ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
May 08, 2018
**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: March 31, 2018

OR

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

For the transition period from __________ to __________

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

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

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

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 | [ ] |
| | | Emerging growth company | [ ] |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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 29.0 million shares of Class A Common Stock and 3.2 million shares of Class B Common Stock outstanding as of April 30, 2018.

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**ALBANY INTERNATIONAL CORP.**

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**ITEM 1. FINANCIAL STATEMENTS**

ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net sales | $229,981 | $199,277 |
| Cost of goods sold | 148,330 | 123,249 |
| Gross profit | 81,651 | 76,028 |
| Selling, general, and administrative expenses | 41,930 | 40,407 |
| Technical and research expenses | 10,317 | 10,262 |
| Restructuring expenses, net | 8,573 | 2,681 |
| Operating income | 20,831 | 22,678 |
| Interest expense, net | 4,288 | 4,328 |
| Other expense, net | 1,452 | 826 |
| Income before income taxes | 15,091 | 17,524 |
| Income tax expense | 4,609 | 6,550 |
| Net income | 10,482 | 10,974 |
| Net income attributable to the noncontrolling interest | 237 | 135 |
| Net income attributable to the Company | $10,245 | $10,839 |
| Earnings per share attributable to Company shareholders - Basic | $0.32 | $0.34 |
| Earnings per share attributable to Company shareholders - Diluted | $0.32 | $0.34 |

Shares of the Company used in computing earnings per share:

| | | |
|---|---|---|
| Basic | 32,220 | 32,128 |
| Diluted | 32,236 | 32,164 |
| Dividends declared per share, Class A and Class B | $0.17 | $0.17 |

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

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(in thousands)

(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $10,482 | $10,974 |
| Other comprehensive income/(loss), before tax: | | |
| Foreign currency translation adjustments | 17,505 | 9,938 |
| Amortization of pension liability adjustments: | | |
| Prior service credit | (1,114) | (1,113) |
| Net actuarial loss | 1,297 | 1,347 |
| Payments related to interest rate swaps included in earnings | 180 | 600 |
| Derivative valuation adjustment | 5,715 | 416 |
| Income taxes related to items of other comprehensive income/(loss): | | |
| Amortization of pension liability adjustment | (55) | (70) |
| Payments related to interest rate swaps included in earnings | (43) | (228) |
| Derivative valuation adjustment | (1,372) | (158) |
| Comprehensive income | 32,595 | 21,706 |
| Comprehensive income attributable to the noncontrolling interest | 230 | 140 |
| Comprehensive income attributable to the Company | $32,365 | $21,566 |

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

ALBANY INTERNATIONAL CORP.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

| | March 31, | December 31, |
|---|---|---|
| | 2018 | 2017 |
| ASSETS | | |
| Cash and cash equivalents | $151,426 | $183,727 |
| Accounts receivable, net | 248,538 | 202,675 |
| Contract assets | 42,895 | - |
| Inventories | 100,034 | 136,519 |
| Income taxes prepaid and receivable | 6,132 | 6,266 |
| Prepaid expenses and other current assets | 18,675 | 14,520 |
| Total current assets | 567,700 | 543,707 |
| | | |
| Property, plant and equipment, net | 459,388 | 454,302 |
| Intangibles, net | 53,881 | 55,441 |
| Goodwill | 168,311 | 166,796 |
| Deferred income taxes | 70,174 | 68,648 |
| Noncurrent receivables | 35,338 | 32,811 |
| Other assets | 45,543 | 39,493 |
| Total assets | $1,400,335 | $1,361,198 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Notes and loans payable | $226 | $262 |
| Accounts payable | 45,694 | 44,899 |
| Accrued liabilities | 122,103 | 105,914 |
| Current maturities of long-term debt | 1,821 | 1,799 |
| Income taxes payable | 5,182 | 8,643 |
| Total current liabilities | 175,026 | 161,517 |
| | | |
| Long-term debt | 518,656 | 514,120 |
| Other noncurrent liabilities | 100,170 | 101,555 |
| Deferred taxes and other liabilities | 11,339 | 10,991 |
| Total liabilities | 805,191 | 788,183 |
| | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock, par value $5.00 per share; authorized 2,000,000 shares; none issued | - | - |
| | 37 | 37 |

| | | |
|---|---|---|
| Class A Common Stock, par value $.001 per share; authorized 100,000,000 shares; issued 37,447,669 in 2018 and 37,395,753 in 2017 | | |
| Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,233,998 in 2018 and 2017 | 3 | 3 |
| Additional paid in capital | 428,859 | 428,423 |
| Retained earnings | 533,759 | 534,082 |
| Accumulated items of other comprehensive income: | | |
| Translation adjustments | (69,672) | (87,318) |
| Pension and postretirement liability adjustments | (50,549) | (50,536) |
| Derivative valuation adjustment | 6,433 | 1,953 |
| Treasury stock (Class A), at cost 8,431,335 shares in 2018 and 2017 | (256,876) | (256,876) |
| Total Company shareholders' equity | 591,994 | 569,768 |
| Noncontrolling interest | 3,150 | 3,247 |
| Total equity | 595,144 | 573,015 |
| Total liabilities and shareholders' equity | $1,400,335 | $1,361,198 |

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

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands)

(unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| OPERATING ACTIVITIES | | |
| Net income | $10,482 | $10,974 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | 18,302 | 14,644 |
| Amortization | 2,646 | 2,649 |
| Change in other noncurrent liabilities | (377) | (1,596) |
| Change in deferred taxes and other liabilities | (784) | (612) |
| Provision for write-off of property, plant and equipment | 271 | 296 |
| Non-cash interest expense | - | 211 |
| Compensation and benefits paid or payable in Class A Common Stock | 289 | 989 |
| Fair value adjustment on foreign currency option | 37 | 54 |
| Changes in operating assets and liabilities that (used)/provided cash: | | |
| Accounts receivable | (31,467) | (741) |
| Contract assets | 2,116 | - |
| Inventories | (9,244) | (14,921) |
| Prepaid expenses and other current assets | (4,063) | (1,917) |
| Income taxes prepaid and receivable | 102 | - |
| Accounts payable | (2,538) | 3,524 |
| Accrued liabilities | (1,185) | (10,971) |
| Income taxes payable | (3,431) | (2,486) |
| Noncurrent receivables | 2,527 | (3,915) |
| Other, net | (2,630) | (754) |
| Net cash used in operating activities | (18,947) | (4,572) |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (15,771) | (25,045) |
| Purchased software | (29) | (38) |
| Net cash used in investing activities | (15,800) | (25,083) |
| FINANCING ACTIVITIES | | |

| | | |
|---|---|---|
| Proceeds from borrowings | 13,011 | 16,145 |
| Principal payments on debt | (8,490 ) | (20,602 ) |
| Taxes paid in lieu of share issuance | (1,652 ) | (1,364 ) |
| Proceeds from options exercised | 147 | 75 |
| Dividends paid | (5,474 ) | (5,459 ) |
| Net cash used in financing activities | (2,458 ) | (11,205 ) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | 4,904 | 2,451 |
| | | |
| Decrease in cash and cash equivalents | (32,301 ) | (38,409 ) |
| Cash and cash equivalents at beginning of period | 183,727 | 181,742 |
| Cash and cash equivalents at end of period | $151,426 | $143,333 |

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

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ALBANY INTERNATIONAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

***1. Significant Accounting Policies***

***Basis of Presentation***

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of results for such periods. Albany International Corp. (Albany, the Registrant, the Company, we, us, or our) consolidates the financial results of its subsidiaries for all periods presented. The results for any interim period are not necessarily indicative of results for the full year.

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

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operation," "Quantitative and Qualitative Disclosures about Market Risk" and the Consolidated Financial Statements and Notes thereto included in Items 1A, 3, 7, 7A and 8, respectively, of the Albany International Corp. Annual Report on Form 10-K for the year ended December 31, 2017.

Effective January 1, 2018, we adopted the provisions of ASC 606, *Revenue from contracts with customers*, using the modified retrospective method for transition as discussed in Note 2, Revenue Recognition. Accounting policies have been applied consistently to periods presented, except for the application of ASC 606, as described in Note 2.

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***2. Revenue Recognition***

Effective January 1, 2018, the Company adopted the provisions of ASC 606, *Revenue from contracts with customers*, using the modified retrospective (or cumulative effect) method for transition. Under this transition method, periods prior to 2018 have not been restated and the cumulative effect of initially applying the new standard was recorded as an adjustment to Retained earnings. The standard replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single model for recognizing revenue from contracts with customers. We applied the new accounting standard to contracts which were not completed by December 31, 2017.

In our Machine Clothing (MC) business segment, prior to 2018, we recorded revenue from the sale of a product when persuasive evidence of an arrangement existed, delivery had occurred, title was transferred, the selling price was fixed, and collectability was reasonably assured. Under the new standard, we recognize MC revenue when we satisfy our performance obligations related to the manufacture and delivery of a product, which, in certain cases, results in earlier recognition of revenue associated with these contracts. For the MC segment, the cumulative effect of adopting ASC 606 included an increase to Accounts receivable, a decrease to Inventories, and an increase to Retained earnings.

In our Albany Engineered Composites (AEC) business segment, revenue from a number of long-term contracts was, prior to 2018, recorded on the basis of the units-of-delivery method, which is considered an output method. Under the new standard, revenue from most of these contracts is recognized over time using an input method as the measure of progress, which generally results in earlier recognition of revenue. Prior to adoption of the new standard, the classification of revenue in excess of progress billings on long-term contracts was included in Accounts receivable. Under the new standard, such assets are considered Contract assets, which are rights to consideration that are conditional on something other than the passage of time, such as completion of remaining performance obligations. As a result of adoption of the new standard, such assets were reclassified at transition from Accounts receivable to Contract assets. In addition, under the new standard, we are required to limit our estimate of contract values to the period of the legally enforceable contract, which in many cases is considerably shorter than the contract period used under the former standard. While certain contracts are expected to be profitable over the course of the program life when including expected renewals, under the new standard, our estimate of contract revenues and costs is limited to the estimated value of enforceable rights and obligations, excluding anticipated renewals. In some cases, this shorter contract period may result in a loss contract provision, and our transition adjustment included such loss accruals. Expected losses on projects includes losses on contract options that are probable of exercise, excluding profitable options that often follow. For AEC, the cumulative effect of adopting ASC 606 included increases to Contract assets and Accrued liabilities, and decreases to Accounts receivable, Inventories and Retained earnings.

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The table below presents the cumulative effect of changes made to our December 31, 2017 Consolidated Balance Sheet as the result of adoption of ASC 606:

ALBANY INTERNATIONAL CORP.

CONSOLIDATED BALANCE SHEET

(in thousands, except share data)

(unaudited)

| | As previously reported at December 31, 2017 | Adjustments Increase/(decrease) | Opening balance, as adjusted, January 1, 2018 |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $183,727 | $ - | $183,727 |
| Accounts receivable, net | 202,675 | 10,210 | 212,885 |
| Contract assets | - | 44,872 | 44,872 |
| Inventories | 136,519 | (47,054) | 89,465 |
| Income taxes prepaid and receivable | 6,266 | - | 6,266 |
| Prepaid expenses and other current assets | 14,520 | - | 14,520 |
| Total current assets | 543,707 | 8,028 | 551,735 |
| | | | |
| Property, plant and equipment, net | 454,302 | - | 454,302 |
| Intangibles, net | 55,441 | - | 55,441 |
| Goodwill | 166,796 | - | 166,796 |
| Deferred income taxes | 68,648 | 1,756 | 70,404 |
| Noncurrent receivables | 32,811 | - | 32,811 |
| Other assets | 39,493 | 1,119 | 40,612 |
| Total assets | $1,361,198 | $10,903 | $1,372,101 |
| | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Notes and loans payable | $262 | $ - | $262 |
| Accounts payable | 44,899 | - | 44,899 |
| Accrued liabilities | 105,914 | 16,808 | 122,722 |
| Current maturities of long-term debt | 1,799 | - | 1,799 |

| | | | |
|---|---|---|---|
| Income taxes payable | 8,643 | - | 8,643 |
| Total current liabilities | 161,517 | 16,808 | 178,325 |
| | | | |
| Long-term debt | 514,120 | - | 514,120 |
| Other noncurrent liabilities | 101,555 | - | 101,555 |
| Deferred taxes and other liabilities | 10,991 | 52 | 11,043 |
| Total liabilities | 788,183 | 16,860 | 805,043 |
| | | | |
| SHAREHOLDERS' EQUITY | | | |
| Preferred stock, par value $5.00 per share; authorized 2,000,000 shares; none issued | - | - | - |
| Class A Common Stock, par value $.001 per share; authorized 100,000,000 shares; issued 37,395,753 in 2017 and 37,319,266 in 2016 | 37 | - | 37 |
| Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,233,998 in 2017 and 2016 | 3 | - | 3 |
| Additional paid in capital | 428,423 | - | 428,423 |
| Retained earnings | 534,082 | (5,630) | 528,452 |
| Accumulated items of other comprehensive income: | | | |
| Translation adjustments | (87,318) | - | (87,318) |
| Pension and postretirement liability adjustments | (50,536) | - | (50,536) |
| Derivative valuation adjustment | 1,953 | - | 1,953 |
| Treasury stock (Class A), at cost 8,431,335 shares in 2017 and 8,443,444 shares in 2016 | (256,876) | - | (256,876) |
| Total Company shareholders' equity | 569,768 | (5,630) | 564,138 |
| Noncontrolling interest | 3,247 | (327) | 2,920 |
| Total equity | 573,015 | (5,957) | 567,058 |
| Total liabilities and shareholders' equity | $1,361,198 | $10,903 | $1,372,101 |

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Significant changes to our accounting policies as a result of adopting the new standard are discussed below.

For periods ending after December 31, 2017, we account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenue is measured based on the consideration specified in the contract with the customer, and excludes any amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service, or a series of distinct goods or services, to the customer which occurs either at a point in time, or over time, depending on the contract. A performance obligation is a promise in the contract to transfer a distinct good or service to the customer, and is the unit of account under the new revenue standard. "Control" refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from the product. A contract's transaction price is allocated to each material distinct performance obligation and is recognized as revenue when, or as, the performance obligation is satisfied.

In our Machine Clothing segment, our primary performance obligation in most contracts is to provide solution-based, custom-designed fabrics and belts to the customer. We satisfy this performance obligation upon transferring control of the product to the customer at a specific point in time. Generally, the customer obtains control when the product has been received at the location specified by the customer, at which time the only remaining obligations under the contract are fulfillment costs, which are accrued when control of the product is transferred.

In the Machine Clothing segment, some contracts with certain customers may also obligate us to provide various product-related services at no additional cost to the customer. When this obligation is material in the context of the contract with the customer, we recognize a separate performance obligation and allocate revenue to those services based on their estimated standalone selling price. The standalone selling price for these services is determined based upon an analysis of the services offered and an assessment of the price we might charge for such services as a separate offering. As we typically provide such services on a stand-ready basis, we recognize this revenue over time. Revenue allocated to such service performance obligations is the only Machine Clothing revenue that is recognized over time.

In our Albany Engineered Composites (AEC) business segment, we primarily enter into contracts to manufacture and deliver highly engineered advanced composite products to our customers. The majority of AEC revenue is from short duration, firm-fixed-price orders that are placed under a master contract containing general terms and conditions applicable to all orders placed under the agreement. To determine the proper revenue recognition method, we evaluate whether two or more orders or contracts should be combined and accounted for as one single contract, and whether the combined or single contract contains single or multiple performance obligations. This evaluation requires significant judgment, and the decision to combine a group of contracts, or to allocate revenue from the combined or single contract among multiple performance obligations could have a significant impact on the amount of revenue and profit recorded in a given period. For most AEC contracts, the nature of our promise (or our performance obligation) to the customer is to manage the contract and provide a significant service of integrating a complex set of tasks and components into a single project or capability, which will often result in the delivery of multiple highly interdependent and interrelated units.

At the inception of a contract we estimate the transaction price based on our current rights, and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Many AEC contracts are subsequently modified to include changes in specifications, requirements or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, we are able to conclude that such modifications are not distinct from the existing contract, due to the significant integration of the obligations, and the interrelated nature of tasks, provided for in the modification and the existing contract. Therefore, such modifications are accounted for as if they were part of the existing contract, and recognized as a cumulative adjustment to revenue.

Revenue is recognized over time for a large portion of our contracts in AEC as most of our contracts have provisions that, under the guidance in ASC 606, are deemed to transfer control to the customer over time. Revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress toward completion requires judgment and is based on the nature of the products or services to be provided. We generally use the cost-to-cost measure of progress for our contracts because it best depicts the transfer of assets to the customer which occurs as we incur costs to produce the contract deliverables. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue, including profit, is recorded proportionally as costs are incurred. Accounting for long-term contracts requires significant judgment and estimation, which could be considerably different if the underlying circumstances were to change. When adjustments in estimated contract revenue or costs are required, any changes from prior estimates are included in revenues or earnings in the period in which the change occurs.

In other AEC contracts, revenue is recognized at a point in time because the products are offered to multiple customers, or do not have an enforceable right to payment until the product is shipped or delivered to the location specified by the customer in the contract.

AEC's largest source of revenue is derived from the LEAP contract (see Note 3) under a cost- plus-fee agreement. Beginning in 2018, the fee is variable based on our success in achieving certain cost targets. Revenue is recognized over time as costs are incurred. Under this contract, there is significant judgment involved in determining applicable contract costs and expected margin, and therefore in determining the amount of revenue to be recognized.

Payment terms granted to MC and AEC customers reflect general competitive practices. Terms vary with product, competitive conditions, and the country of operation.

The following table provides a summary of the composition of each business segment:

| **Segment** | **Unit** | **Principal Product or Service** | **Principal Locations** |
|---|---|---|---|
| Machine Clothing (MC) | Machine Clothing | Paper machine clothing: Permeable and impermeable belts used in the manufacture of paper, paperboard, tissue and towel, and pulp<br><br>Engineered fabrics: Belts used in the manufacture of nonwovens, fiber cement and several other industrial applications | World-wide |

| | | | |
|---|---|---|---|
| Albany Engineered Composites (AEC) | Albany Safran Composites (ASC) | 3D-woven, injected composite components for aircraft engines | Rochester, NH, Commercy, France, Queretero, Mexico |
| | Airframe and engine Components (Other AEC) | Composite airframe and engine components for military and commercial aircraft | Salt Lake City, UT Boerne, TX Queretero, Mexico |

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We disaggregate revenue earned from contracts with customers for each of our business segments based on the timing of revenue recognition, and groupings used for internal review purposes.

The following table disaggregates revenue for each business segment by timing of revenue recognition:

| | For the Three Months Ended March 31, 2018 | | |
|---|---|---|---|
| **(in thousands)** | **Point in Time Revenue Recognition** | **Over Time Revenue Recognition** | **Total** |
| Machine Clothing | **$147,351** | **$800** | **$148,151** |
| Albany Engineered Composites | | | |
| ASC | **-** | **40,781** | **40,781** |
| Other AEC | **6,040** | **35,009** | **41,049** |
| Total Albany Engineered Composites | **6,040** | **75,790** | **81,830** |
| Total Revenue | **$153,391** | **$76,590** | **$229,981** |

The following table disaggregates MC segment revenue by significant product or service (paper machine clothing (PMC) and engineered fabrics), and, for PMC, the geographical region to which the paper machine clothing was sold:

| **(in thousands)** | **For the Three Months Ended March 31, 2018** |
|---|---|
| Americas PMC | **$69,858** |
| Eurasia PMC | **56,933** |
| Engineered Fabrics | **21,360** |
| Total Machine Clothing Net sales | **$148,151** |

In accordance with ASC 606-10-50-14, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less. Contracts in the Machine Clothing segment are generally for periods of less than a year. Most contracts in the AEC segment are short duration firm-fixed price orders representing performance obligations with an original maturity of less than one year. Performance obligations as of March 31, 2018 that had an original duration of greater than one year totaled $115 million and relate primarily to firm contracts in the AEC segment. Of that amount, we expect to recognize as revenue approximately $50 million during 2018, with the remainder to be recognized between 2019 and 2021.

For some AEC contracts, we perform pre-production or nonrecurring engineering services. These costs are normally considered a fulfillment activity, rather than a performance obligation. Fulfillment activities that create resources that will be used in satisfying performance obligations in the future, and are expected to be recovered, are capitalized to Other Assets, which is classified as a noncurrent asset in the Consolidated Balance Sheets. The capitalized costs are amortized into Cost of goods sold over the period over which the asset is expected to contribute to future cash flows.

As a result of applying the cumulative effect method for transition to ASC 606, we are required to disclose the effect of the new standard on each line of the consolidated financial statements. The following tables show the balances as reported for the period ended March 31, 2018, and how the consolidated financial statements would have appeared if we had not adopted ASC 606.

ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share amounts)

(unaudited)

| | As reported for the Three Months Ended March 31, 2018 | Adjustments to reverse effects of ASC 606 | | As adjusted for the Three months ended March 31, 2018 to exclude adoption of ASC 606 |
|---|---|---|---|---|
| Net Sales | $229,981 | ($8,434 | ) | $221,547 |
| Cost of goods sold | 148,330 | (6,526 | ) | 141,804 |
| Gross profit | 81,651 | (1,908 | ) | 79,743 |
| Selling, general, and administrative expenses | 41,930 | (60 | ) | 41,870 |
| Technical and research expenses | 10,317 | - | | 10,317 |
| Restructuring expenses, net | 8,573 | - | | 8,573 |
| Operating income | 20,831 | (1,848 | ) | 18,983 |
| Interest expense, net | 4,288 | - | | 4,288 |
| Other expense, net | 1,452 | - | | 1,452 |
| Income before income taxes | 15,091 | (1,848 | ) | 13,243 |
| Income tax expense | 4,609 | (601 | ) | 4,008 |

| | | | |
|---|---|---|---|
| Net income | 10,482 | (1,247) | 9,235 |
| Net income attributable to the noncontrolling interest | 237 | (57) | 180 |
| Net income attributable to the Company | $10,245 | ($1,190) | $9,055 |
| | | | |
| Earnings per share attributable to Company shareholders - Basic | $0.32 | ($0.04) | $0.28 |
| | | | |
| Earnings per share attributable to Company shareholders - Diluted | $0.32 | ($0.04) | $0.28 |

ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

(in thousands)

(unaudited)

| | As reported for the Three Months Ended March 31, 2018 | Adjustments to reverse effects of ASC 606 | As adjusted for the Three months ended March 31, 2018 to exclude adoption of ASC 606 |
|---|---|---|---|
| Net income | $10,482 | ($1,247) | $9,235 |
| Other comprehensive income/(loss), before tax: | | | |
| Foreign currency translation adjustments | 17,505 | (308) | 17,197 |
| Amortization of pension liability adjustments: | | | |
| Prior service credit | (1,114) | - | (1,114) |
| Net actuarial loss | 1,297 | - | 1,297 |
| Payments related to interest rate swaps included in earnings | 180 | - | 180 |
| Derivative valuation adjustment | 5,715 | - | 5,715 |
| Income taxes related to items of other comprehensive income/(loss): | | | |
| Pension/postretirement plan remeasurement | - | - | - |
| Amortization of pension liability adjustment | (55) | - | (55) |
| Payments related to interest rate swaps included in earnings | (43) | - | (43) |
| Derivative valuation adjustment | (1,372) | - | (1,372) |
| Comprehensive income | 32,595 | (1,555) | 31,040 |
| Comprehensive income attributable to the noncontrolling interest | 230 | (57) | 173 |
| Comprehensive income attributable to the Company | $32,365 | ($1,498) | $30,867 |

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED BALANCE SHEET

(in thousands, except share data)

(unaudited)

| | As reported March 31, 2018 | Adjustments to reverse effects of ASC 606 | As adjusted for the Three months ended March 31, 2018 to exclude adoption of ASC 606 |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $151,426 | $ - | $151,426 |
| Accounts receivable, net | 248,538 | (21,720) | 226,818 |
| Contract assets | 42,895 | (42,895) | - |
| Inventories | 100,034 | 53,752 | 153,786 |
| Income taxes prepaid and receivable | 6,132 | - | 6,132 |
| Prepaid expenses and other current assets | 18,675 | - | 18,675 |
| Total current assets | 567,700 | (10,863) | 556,837 |
| | | | |
| Property, plant and equipment, net | 459,388 | - | 459,388 |
| Intangibles, net | 53,881 | - | 53,881 |
| Goodwill | 168,311 | - | 168,311 |
| Income taxes receivable and deferred | 70,174 | (1,155) | 69,019 |
| Noncurrent receivables | 35,338 | - | 35,338 |
| Other assets | 45,543 | (1,256) | 44,287 |
| Total assets | $1,400,335 | ($13,274) | $1,387,061 |
| | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Notes and loans payable | $226 | $ - | $226 |
| Accounts payable | 45,694 | - | 45,694 |
| Accrued liabilities | 122,103 | (17,624) | 104,479 |
| Current maturities of long-term debt | 1,821 | - | 1,821 |
| Income taxes payable | 5,182 | - | 5,182 |

| | | | |
|---|---|---|---|
| Total current liabilities | 175,026 | (17,624) | 157,402 |
| | | | |
| Long-term debt | 518,656 | - | 518,656 |
| Other noncurrent liabilities | 100,170 | - | 100,170 |
| Deferred taxes and other liabilities | 11,339 | (51) | 11,288 |
| Total liabilities | 805,191 | (17,675) | 787,516 |
| | | | |
| SHAREHOLDERS' EQUITY | | | |
| Preferred stock, par value $5.00 per share; authorized 2,000,000 shares; none issued | - | - | - |
| Class A Common Stock, par value $.001 per share; authorized 100,000,000 shares; issued 37,447,669 in 2018 and 37,395,753 in 2017 | 37 | - | 37 |
| Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,233,998 in 2018 and 2017 | 3 | - | 3 |
| Additional paid in capital | 428,859 | | 428,859 |
| Retained earnings | 533,759 | 4,439 | 538,198 |
| Accumulated items of other comprehensive income: | | | |
| Translation adjustments | (69,672) | (308) | (69,980) |
| Pension and postretirement liability adjustments | (50,549) | - | (50,549) |
| Derivative valuation adjustment | 6,433 | - | 6,433 |
| Treasury stock (Class A), at cost 8,431,335 shares in 2018 and 2017 | (256,876) | - | (256,876) |
| Total Company shareholders' equity | 591,994 | 4,131 | 596,125 |
| Noncontrolling interest | 3,150 | 270 | 3,420 |
| Total equity | 595,144 | 4,401 | 599,545 |
| Total liabilities and shareholders' equity | $1,400,335 | ($13,274) | $1,387,061 |

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ALBANY INTERNATIONAL CORP.

CONSOLIDATED STATEMENT OF CASH FLOW

(in thousands)

(unaudited)

| | As reported for the Three Months ended March 31, 2018 | Adjustments to reverse effects of ASC 606 | As adjusted for the Three months ended March 31, 2018 to exclude adoption of ASC 606 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income | $10,482 | ($1,247 ) | $9,235 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation | 18,302 | - | 18,302 |