income/(loss) before associated companies		4,257	(22,657)	5,562	(6,263)	(2,779)	(19,177)	(85,024)
Equity in income/(loss) of associated companies		8	277	(37)	(1)	35	280	166
Net income/(loss)		4,265	(32,380)	5,525	(6,264)	(12,744)	(18,897)	(78,379)
Net income per share:								
Basic	\$	0.14	\$ (1.06)	\$ 0.18	\$ (0.20)	\$ (0.41)	\$ (0.63)	\$ (2.63)
Diluted	\$	0.14	\$ (1.06)	\$ 0.18	\$ (0.20)	\$ (0.41)	\$ (0.63)	\$ (2.63)
Shares used in computing earnings per share:								
Basic		30,943	30,612	30,859	30,808	30,723	30,046	29,786
Diluted		31,033	30,612	30,973	30,808	30,723	30,046	29,786
Consolidated Balance Sheets								
Accounts receivable, net	\$	156,593	\$168,820	\$168,820	\$160,476	\$170,843	\$174,658	\$204,157
Investment in associated companies		2,860	3,001	3,001	3,235	3,117	4,045	3,899
Intangibles		6,300	5,216	5,216	6,823	8,340	8,875	8,608
Goodwill		115,382	120,037	120,037	120,415	116,658	108,824	116,443
		142,574	143,085	143,085	130,856	133,274	119,035	115,818

Noncurrent deferred tax
asset

Accrued liabilities	101,046	113,323	113,323	139,428	147,729	122,613	116,361
Retained earnings	383,271	382,720	382,720	380,898	390,862	407,297	429,804

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	2010 by quarter		2009	2009 by quarter			2008	
(in thousands, except per share data)	Q1	YTD	Q4	Q3	Q2	Q1	YTD	
Revisions:								
Consolidated Statement of Operations								
Cost of goods sold (2)	\$	\$(390)	\$(390)	\$	\$	\$	\$390	
Selling, technical, general, and research expense (1)							297	
Restructuring and other, net (1)	(1,721)	3,277	3,277					
Goodwill and intangible impairment charge (3)		(1,011)		(1,011)			1,011	
Operating income/(loss)	1,721	(1,876)	(2,887)	1,011			(1,698)	
Income/(loss) from continuing operations before income taxes	1,721	(1,876)	(2,887)	1,011			(1,698)	
Income tax expense/(benefit) (5) (6)	388	(1,203)	(1,043)	(160)			(2,226)	
Income/(loss) before associated companies	1,333	(673)	(1,844)	1,171			528	
Equity in income/(loss) of associated companies (4)		(405)				(405)	405	
Net income/(loss)	1,333	(1,078)	(1,844)	1,171		(405)	933	
Consolidated Balance Sheets								
Accounts receivable, net	\$(297)	\$(297)	\$(297)	\$(297)	\$(297)	\$(297)	\$(297)	
Investment in associated companies (4)							405	
Intangibles (3)					(1,011)	(1,011)	(1,011)	
Goodwill (2)				(390)	(390)	(390)	(390)	
Noncurrent deferred tax asset	801	1,189	1,189	71	(89)	(89)	(89)	
Accrued liabilities (1)	1,556	3,277	3,277					
Retained earnings (1) (2) (3) (4) (5)	(1,052)	(2,385)	(2,385)	(541)	(1,712)	(1,712)	(1,307)	

- (1) In the first quarter of 2010, a charge of \$1.7 million was recorded in order to correct an error in an actuarial calculation of a curtailment gain related to restructuring in France, which should have been reported in the fourth quarter of 2009. Fourth quarter 2009 restructuring expense was also understated by \$1.6 million on our France ledger comprised of unrecorded severance and related costs. Fourth quarter 2008 expense was understated by \$0.3 million due to errors in the conversion from French GAAP to US GAAP.
- (2) In the fourth quarter of 2009, a charge of \$0.4 million was recorded to correct for an error made in the fourth quarter of 2008, related to a Goodwill impairment charge of \$72.3 million. The charge should have been reported in the fourth quarter of 2008.