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# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended: December 31, 2002**

**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: **0-16214**

# ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **14-0462060**<br>(IRS Employer Identification No.) |
| **1373 Broadway, Albany, New York**<br>(Address of principal executive offices) | **12204**<br>(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 and<br>Pacific Stock Exchange |

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

**None**

(Title of Class)

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 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. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 28, 2002, 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 $26,363,360.

| DOCUMENTS INCORPORATED BY REFERENCE | PART |
|---|---|
| Registrant's Annual Report to Shareholders for the year ended December 31, 2002. | II |
| Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2003. | III |

## PART I

**Item 1. BUSINESS**

Albany International Corp. (the Registrant) and its subsidiaries are engaged in three business segments. The largest segment is Engineered Fabrics, which includes paper machine clothing. The Registrant 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. Paper machine clothing consists of large continuous belts of custom-designed and custom-manufactured, engineered fabrics that are installed on paper machines and carry the paper stock through each stage of the paper production process. Paper machine clothing is a consumable product of technologically sophisticated design that is made with synthetic monofilament and fiber materials. The design and material composition of paper machine clothing can have a considerable effect on the quality of paper products produced and the efficiency of the paper machines on which it is used.

The majority of press fabrics manufactured by the Registrant are woven tubular or endless from monofilament yarns on large, specially designed looms. After weaving, the base press fabric goes to a needling operation where a thick fiber layer, called a batt, is laid on the base just before passing through the needling machine. The needles are equipped with tiny barbs that grab batt fibers, locking them into the body of the fabric. After needling, the composite fabrics are usually washed, and water is removed. The fabric then is heat set, treatments and coatings may be applied, and it is measured and trimmed to width.

The Registrant's manufacturing process is similar for forming fabrics and drying fabrics, except that there is normally no needling operation in the construction of those fabrics. Most forming and drying fabrics are woven flat on wide looms. The fabrics are seamed to produce an endless loop, and heat stabilized by running them around two large cylinders under heat and drawn out by tension. After heat setting, the fabrics are seamed and boxed. In addition to paper machine clothing, the Registrant manufactures other engineered fabrics for the non-wovens industry, as well as corrugator belts and filtration media.

Albany Door Systems, which includes RAPID ROLL DOORS, is the operation of the Registrant that developed high- speed high-performance doors, which grew from the application of the Registrant's coated fabric technology. Since the inception of RAPID ROLL DOORS in the early 1980s, manufacturing operations in North America, Europe, and Australia have supplied more than 100,000 installations worldwide.

The Applied Technologies segment manufactures a wide variety of products, including wet and dry filtration media, high-performance materials, and PRIMALOFT, a patented alternative to down for the home furnishings and outerwear markets.

**Industry Factors**

There are approximately 1,100 paper machines in the United States located in approximately 550 paper mills. It is estimated that there are approximately 5,200 paper machines in the world that produce at least 50 tons of paper per day. Additionally, there are many smaller paper machines. Increases in paper production have a positive impact on demand for paper machine clothing, while increases in paper machines' efficiency and the useful life of paper machine clothing have a negative impact on demand. According to published data, world paper production volumes have grown at an annual rate of approximately 2.8% over the last ten years. The Registrant anticipates continued growth for the long term in world paper production. The profitability of the paper machine clothing business has generally been less cyclical than the profitability of the papermaking industry.

Because the paper industry has been characterized by an evolving but essentially stable manufacturing technology based on the wet forming papermaking process, which requires a very large



capital investment, the Registrant does not believe that a commercially feasible substitute technology that does not employ paper machine clothing is likely to be developed and incorporated into the paper production process by paper manufacturers in the foreseeable future. Accordingly, the prospects for continued demand for paper machine clothing appear excellent.

Over the last few years, paper manufacturers have generally reduced the number of suppliers of paper machine clothing per machine position. In addition, eight major paper machine clothing companies have been reduced to four through mergers or acquisitions. These factors have increased opportunities for market leaders, including the Registrant, to expand their market share.

**International Operations**

The Registrant maintains manufacturing facilities in Australia, Brazil, Canada, China, Finland, France, Germany, Great Britain, Italy, Mexico, the Netherlands, South Korea, Sweden and the United States. The Registrant has 50% interests in an entity in South Africa and an entity in Russia that are engaged primarily in the engineered fabrics business (developing, manufacturing, marketing, and servicing custom-designed engineered fabrics used in the manufacture of paper, paperboard, and products in other process industries).The Registrant also has a 50% interest in an entity in England that is engaged in the Albany Door Systems business (see Note 1 of Notes to Consolidated Financial Statements).

The Registrant's geographically diversified operations allow it to serve the world's paper markets more efficiently and to provide superior technical service to its customers. The Registrant benefits from the transfer of research and development product innovations between geographic regions. The worldwide scope of the Registrant's manufacturing and marketing efforts also limits the impact on the Registrant of economic downturns that are limited to a geographic region.

The Registrant's widespread presence subjects it to certain risks, including controls on foreign exchange and the repatriation of funds. However, the Registrant 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 Registrant believes that the risks associated with its operations and locations outside the United States are those normally associated with doing business in these locations.

**Marketing, Customers, and Backlog**

Paper machine clothing is custom-designed for each user depending on the type, size and speed of the paper machine, the machine section, the grade of paper being produced, and the quality of the pulp stock used. Technical expertise, judgment, and experience are critical in designing the appropriate clothing for each position on the machine. As a result, the Registrant employs highly skilled sales and technical service personnel in 25 countries who work directly with paper mill operating management. The Registrant's technical service program in the United States 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 Registrant.

The Registrant employs approximately 1,110 people in the sales and technical functions combined, many of whom have engineering degrees or paper mill experience. The Registrant's market leadership position reflects the Registrant's commitment to technological innovation.

Typically, the Registrant experiences its highest quarterly sales levels in the fourth quarter of each fiscal year. The Registrant believes that this pattern only partially reflects seasonal shifts in demand for its products but is more directly related to purchasing policies of the Registrant's customers.

Payment terms granted to paper industry customers reflect general competitive practices. Terms vary with product and competitive conditions, but generally require payment within 30 to 90 days from



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the date of invoice, depending on the country of operation. Historically, bad debts were insignificant, but several paper companies have declared bankruptcy during recent years; therefore, bad debt expense has increased in recent years.

The Registrant's Albany Door Systems segment markets high-performance doors to industrial companies. The Registrant offers a complete range of products, service, and maintenance for internal and external applications.

The Registrant's Applied Technologies segment has a wide range of customers, with markets that vary from consumers to industrial applications. PRIMALOFT synthetic insulation is an alternative to down, used in high-end retail home furnishings and outerwear applications. Techniweave and the High Performance Materials businesses serve a wide variety of specialty materials and structure needs for applications from aerospace to industrial tooling. Albany's Industrial Process Technologies businesses focus on wet and dry filtration needs of process industries such as mining and petrochemical.The Advanced Thermal Protection Systems products are marketed for aerospace, commercial aircraft, and personal protection markets. Each of these technologies is based in our core competencies in textiles, structures, coatings, and specialty materials.

The two largest customers of the Registrant account for approximately 6% and 5% of the Registrant's net sales, respectively. Management does not believe that the loss of any one customer would have a material adverse effect on the Registrant's business.The Registrant's order backlogs at December 31, 2002 and 2001 were approximately $568 million and $595 million, respectively. Order backlog at December 31, 2002 is generally expected to be invoiced during the next 12 months.

**Research and Development**

The Registrant invests heavily in research, new product development, and technical analysis to maintain its leadership in the paper machine clothing industry. The Registrant's expenditures fall into two primary categories: research and development and technical expenditures. Research and development expenses totaled $24.9 million in 2002, $23.2 million in 2001, and $23.3 million in 2000. While much research activity supports existing products, the Registrant engages in research for new products and product enhancements. New product research has focused primarily on more sophisticated paper machine clothing and has resulted in a stream of products and enhancements such as PRINTEX, KRAFTEX, and MICROTEX forming fabrics, DYNATEX, SEAM DYNATEX, and APERTECH press fabrics, process belts such as TRANSBELT, VENTABELT, GLOSSBELT, and PRESSBELT, as well as AEROGROOVE, AERO 2000, SPIRALNETICS, and AEROJET, which are dryer fabrics. Technical expenditures totaled $24.9 million in 2002, $23.7 million in 2001,and $26.2 million in 2000. Technical expenditures are focused on design, quality assurance, and customer support.

Although the Registrant has focused most of its research and development efforts on paper machine clothing products and design, the Registrant also has made progress in developing non-paper machine clothing products, such as PRIMALOFT, a synthetic down insulation. PRIMALOFT insulation is widely used in outdoor apparel as well as in premium comforters and pillows. The Registrant conducts its major research at its operations in Mansfield, Massachusetts, and Halmstad, Sweden. Additionally, the Registrant conducts process and product design development activities at manufacturing locations in Sélestat, France; Göppingen, Germany; Albany, New York; and Menasha, Wisconsin.

The Registrant holds a number of patents, trademarks and licenses, none of which are material to the continuation of the Registrant's business. All brand names and product names are trademarks of Albany International Corp. or subsidiaries. The Registrant 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 Registrant's products are synthetic fibers, which are generally available from a number of suppliers. The Registrant, therefore, is not required to maintain raw material inventories in excess of its current needs to assure availability. In addition, the Registrant manufactures monofilament, a basic raw material for all types of paper machine clothing, at its facility in Homer, New York, which supplies approximately 33% of its world-wide monofilament requirements. This manufacturing capability assists the Registrant in its negotiations with monofilament producers for the balance of its supply requirements, and enhances the ability of the Registrant to develop proprietary products.

**Competition**

Although there are a number of small regional paper machine clothing suppliers worldwide, only four compete on a global basis. Market shares vary depending on the country and the type of paper machine clothing produced. In the paper machine clothing market, the Registrant believes that it has a market share of approximately 37% in the United States and Canadian markets, taken together, 28% in the rest of the world, and approximately 31% in the world overall. Together, the United States and Canada constitute approximately 38% of the total world market for paper machine clothing.

Competition is intense in all areas of the Registrant's business. While competition in pricing and payment terms is an important factor, the primary bases for competition are the performance characteristics of the Registrant's products, which are principally technology-driven, and the quality of customer service. The Registrant, like its competitors, provides diverse services to customers through its sales and technical service personnel, including: (1) consulting on performance of the paper machine, (2) consulting on paper machine configurations, both new and rebuilt, (3) selection and custom manufacture of the appropriate paper machine clothing, and (4) storing fabrics for delivery to the user.

### Employees

The Registrant employs 6,208 persons, of whom approximately 65% are engaged in manufacturing the Registrant's products. Wages and benefits are competitive with those of other manufacturers in the geographic areas in which the Registrant's facilities are located. The Registrant considers its relations with its employees in general to be excellent.

### Executive Officers of Registrant

The following table sets forth certain information with respect to the executive officers of the Registrant:

| Name | Age | Position |
|---|---|---|
| Frank R. Schmeler | 64 | Chairman of the Board and Chief Executive Officer |
| Michel J. Bacon | 53 | Group Vice President—Europe |
| William M. McCarthy | 52 | Group Vice President—Technology and the Pacific Region |
| Edward Walther | 59 | Group Vice President—North America |
| Michael C. Nahl | 60 | Senior Vice President and Chief Financial Officer |
| Frank Kolf | 57 | Senior Vice President—Administration and Development |
| Dieter Polt | 60 | Senior Vice President—Industrial Products |
| Thomas H. Hagoort | 70 | Senior Vice President—Legal Affairs and Secretary |
| Richard A. Carlstrom | 59 | Vice President—Controller |
| Thomas H. Curry | 54 | Vice President—North American Sales and Marketing |
| David C. Michaels | 47 | Vice President—Treasury and Tax |
| Kenneth C. Pulver | 59 | Vice President—Corporate Communications |
| Charles J. Silva Jr. | 43 | Vice President—General Counsel |



*Frank R. Schmeler* joined the Registrant in 1964. He has served the Registrant as Chairman of the Board since 2001, Chief Executive Officer since 2000, President from 1998 to 2001, Chief Operating Officer from 1997 to 2000, Executive Vice President from 1997 to 1998, Senior Vice President from 1988 to 1997, Vice President and General Manager of the Felt Division from 1984 to 1988, Division Vice President and General Manager, Albany International Canada, from 1978 to 1984, and Vice President of Marketing, Albany International Canada, from 1976 to 1978. He has been a Director of the Registrant since 1997.

*Michel J. Bacon* joined the Registrant in 1978. He has served the Registrant as Group Vice President—Europe since 2001, Senior Vice President from 1996 to 2001, Vice President and General Manager of Albany International Canada from 1991 to 1996, Vice President of Operations, Albany International Canada Press Division, from 1989 to 1991, and Vice President of Marketing, Albany International Canada, from 1987 to 1989.

*William M. McCarthy* joined the Registrant in 1977. He has served the Registrant as Group Vice President—Technology and the Pacific Region since 2003, Group Vice President—Canada, Pacific, and Latin America from 2001 to 2002, and Senior Vice President from 1997 to 2001, and since 1991 has held various positions for Press Fabrics U.S., including Vice President and General Manager, Vice President—Marketing, and Technical Director. From 1988 to 1991 he was Technical Director for Continental Europe—Press Fabrics.

*Edward Walther* joined the Registrant in 1994. He has served the Registrant as Group Vice President—North America since 2003, Group Vice President—United States from 2001 to 2002, Executive Vice President from 1997 to 2001, Senior Vice President from 1995 to 1997, and Vice President and General Manager—Continental Europe from 1994 to 1995. Prior to joining the Registrant, he held various management positions with a company in the paper machine clothing business.

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

*Frank Kolf* joined the Registrant in 2001. He has served the Registrant as Senior Vice President—Adminstratation and Development since 2001. Prior to joining the Registrant, he served as Executive Vice President for the Wangner Group and as Director of Strategic Corporate Controlling with Carl Schenck AG.

*Dieter Polt* joined the Registrant in 2001. He has served the Registrant as Senior Vice President—Industrial Products since 2003, and as Senior Vice President from 2001 to 2002. Prior to joining the Registrant, he served as President and Chief Executive Officer of the Wangner Group and held senior management positions in the instrumentation industry.

*Thomas H. Hagoort* joined the Registrant in 1991. He has served the Registrant as Senior Vice President—Legal Affairs since 2002, General Counsel from 1991 to 2002, and Secretary since 1997. From 1968 until December 31, 1990 he was a partner in Cleary, Gottlieb, Steen and Hamilton, an international law firm with headquarters in New York City.

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



*Thomas H. Curry* joined the Registrant in 1992. He has served the Registrant as Vice President—North American Sales and Marketing since 2003, and Vice President—Sales and Marketing U.S. from 1999 to 2002. From 1995 to 1999 he held various positions for Press Fabrics U.S., including Vice President—General Manager and Vice President—Marketing, and from 1992 to 1995 held various sales and marketing positions for the U.S. Dryer Division.

*David C. Michaels* joined the Registrant in 1987. He has served the Registrant as Vice President—Treasury and Tax since 2000 and previously served as Director of Tax. Prior to 1987, he held various financial and tax positions at Veeco Instruments, Inc.

*Kenneth C. Pulver* joined the Registrant in 1968. He has served the Registrant as Vice President—Corporate Communications since 1997 and as Vice President of Operations for Primaloft from 1992 to 1997. From 1984 to 1992 he served in various marketing positions with Albany Engineered Systems.

*Charles J. Silva Jr.* joined the Registrant in 1994. He has served the Registrant as Vice President—General Counsel since 2002 and as Assistant Secretary from 1994 to 2001. He served as Assistant General Counsel from 1996 until May 2002. Prior to 1994, he was an associate with Cleary, Gottlieb, Steen and Hamilton, an international law firm with headquarters in New York City.

The Registrant believes it is in material compliance with federal, state, and local provisions that have been enacted or adopted regarding the discharge of materials into the environment, or otherwise relating to the protection of the environment, and does not have knowledge of environmental regulations that do or might have a material effect on future capital expenditures, earnings, or competitive position.

The Registrant 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 Registrant in August 1987 solely for the purpose of changing the domicile of the corporation. Upon such merger, each outstanding share of Class B Common Stock of the predecessor New York corporation was changed into one share of Class B Common Stock of the Registrant. References to the Registrant that relate to any time prior to the August 1987 merger should be understood to refer to the predecessor New York corporation.

The Registrant'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 Registrant's Web site (http://www.albint.com) as soon as resaonably practicable after such filing. Such reports will remain available on the Registrant's Web site for at least twelve months. The public may read and copy any materials filed by the Registrant 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 an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Registrant's Investor Relations Department may be contacted at:

Investor Relations Department

Albany International Corp.

Post Office Box 1907

Albany, New York 12201-1907

Telephone: (518) 445-2284

Fax: (518) 447-6343

E-mail: investor_relations@albint.com



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**Item 2. PROPERTIES**

The Registrant's principal manufacturing facilities are located in the United States, Canada, Europe, Brazil, Mexico, Australia, South Korea, and China. The aggregate square footage of the Registrant's operating facilities in the United States and Canada is approximately 2,513,000 square feet, of which 2,337,000 square feet are owned and 176,000 square feet are leased. The Registrant's facilities located outside the United States and Canada comprise approximately 3,911,000 square feet, of which 3,075,000 square feet are owned and 836,000 square feet are leased. The Registrant 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 2003. The Registrant's expected 2003 capital expenditures of about $55 million will provide sufficient capacity for anticipated growth.

The Registrant believes it has modern, efficient production equipment. In the last five years, excluding acquisitions, it has spent approximately $168 million on new plants and equipment or upgrading existing facilities.

**Item 3. LEGAL PROCEEDINGS**

Albany International Corp. ("Albany") and many other companies are defendants 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. Albany was defending against 21,688 such claims as of February 28, 2003. This compares with 22,593 such claims as of December 31, 2002, 17,922 claims as of October 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 and related companies. Albany anticipates that additional claims will be filed against it and the 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 20 to more than 200 defendants, and the complaints usually fail to identify the plaintiffs' work history or the nature of the plaintiffs' alleged exposure to Albany's products. (Production of asbestos-containing paper machine clothing products was limited to certain synthetic dryer fabrics marketed during the period 1967 to 1976 and used in certain paper mills. Such fabrics generally had a useful life of three to twelve months.) In the vast majority of these suits, claimant work histories have not been provided. In cases in which work histories have been provided, approximately one-third of the claimants have alleged time spent in a paper mill.

Approximately 18,700 of the claims pending against Albany are filed in various counties in Mississippi. The Registrant expects that only a portion of these claimants will be able to demonstrate time spent in a paper mill during a period in which Albany's asbestos-containing products were in use. Based on past experience, communications from certain plaintiffs' counsel and the advice of the Registrant's Mississippi counsel, the Registrant expects the percentage of claimants with paper mill exposure in the Mississippi proceedings to be considerably lower than the total number of claims asserted.

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.

While the Registrant 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 Registrant's insurer, Liberty Mutual, has defended each case under a standard reservation of rights. As



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of February 28, 2003, the Registrant had resolved, by means of settlement or dismissal, 4,348 claims, and had reached tentative agreement to resolve an additional 4,563 claims reported above as pending. The total cost of resolving all 8,911 such claims was $4,846,000. Of this amount, $4,811,000, or 99%, was paid by the Registrant's insurance carrier. The Registrant has more than $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., is also a separate defendant in most of these cases. Brandon was defending against 12,632 claims as of February 28, 2003. This compares with 11,802 such claims as of December 31, 2002, 10,347 claims as of October 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 Registrant acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999.

Brandon is a wholly-owned subsidiary of Geschmay Corp. Geschmay Corp. is a wholly-owned subsidiary of the Registrant, acquired in 1999. 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, among other things, had sold 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 28, 2003, Brandon has resolved, by means of settlement or dismissal, 2,881 claims for a total of $152,499. Brandon's insurance carriers have 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% is being sought from an insurance company that denies that it issued a policy. Brandon's internal records demonstrate otherwise, and Brandon has filed suit against this company as well as its other carriers. Based on advice of counsel, Brandon is confident that it will prevail in establishing 100% indemnification and defense cost coverage.

**Mount Vernon**

In some of these cases, the Registrant is named both as a direct defendant and as the "successor in interest" to Mount Vernon Mills ("Mount Vernon"). The Registrant 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 Registrant against any liability arising out of such products. The Registrant denies any liability for products sold by Mount Vernon prior to the acquisition of the Mount Vernon



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assets. Pursuant to its contractual indemnification obligations, Mount Vernon has assumed the defense of these claims. On this basis, the Registrant has successfully moved for dismissal in a number of actions.

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The Registrant believes that all asbestos-related claims against it are without merit. Based on its understanding of the insurance policies available, how settlement amounts have been allocated to various policies, its recent settlement experience, the absence of any judgments against the Registrant or Brandon, the ratio of paper mill claims to total claims filed, and the defenses available, the Registrant currently does not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, the Registrant does not believe, 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 Registrant.

Although the Registrant cannot predict the number and timing of future claims, based on the foregoing factors and the trends in claims against it to date, the Registrant 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. However, the Registrant 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 Registrant 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 during the fourth quarter of 2002 to a vote of security holders.



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**PART II**

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

"Stock and Shareholders" and "Quarterly Financial Data" on page 48 of the Annual Report are incorporated herein by reference.

Restrictions on dividends and other distributions are described in Note 6, on page 27 of the Annual Report. Such description is incorporated herein by reference.

**Item 6. SELECTED FINANCIAL DATA**

"Eleven Year Summary" on pages 46 and 47 of the Annual Report is incorporated herein by reference.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

"Financial Review" on pages 39 to 45 of the Annual Report is incorporated herein by reference.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following consolidated financial statements of the Registrant and its subsidiaries, included on pages 17 to 38 in the Annual Report, are incorporated herein by reference:

Report of Independent Accountants

Consolidated Statements of Income and Retained Earnings—for the years ended December 31, 2002, 2001, and 2000

Consolidated Statements of Comprehensive Income—for the years ended December 31, 2002, 2001, and 2000

Consolidated Balance Sheets—at December 31, 2002 and 2001

Consolidated Statements of Cash Flows—for the years ended December 31, 2002, 2001, and 2000

Notes to Consolidated Financial Statements

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.



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**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

a) *Directors.* The information set out in the section captioned "Election of Directors" of the Proxy Statement is incorporated herein by reference.
b) *Executive Officers of Registrant.* Information about the officers of the Registrant is set forth in Item 1 above.

**Item 11. EXECUTIVE COMPENSATION**

The information set forth in the sections of the Proxy Statement captioned "Executive Compensation," "Summary Compensation Table," "Option/SAR Grants in Last Fiscal Year," "Option/SAR Exercises During 2002 and Year-End Values," "Pension Plan Table," "Compensation and Stock Option Committee Report on Executive Compensation," "Compensation and Stock Option Committee Interlocks and Insider Participation," "Stock Performance Graph," and "Directors' Fees" is incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information set out in the section captioned "Share Ownership" of the Proxy Statement is incorporated herein by reference.

**Equity Compensation Plan Information**

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a) | Weighted-average exercise price of outstanding options, warrants, and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Equity compensation plans approved by security holders | 3,834,225 | $ 18.69 | 443,655(1)(2)(3) |
| Equity compensation plans not approved by security holders | 250,000 | $ 25.56 | — |
| Total | 4,084,225 | $ 20.48 | 443,655 |

(1) Reflects only the number of shares for which options may be granted as of January 1, 2003 under the Registrant's 1998 Stock Option Plan ("the 1998 Plan"). Additional shares of Class A Common Stock are available for issuance under the 1998 Plan (see note 2 below) as well as under the Registrant's Directors Retainer Plan (see note 3 below).

(2) The 1998 Plan allows the Board to increase the amount of shares available for future option grants, from time to time, provided that it may not be increased by more than 500,000 in any calendar year and that no such increase may cause the total number of shares then available for option to exceed 1,000,000. If options granted under the 1998 Plan expire or are terminated or surrendered without having been exercised, the shares of Class A Common Stock subject thereto may again be optioned. Assuming full exercise by the Board of its power to increase annually the number of shares available for options, the maximum number of additional shares that could yet



be issued upon exercise of future option grants pursuant to the 1998 Plan (including those set forth in column (c) above) would be 3,945,055.

(3) The Directors Retainer Plan provides that the aggregate dollar amount of the annual retainer payable for service as a member of the Registrant's Board of Directors is $40,000. Of this total, $10,000 is paid in shares of Class A Common Stock of the Registrant, the exact number of shares to be paid for any year being determined on the basis of the per share closing price of such stock on the day of the Annual Meeting at which the election of directors for such year occurs, as shown in the composite index published for such day in the Wall Street Journal, rounded down to the nearest whole share.

The Registrant has adopted only one equity compensation "plan" not approved by security holders and required to be disclosed under Item 201(d) of Regulation S-K. In 1997, the Registrant granted an option exercisable at $25.56 per share for 250,000 shares of the Registrant's Class A Common Stock to Michael C. Nahl, the Registrant's Senior Vice President and Chief Financial Officer. The option is not exercisable unless the market price of Class A Common Stock reaches $48 per share while Mr. Nahl is employed by the Registrant or a subsidiary. When the target price is achieved, the option becomes exercisable as to a number of shares determined by multiplying 25,000 times the number of full years that have elapsed since the grant date. Thereafter, the option becomes exercisable as to an additional 25,000 shares on each anniversary of the grant date while the optionee remains an employee. In the event of termination of the optionee's employment, the option terminates as to all shares as to which it is not then exercisable, except that, in the case of voluntary termination after age 62, death, disability, or involuntary termination, if the target price has been achieved prior to such termination, the option becomes exercisable, immediately prior to such termination, as to one-half of the shares as to which it is not then exercisable.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

None.

**Item 14. CONTROLS AND PROCEDURES**

Within the 90-day period prior to the filing of this report, an evaluation of the effectiveness of the Registrant's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) was carried out under the supervision, and with the participation, of the Registrant's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on such evaluation, the Registrant's CEO and CFO have concluded that the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that the Registrant files or submits under the Securities Exchange Commission Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Subsequent to the date of such evaluation, there have been no significant changes in the Registrant's internal controls or in other factors that could significantly affect such controls, including any corrective actions with regard to significant deficiencies or material weaknesses.



**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULE AND REPORTS ON FORM 8-K**

(a)(1) *Financial Statements*. The consolidated financial statements included in the Annual Report are incorporated by reference in Item 8.
(a)(2) *Schedule*. The following financial statement schedule for each of the three years in the period ended December 31, 2002:

Report of Independent Accountants on Financial Statement Schedule
Schedule II—Valuation and Qualifying Accounts

(a)(3) Exhibits

| | |
|---|---|
| 3(a) | Certificate of Incorporation of Registrant.(3) |
| 3(b) | Bylaws of Registrant.(10) |
| 4(a) | Article IV of Certificate of Incorporation of Registrant (included in Exhibit 3(a)). |
| 4(b) | Specimen Stock Certificate for Class A Common Stock.(1) |

**Credit Agreement**

| | |
|---|---|
| 10(i)(i) | Credit Agreement, dated as of August 11, 1999 (the "Credit Agreement"), among the Registrant, certain banks listed therein, the Chase Manhattan Bank as Administrative Agent, Chase Manhattan International Limited as London Agent, Citibank N.A. as Syndication Agent, and Banc One Capital Markets, Inc. as Documentation Agent.(9) |
| 10(i)(ii) | Amendment No. 1, dated as of December 22, 1999, to the Credit Agreement.(11) |
| 10(i)(iii) | Amendment No. 2, dated as of October 1, 2002, to the Credit Agreement. Filed herewith. |
| 10(j)(i) | Receivables Sale Agreement, dated as of September 28, 2001, among the Registrant as the Collection Agent, Albany International Receivables Corporation as the Seller, ABN AMRO Bank N.V., as the Agent the Committed Purchasers party thereto, and Amsterdam Funding Corporation.(11) |
| 10(j)(i)(a) | Amendment No. 1, dated as of September 27, 2002 to the Receivables Sale Agreement. Filed herewith. |
| 10(j)(i)(b) | Amendment No. 2, dated as of October 25, 2002 to the Receivables Sale Agreement. Filed herewith. |
| 10(j)(ii) | Purchase and Sale Agreement, dated as of September 28, 2001, among the Registrant, Geschmay Corp., Albany International Research Co., Albany International Techniweave, Inc., Albany International Canada Inc., M&I Door Systems Ltd., as Originators, and Albany International Receivables Corporation as Buyer.(11) |
| 10(j)(ii)(a) | Amendment No. 1, dated as of March 1, 2002, to Exhibit A of the Purchase and Sale Agreement. Filed herewith. |



**Stock Options**

| | |
|---|---|
| 10(m)(i) | Form of Stock Option Agreement, dated as of August 1, 1983, between the Registrant and each of five employees, together with schedule showing the names of such employees and the material differences among the Stock Option Agreements with such employees.(1) |
| 10(m)(ii) | Form of Amendment of Stock Option Agreement, dated as of July 1, 1987, between the Registrant and each of the five employees identified in the schedule referred to as Exhibit 10(m)(i).(1) |
| 10(m)(iii) | 1988 Stock Option Plan.(2) |
| 10(m)(iv) | 1992 Stock Option Plan.(4) |
| 10(m)(v) | 1997 Executive Stock Option Agreement.(7) |
| 10(m)(vi) | 1998 Stock Option Plan.(8) |

**Executive Compensation**

| | |
|---|---|
| 10(n) | Pension Equalization Plan adopted April 16, 1986, naming two current executive officers and one former executive officer of Registrant as "Participants" thereunder.(1) |
| 10(n)(i) | Supplemental Executive Retirement Plan.(5) |
| 10(o)(l) | Form of Executive Deferred Compensation Plan adopted September 1, 1985, as amended and restated as of August 8, 2001.(11) |
| 10(o)(ii) | Form of Directors' Deferred Compensation Plan adopted September 1, 1985, as amended and restated as of August 8, 2001.(11) |
| 10(o)(iii) | Deferred Compensation Plan of Albany International Corp., as amended and restated as of August 8, 2001.(11) |
| 10(o)(iv) | Centennial Deferred Compensation Plan, as amended and restated as of August 8, 2001.(11) |
| 10(o)(v) | Directors Annual Retainer Plan, as amended and restated as of May 10, 2001. |

**Other Exhibits**

| | |
|---|---|
| 13 | Annual Report to Security Holders for the year ended December 31, 2002. |
| 21 | Subsidiaries of Registrant. |
| 23 | Consent of PricewaterhouseCoopers LLP. |
| 24 | Powers of Attorney. |
| 99.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (b) | No reports on Form 8-K were filed during the fourth quarter of 2002. |



All other schedules and exhibits are not required or are inapplicable and, therefore, have been omitted.

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| | |
|---|---|
| (1) | Previously filed as an Exhibit to the Registrant's Registration Statement on Form S-1, No. 33-16254, as amended, declared effective by the Securities and Exchange Commission on September 30, 1987, which previously filed Exhibit is incorporated by reference herein. |
| (2) | Previously filed as an Exhibit to the Registrant's Current Report on Form 8-K dated August 8, 1988, which previously filed Exhibit is incorporated by reference herein. |
| (3) | Previously filed as an Exhibit to the Registrant's Registration Statement on Form 8-A, File No. 1-10026, declared effective by the Securities and Exchange Commission on August 26, 1988 (as to The Pacific Stock Exchange, Inc.), and on September 7, 1988 (as to The New York Stock Exchange, Inc.), which previously filed Exhibit is incorporated by reference herein. |
| (4) | Previously filed as an Exhibit to the Registrant's Current Report on Form 8-K dated January 18, 1993, which previously filed Exhibit is incorporated by reference herein. |
| (5) | Previously filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 30, 1994, which previously filed Exhibit is incorporated by reference herein. |
| (6) | Previously filed as an Exhibit to the Registrant's Current Report on Form 8-K dated March 15, 1996, which previously filed Exhibit is incorporated by reference herein. |
| (7) | Previously filed as an Exhibit to the Registrant's Current Report on Form 10-K dated March 16, 1998, which previously filed Exhibit is incorporated by reference herein. |
| (8) | Previously filed as an Exhibit to the Registrant's Current Report on Form 10-Q dated August 10, 1998, which previously filed Exhibit is incorporated by reference herein. |

(9) Previously filed as an Exhibit to the Registrant's Current Report on form 8-K dated September 21, 1999, which previously filed Exhibit is incorporated by reference herein.

(10) Previously filed as an Exhibit to the Registrant's Current Report on Form 10-Q dated November 10, 1999, which previously filed Exhibit is incorporated by reference herein.

(11) Previously filed as an Exhibit to the Registrant's Current Report on Form 10-Q dated November 12, 2001, which previously filed Exhibit is incorporated by reference herein.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 21st day of March, 2003.

ALBANY INTERNATIONAL CORP.

By: /s/ MICHAEL C. NAHL

Michael C. Nahl
*Principal Financial Officer*
*Senior Vice President and*
*Chief Financial Officer*



Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signatures | Titles | Date |
|---|---|---|
| * (Frank R. Schmeler) | Chairman of the Board and Chief Executive Officer | March 21, 2003 |
| /s/ MICHAEL C. NAHL Michael C. Nahl | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | March 21, 2003 |
| * (Richard A. Carlstrom) | Vice President—Controller (Principal Accounting Officer) | March 21, 2003 |
| * (Thomas R. Beecher Jr.) | Director | March 21, 2003 |
| * (Charles B. Buchanan) | Director | March 21, 2003 |
| * (James L. Ferris, Ph.D.) | Director | March 21, 2003 |
| * (Erland E. Kailbourne) | Director | March 21, 2003 |
| * (Francis L. McKone) | Director | March 21, 2003 |
| * (Joseph G. Morone, Ph.D.) | Director | March 21, 2003 |
| * (Christine L. Standish) | Director | March 21, 2003 |

| | | |
|---|---|---|
| * | Director | March 21, 2003 |
| (John C. Standish) | | |



| | | |
|---|---|---|
| * | Director | March 21, 2003 |
| (Allan Stenshamn) | | |
| * | Director | March 21, 2003 |
| (Barbara P. Wright) | | |

*By: /s/ MICHAEL C. NAHL

Michael C. Nahl
*Attorney-in-fact*



**CERTIFICATION**

I, Frank R. Schmeler, certify that:

1. have reviewed this annual report on Form 10-K of Albany International Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

By: /s/ FRANK R. SCHMELER

Frank R. Schmeler
Chairman and Chief Executive Officer



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**CERTIFICATION**

I, Michael C. Nahl, certify that:

1. I have reviewed this annual report on Form 10-K of Albany International Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 21, 2003

By: /s/ MICHAEL C. NAHL

Michael C. Nahl
Senior Vice President and
Chief Financial Officer



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**REPORT OF INDEPENDENT ACCOUNTANTS**
**ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors of Albany International Corp.

Our audits of the consolidated financial statements referred to in our report dated January 28, 2003, appearing in the 2002 Annual Report to Shareholders of Albany International Corp. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

Albany, New York
January 28, 2003



**SCHEDULE II**

**ALBANY INTERNATIONAL CORP. AND SUBSIDIARIES**
**VALUATION AND QUALIFYING ACCOUNTS**

**(Dollars in thousands)**

| Column A | Column B | Column C | Column D | Column E |
|---|---|---|---|---|
| **Description** | **Balance at Beginning of Period** | **Charged to Expense** | **Other (A)** | **Balance at End of Period** |
| Allowance for doubtful accounts Year ended December 31: | | | | |
| 2002 | $ 10,488 | $ 2,651 | $ 1,349 | $ 11,790 |
| 2001 | $ 7,688 | $ 4,878 | $ 2,078 | $ 10,488 |
| 2000 | $ 8,768 | $ 1,008 | $ 2,088 | $ 7,688 |

(A) Includes accounts written off as uncollectible, recoveries, and the effect of currency exchange rates.



QuickLinks

AMENDMENT NO. 2 AND WAIVER dated as of October 1, 2002 (this "*Amendment*") to the CREDIT AGREEMENT dated as of August 11, 1999 (as amended, restated, supplemented or otherwise modified from time to time, the "*Credit Agreement*"), among ALBANY INTERNATIONAL CORP., a Delaware corporation (the "*Company*"), the BORROWING SUBSIDIARIES from time to time party thereto, the Lenders referred to therein, JPMORGAN CHASE BANK (f/k/a The Chase Manhattan Bank), a New York banking corporation, as administrative agent for the Lenders (in such capacity, the "*Administrative Agent*"), and J.P.MORGAN EUROPE, LTD. (f/k/a Chase Manhattan International Limited), as London Agent.

WHEREAS, the Company has informed the Administrative Agent that it proposes to enter into the transactions specified on Schedule 10.15 hereto and, in connection therewith, has requested that the Lenders amend and waive certain provisions of the Credit Agreement as set forth herein; and

WHEREAS, the Lenders are willing, on the terms and subject to the conditions set forth herein, to so amend and waive the Credit Agreement.

THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as set forth below.

SECTION 1. *Defined Terms.* Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. *Amendment of Credit Agreement.* (a) *Amendment of Section 1.01*. Section 1.01 of the Credit Agreement is hereby amended by adding thereto, in the proper alphabetical order, the following definitions:

"*AI AG*" shall mean Albany International Holding (Switzerland) AG, an entity organized under the laws of Switzerland.

"*AI GmbH*" shall mean AI (Switzerland), an entity organized under the laws of Switzerland.

"*Realignment Transactions*" shall mean the transactions specified on Schedule 10.15 to the Second Amendment.

"*Second Amendment*" shall mean Amendment No. 2 dated as of October 1, 2002 to this Agreement (as in effect prior to the date of such Amendment).

(b) *Amendment of Article VI.* Article VI of the Credit Agreement is hereby amended by inserting at the end thereof a new Section 6.11 as follows:

"SECTION 6.11. *Business and Liabilities of Certain Subsidiaries.* (a) The Company will not permit Albany International Holdings Two, Inc. to (i) incur, assume or permit to exist any liabilities or obligations other than ordinary course liabilities not constituting Indebtedness (other than Indebtedness under this Agreement) incidental to its existence as a corporation, such as taxes and administrative expenses or (ii) engage in any activity other than (A) holding the Equity Interests in its subsidiaries, (B) holding other assets of the Company and the Subsidiaries and (C) other activities incidental thereto, including the licensing of patents and trademarks to the Company and the Subsidiaries, and the licensing of intellectual property to third parties in the ordinary course of business.

(b) The Company will not permit AI AG or, until such time as the Realignment Transactions are consummated, AI GmbH to engage in any activities other than (i) engaging in any of the transactions permitted under Section 10.15 of this Agreement, (ii) holding Equity Interests in its subsidiaries, (iii) making loans to, and borrowing funds from, the Company and the Subsidiaries, to the extent otherwise permitted under this Agreement, (iv) providing administrative and managerial service and



assistance to the Subsidiaries, (v) purchasing from the Company and the Subsidiaries and selling to third parties products manufactured by Affiliates of AI AG, (vi) holding other assets of the Company and the Subsidiaries and (vii) engaging in activities such as hiring a de minimus number of employees and other persons, licensing patents and trademarks to the Company and the Subsidiaries, licensing intellectual property to third parties in the ordinary course of business and conducting other ordinary course business activities, incidental to the activities in clauses (I)-(vi) of this Section 6.11(b); *provided*, *however,* that nothing set forth in this Section 6.11(b) shall be construed so as to permit AI AG or, until such time as the Realignment Transactions are consummated, AI GmbH to incur, assume or permit to exist any liabilities or obligations, other than (w) ordinary course liabilities not constituting Indebtedness incidental to its corporate existence, such as taxes and administrative expenses, (x) intercompany Indebtedness to the extent permitted pursuant to the terms of this Agreement, (y) Indebtedness under this Agreement and (z) obligations not constituting Indebtedness to the extent reasonably necessary to be incurred in connection with the activities permitted by clauses (I)-(v) of this Section 6.11(b)."

(c) *Amendment of Article X.* Article X of the Credit Agreement is hereby amended by adding at the end thereof the following new Section 10.15:

"SECTION 10.15. *Business Realignment.* Notwithstanding any provision of this Agreement to the contrary, the Loan Parties are expressly permitted to consummate the Realignment Transactions; *provided* that (a) the Loan Parties shall, on or prior to the final consummation of the Realignment Transactions, have (i) executed and delivered to the Collateral Agent a reaffirmation agreement in the form of *Exhibit A* to the Second Amendment or in such other form and scope satisfactory to the Collateral Agent, reaffirming the security interests and guarantees not required to be released in connection with the Realignment Transactions and confirming the obligations of the Loan Parties to provide the additional collateral and other further assurances required by the Loan Documents, (ii) taken, or arranged for the taking of, all actions required or reasonably requested by the Collateral Agent to satisfy the Collateral Requirement after giving effect to the Realignment Transactions, including the pledge of 65% of the issued and outstanding voting Equity Interests of AI AG pursuant to a pledge agreement in the form of *Exhibit B* to the Second Amendment or in such other form and scope satisfactory to the Collateral Agent, (iii) delivered to the Administrative Agent a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the date upon which the Realignment Transactions are consummated) of (A) Charles Silva, Esq., General Counsel of the Company, and (B) Homburger, Swiss counsel for the Company, in the case of each such opinion covering such matters relating to AI AG and AI GmbH, the Realignment Transactions, the documents executed in connection with the Realignment Transactions and related transactions as the Administrative Agent or the Required Lenders shall reasonably request; and such other evidence of authority as the Collateral Agent shall have reasonably requested, all in form and scope satisfactory to the Collateral Agent and (iv) delivered to the Administrative Agent such other documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of AI AG and AI GmbH, the authorization of the Realignment Transactions and related transactions and any other legal matters relating to the Loan Parties, the Loan Documents, the Realignment Transactions and related transactions, all in form and substance satisfactory to the Administrative Agent and its counsel, and (b) all the Realignment Transactions shall be consummated on or prior to December 31, 2002. The Agents are hereby directed and authorized to take such action and execute such documents as the Company may reasonably request, at the Company's sole expense, including the release of any Lien or the consent to any transfer of any asset subject to any Lien, to facilitate or permit the Realignment Transactions. It is understood that the Realignment Transactions may be modified with the prior written consent of the Administrative Agent to eliminate or alter particular transactions set forth on Schedule 10.15 to the Second Amendment or to include transactions not set forth on Schedule 10.15 to the Second Amendment; *provided*, that no such changes shall, in the judgment of the Collateral Agent, taken



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together with any other changes, (i) reduce the benefit to the Lenders of the Collateral and the Guarantees, taken as a whole, in any material respect from that anticipated after giving effect to the Realignment Transactions as described on Schedule 10.15 to the Second Amendment or (ii) otherwise be adverse in any material respect to the rights or interest of the Lenders. In making any determination referred to in the proviso to the immediately preceding sentence, the Administrative Agent may, if it deems appropriate, but shall not be required to, communicate any proposed modifications to the Realignment Transactions to the Lenders prior to its consent thereto, and shall be entitled, in the absence of any contrary communication received from any Lender within a reasonable period of time specified in such communication to assume that such Lender agrees that the proposed modification will satisfy the standards set forth in clauses (I) and (ii) of this proviso."

SECTION 3. *Waiver of Section 6.* 7(g). Pursuant to Sections 10.02(a) and 10.02(b) of the Credit Agreement, effective as of the Effective Date (as defined below), the Lenders hereby waive (a) compliance by the Company with Section 6.07(g)(iv) of the Credit Agreement with respect, and only with respect, to the contribution of the capital stock of certain foreign subsidiaries of the Company described in Schedule 10.15 hereto (the "*Contributed Subsidiaries*") to be made by Albany International Holdings Two, Inc. to AI AG and AI GmbH in connection with the Transactions and (b) the application of the principal amount of such contribution to the basket in the proviso thereunder.

SECTION 4. *Release of Liens.* From time to time on or after the Effective Date, as the Company shall hereafter request, the Administrative Agent will cause the Collateral Agent to release from the Liens of the Pledge Agreement the capital stock of such of the Contributed Subsidiaries pledged thereunder as shall be from time to time required in order to consummate the Realignment Transactions and the Administrative Agent shall execute an instrument releasing any such Contributed Subsidiaries from any further obligations under the Loan Documents.

SECTION 5. *Representations and Warranties.* To induce the other parties hereto to enter into this Amendment, the Company represents and warrants to each of the Lenders and the Administrative Agent that:

(a) This Amendment has been duly authorized, executed and delivered by the Company, and each of this Amendment and the Credit Agreement, after giving effect to this Amendment, constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium and similar laws affecting the enforcement of creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law).

(b) The representations and warranties contained in Article III of the Credit Agreement, after giving effect to this Amendment, are true and correct on and as of the date hereof, (i) except to the extent that such representations and warranties expressly relate to an earlier date (in which case such representations and warranties were true and correct as of such earlier date) or (ii) with respect to matters described in Section 3.06 of the Credit Agreement, except as disclosed in the Company's periodic reports heretofore delivered to the Lenders pursuant to Section 5.01 of the Credit Agreement.

(c) No Default or Event of Default has occurred and is continuing or would result from the execution and delivery of this Amendment.

SECTION 6. *Effectiveness.* This Amendment shall become effective on the first date (the "*Effective Date*") upon which each of the following conditions shall have been satisfied:

(a) the Administrative Agent (or its counsel) shall have received counterparts of this Amendment that, when taken together, bear the signatures of the Company and the Required Lenders; and

(b) the Administrative Agent shall have received all amounts due and payable by the Company under the Credit Agreement on or prior to the date hereof, including, to the extent invoiced,



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reimbursement or payment of all out-of-pocket expenses (including fees and disbursements of Cravath, Swaine & Moore, counsel to the Administrative Agent) required to be reimbursed or paid by the Company thereunder.

SECTION 7. *Amendment Fee.* The Company agrees to pay to each Lender that executes and delivers to the Administrative Agent (or its counsel) a copy of this Amendment at or prior to 4:00 p.m., New York City time, on October 1, 2002 an amendment fee (the "*Amendment Fee*") in an amount of $10,000; *provided* that the Company shall not have liability for any such Amendment Fee if this Amendment does not become effective. The Amendment Fee shall be payable on October 4, 2002 to each Lender entitled to receive such fee as determined pursuant to this Section 7.

SECTION 8. *Limited Effect of Amendment.* Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Lenders or the Administrative Agent under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle any Loan Party to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document in similar or different circumstances. This Amendment shall apply and be effective only with respect to the provisions of the Credit Agreement specifically referred to herein. After the date hereof, any reference to the Credit Agreement shall mean the Credit Agreement, as modified hereby. This Amendment shall constitute a "Loan Document" for all purposes of the Credit Agreement and the other Loan Documents.

SECTION 9. *Expenses.* The Company agrees to reimburse the Administrative Agent and the Collateral Agent for its out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Administrative Agent.

SECTION 10. *Counterparts.* This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all which counterparts together shall constitute but one and the same contract. Delivery of an executed counterpart of a signature page of this Amendment by facsimile transmission shall be as effective as delivery of a manually executed counterpart hereof.

SECTION 11. *Governing Law.* THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 12. *Headings.* The headings of this Amendment are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.



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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

ALBANY INTERNATIONAL CORP.,

by /s/ DAVID C. MICHAELS

Name: David C. Michaels
Title: Vice President—Treasury & Tax

JPMORGAN CHASE BANK, individually and as Administrative Agent,

by /s/ KRISTIN SANDS

Name: Kristin Sands
Title: Vice President

ABN AMRO BANK N.V.

by /s/ DONALD SUTTON

Name: Donald Sutton
Title: Group Vice President & Director

by /s/ DAVID CARROLL

Name: David Carroll
Title: Assistant Vice President

BANK OF AMERICA, N.A.

by /s/ JOHN W. POCALYKO

Name: John W. Pocalyko
Title: Managing Director

BANK OF MONTREAL

by /s/ PAM SCHWARTZ

Name: Pamela E. Schwartz
Title: Vice President

THE BANK OF NEW YORK

by /s/ RUSSELL A. BURR

Name: Russell A. Burr
Title: Senior Vice President

THE BANK OF NOVA SCOTIA

by /s/ STEPHEN LOCKHART

Name: Stephen Lockhart
Title: Authorized Signatory

BANKNORTH, N.A., formerly known as Peoples Heritage Bank, N.A. Successor by merger to Evergreen Bank, N.A.

by /s/ ROBERT C. HERGRUETER

Name: Robert C. Hergrueter
Title:
Senior Vice President

CREDIT AGRICOLE INDOSUEZ,

by /s/ PAUL A. DYTRYCH

Name: Paul A. Dytrych
Title: Vice President
Senior Relationship Manager

by /s/ LAURENCE F. GRANT

Name: Laurence F. Grant
Title: Vice President
Senior Relationship Manager

CREDIT LYONNAIS NEW YORK BRANCH

by /s/ SCOTT R. CHAPPELKA

Name: Scott R. Chappelka
Title: Vice President

FLEET NATIONAL BANK

by /s/ PAMELA A. OPPERMAN

Name: Pamela A. Opperman
Title: Vice President

HSBC BANK USA

by /s/ CHARLES R. KREUTER

Name: Charles R. Kreuter
Title: Vice President



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KEY BANK NATIONAL ASSOCIATION

by /s/ LAWRENCE A. MACK

Name: Lawrence A. Mack
Title: Senior Vice President

MANUFACTURERS AND TRADERS TRUST COMPANY

by /s/ CRAIG A. KEEFER

Name: Craig A. Keefer
Title: Vice President

MIZUHO CORPORATE BANK, LTD.

by /s/ RICKY SIMMONS

Name: Ricky Simmons
Title: Vice President

NORDEA BANK FINLAND PLC

by /s/ ULF FORSSTROM

Name: Ulf Forsstrom
Title: Vice President

by /s/ CHARLES J. LANSDOWN

Name: Donald Sutton
Title: Senior Vice President

SUMITOMO MITSUI BANKING CORP.

by /s/ EDWARD D. HENDERSON

Name: Edward D. Henderson
Title: Joint General Manager

SUN TRUST BANK

by /s/ LAUREN P. CARRIGAN

Name: Lauren P. Carrigan
Title: Vice President

THE TROY SAVINGS BANK

by /s/ STEPHEN R. VON SCHENK

Name: Stephen R. von Schenk
Title: Vice President & Director
Commercial Lending



UFJ BANK LIMITED

by /s/ RUSSELL BOHNER

Name: Russell Bohner
Title: Vice President

WACHOVIA BANK, N.A.

by /s/ MEG BERERIDGE

Name: Meg Bereridge
Title: Vice President

**Exhibit 10(j)(i)(a)**

**FIRST AMENDMENT
DATED AS OF SEPTEMBER 27, 2002
TO RECEIVABLES SALE AGREEMENT
DATED AS OF SEPTEMBER 28, 2002**

THIS FIRST AMENDMENT (the "*Amendment*"), dated as of September 27, 2002, is entered into among Albany International Receivables Corporation (the "*Seller*"), Albany International Corp. (the "*Initial Collection Agent,*" and, together with any successor thereto, the "*Collection Agent*"), ABN AMRO Bank N.V., as agent for the Purchaser (the "*Agent*"), the committed purchasers party thereto (the " *Committed Purchasers*") and Amsterdam Funding Corporation, a Delaware corporation ("*Amsterdam*");

**WITNESSETH:**

WHEREAS, the Seller, Collection Agent, Agent, Committed Purchasers and Amsterdam have heretofore executed and delivered a Receivables Sale Agreement, dated as of September 28, 2001 (as amended, supplemented or otherwise modified through the date hereof, the *"Sale Agreement"*),

WHEREAS, the parties hereto desire to amend the Sale Agreement as provided herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree that the Sale Agreement shall be and is hereby amended as follows:

*Section 1.* The defined term "*Liquidity Termination Date*" appearing in Schedule I to the Sale Agreement is hereby amended by deleting the date "*September 27, 2002*" appearing in clause (d) thereof and inserting in its place the date "*October 25, 2002*".

*Section 2.* This Amendment shall become effective on the date the Agent has received (i) counterparts hereof executed by the Seller, Collection Agent, each Purchaser, Amsterdam and the Agent and (ii) the acknowledgment and consent in the form set forth below duly executed and delivered by the Parent.

*Section 3.1.* This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Amendment.

*Section 3.2.* Except as specifically provided above, the Sale Agreement and the other Transaction Documents shall remain in full force and effect and are hereby ratified and confirmed in all respects. The execution, delivery, and effectiveness of this Amendment shall not operate as a waiver of any right, power, or remedy of any Agent or any Purchaser under the Sale Agreement or any of the other Transaction Documents, nor constitute a waiver or modification of any provision of any of the other Transaction Documents. All defined terms used herein and not defined herein shall have the same meaning herein as in the Sale Agreement. The Seller agrees to pay on demand all costs and expenses (including reasonable fees and expenses of counsel) of or incurred by the Agent and each Purchaser Agent in connection with the negotiation, preparation, execution and delivery of this Amendment.

*Section 3.3.* This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the law of the State of New York.

---

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first above written.

ABN AMRO BANK N.V., as the Agent, as the Committed Purchaser

By: /s/ THOMAS J. CHIATE

Thomas J. Chiate
Title: *SVP*

By: /s/ NANCY C. BEEBE

Nancy C. Beebe
Title: *GVP*

AMSTERDAM FUNDING CORPORATION

By: /s/ ANDREW L. STIDD

Andrew L. Stidd
Title: *President*

ALBANY INTERNATIONAL RECEIVABLES CORPORATION, as Seller

By: /s/ CHARLES J. SILVA, JR.

Charles J. Silva, Jr.
Title: *Vice President and Secretary*

ALBANY INTERNATIONAL CORP., as Initial Collection Agent

By: /s/ DAVID C. MICHAELS

David C. Michaels
Title: *Vice President, Treasury and Tax*



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**GUARANTOR'S ACKNOWLEDGMENT AND CONSENT**

The undersigned, Albany International Corp., has heretofore executed and delivered the Limited Guaranty dated as of September 28, 2002 (the "*Guaranty*") and hereby consents to the Amendment to the Sale Agreement as set forth above and confirms that the Guaranty and all of the undersigned's obligations thereunder remain in full force and effect. The undersigned further agrees that the consent of the undersigned to any further amendments to the Sale Agreement shall not be required as a result of this consent having been obtained, except to the extent, if any, required by the Guaranty referred to above.

ALBANY INTERNATIONAL CORP.

By: /s/ FRANK R. SCHMELER

Frank R. Schmeler
Title: *Chief Executive Officer*



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**Exhibit 10(j)(i)(b)**

**SECOND AMENDMENT
DATED AS OF OCTOBER 25, 2002
TO RECEIVABLES SALE AGREEMENT
DATED AS OF SEPTEMBER 28, 2002**

THIS SECOND AMENDMENT (the "*Amendment*"), dated as of October 25, 2002, is entered into among Albany International Receivables Corporation (the "*Seller*"), Albany International Corp. (the "*Initial Collection Agent,*" and, together with any successor thereto, the "*Collection Agent*"), ABN AMRO Bank N.V., as agent for the Purchaser (the "*Agent*"), the committed purchasers party thereto (the " *Committed Purchasers*") and Amsterdam Funding Corporation, a Delaware corporation ("*Amsterdam*");

**WITNESSETH:**

WHEREAS, the Seller, Collection Agent, Agent, Committed Purchasers and Amsterdam have heretofore executed and delivered a Receivables Sale Agreement, dated as of September 28, 2001 (as amended, supplemented or otherwise modified through the date hereof, the "*Sale Agreement*"),

WHEREAS, the parties hereto desire to amend the Sale Agreement as provided herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree that the Sale Agreement shall be and is hereby amended as follows:

*Section 1.* The defined term "*Liquidity Termination Date*" appearing in Schedule I to the Sale Agreement is hereby amended by deleting the date "*October 25, 2002*" appearing in clause (d) thereof and inserting in its place the date "*September 26, 2003*".

*Section 2.* The defined term "*Eligible Receivable*" appearing in Schedule I to the Sale Agreement is hereby amended by deleting the reference to "*35%*" appearing in clause (ii) thereof and inserting in its place " *50%*".

*Section 3.* The defined term "*Loss Reserve*" appearing in Schedule I to the Sale Agreement is hereby amended by deleting the reference to "*20.0%*" appearing in clause (i)(a) thereof and inserting in its place "*16%*".

*Section 4.* The defined term "*Loss Horizon Ratio*" appearing in Schedule I to the Sale Agreement is hereby amended in its entirety and as so amended shall read as follows:

> "*Loss Horizon Ratio*" means, at any time, a fraction (expressed as a ratio) the numerator of which is the aggregate Outstanding Balance of Receivables generated by the Originators during the most recent five month period and the denominator of which is the Eligible Receivables Balance as of the last day of such period.

*Section 5.* The defined term "*Obligor Concentration Limit*" appearing in Schedule I to the Sale Agreement is hereby amended by deleting the table appearing therein and inserting in its place the following table:

| S&P Rating | Moody's Rating | Allowable % of Eligible Receivables |
|---|---|---|
| A- or higher | A3 or higher | 16.0% |
| BBB+ | Baa1 | 12.0% |
| BBB | Baa2 | 10.0% |
| BBB- | Baa3 | 8.0% |
| Below BBB- or Not Rated by either S&P or Moody's | Below Baa3 or Not Rated by either S&P or Moody's | 4.0% |

*Section 6.* Clause (g) of the defined term "*Termination Event*" is hereby amended in its entirety and as so amended shall read as follows:

> (g) the average Delinquency Ratio for the three most recent Settlement Periods exceeds 10.0%, the average Default Ratio for the three most recent Settlement Periods exceeds 6.0%, the average Dilution Ratio for the three most recent Settlement Periods exceeds 5.0%, the Loss-to Liquidation Ratio for the most recent Settlement Period exceeds 1.0% or the average Turnover Ratio for the three most recent Settlement Periods exceeds 90 days; or

*Section 7.* The defined term "*Delinquent Receivable*" is hereby amended in its entirety and as so amended shall read as follows:

> "*Delinquent Receivable*" means any Receivable (other than a Charge-Off or Defaulted Receivable) on which any amount is unpaid more than 60 days after the due date therefor.

*Section 8.* The following proviso is hereby added to the end of Section 5.1(m):

> ; *provided, however,* that any Originator and Seller may agree to an adjustment of the purchase price for any Receivable originated by such Originator and sold to Seller under the Purchase Agreement, without the consent of the Agent, provided that the purchase price paid for such Receivable by Seller shall be an amount not less than adequate consideration that represents fair value for such Receivable.

*Section 9.* The following sentence shall be inserted at the end of Section 9.11:

> The provisions of this Section 9.11 shall survive the termination of this Agreement.

*Section 10.* The following sentence shall be inserted at the end of Section 9:12:

The provisions of this Section 9.12 shall survive the termination of this Agreement.

*Section 11.* This Amendment shall become effective on the date the Agent has received (i) counterparts hereof executed by the Seller, Collection Agent, each Purchaser, Amsterdam and the Agent, (ii) the acknowledgment and consent in the form set forth below duly executed and delivered by the Parent and (iii) a $25,000 amendment fee payable to the Agent.

*Section 12.1.* This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Amendment.

*Section 12.2.* Except as specifically provided above, the Sale Agreement and the other Transaction Documents shall remain in full force and effect and are hereby ratified and confirmed in all respects. The execution, delivery, and effectiveness of this Amendment shall not operate as a waiver of any right, power, or remedy of any Agent or any Purchaser under the Sale Agreement or any of the other Transaction Documents, nor constitute a waiver or modification of any provision of any of the other Transaction Documents. All defined terms used herein and not defined herein shall have the same meaning herein as in the Sale Agreement. The Seller agrees to pay on demand all costs and expenses (including reasonable fees and expenses of counsel) of or incurred by the Agent and each Purchaser Agent in connection with the negotiation, preparation, execution and delivery of this Amendment.

*Section 12.3.* This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the law of the State of New York.



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IN WITNESS WHEREOF, the parties have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first above written.

ABN AMRO BANK N.V.,
as the Agent, as the Committed Purchaser

By: /s/ THOMAS J. CHIATE

Thomas J. Chiate
Title: *SVP*

By: /s/ THOMAS M. GRENCY

Thomas M. Grency
Title: *VP*

AMSTERDAM FUNDING CORPORATION

By: /s/ ANDREW L. STIDD

Andrew L. Stidd
Title: *President*

ALBANY INTERNATIONAL RECEIVABLES CORPORATION, as Seller

By: /s/ CHARLES J. SILVA, JR.

Charles J. Silva, Jr.
Title: *Vice President and Secretary*

ALBANY INTERNATIONAL CORP., as Initial Collection Agent

By: /s/ DAVID C. MICHAELS

David C. Michaels
Title: *Vice President, Treasury and Tax*



---

**GUARANTOR'S ACKNOWLEDGMENT AND CONSENT**

The undersigned, Albany International Corp., has heretofore executed and delivered the Limited Guaranty dated as of September 28, 2001 (the "*Guaranty*") and hereby consents to the Amendment to the Sale Agreement as set forth above and confirms that the Guaranty and all of the undersigned's obligations thereunder remain in full force and effect. The undersigned further agrees that the consent of the undersigned to any further amendments to the Sale Agreement shall not be required as a result of this consent having been obtained, except to the extent, if any, required by the Guaranty referred to above.

ALBANY INTERNATIONAL CORP.

By: /s/ FRANK R. SCHMELER

Frank R. Schmeler
Title: *Chief Executive Officer*



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**Exhibit 10(j)(ii)(a)**

**ALBANY INTERNATIONAL RECEIVABLES CORPORATION**

Albany International Corp.
Geschmay Corp.
Albany International Research Co.
Albany International Techniweave, Inc.
Albany International Canada Inc.
M & I Door Systems Ltd.

Re: Exhibit A to Purchase and Sale Agreement dated as of September 28, 2001 (the "Agreement")

Ladies and Gentlemen:

The undersigned, Albany International Receivables Corporation, as Buyer under the Agreement, hereby proposes to amend Exhibit A of the Agreement as follows:

1. The Historical Loss Factor, which is described as 0.6% of the Face Amount of receivables sold to Buyer, is amended to 0.1%.

2. The Payment Timing Adjustment shall be revised so that it is equal to the product of (i) the Face Amount of receivables purchased pursuant to the Purchase Agreement, multiplied by (ii) 0.40% of the Discount Rate applicable to such purchased receivables under the Receivables Sale Agreement (for calculation of the initial Payment Timing Adjustment applicable on September 28, 2001, the Discount Rate is deemed to be 2.7%), multiplied by (iii) the fraction the numerator of which is the average tenor, expressed in days, of each Originator's pool, and the denominator of which is 360.

These changes in pricing terms shall be effective March 1, 2002. Capitalized terms used but not defined above shall have the meanings ascribed to them in the Agreement.

Please indicate your acceptance of the foregoing by executing in the space provided below your name.

Very truly yours,

ALBANY INTERNATIONAL
RECEIVABLES CORPORATION

By: /s/ DAVID C. MICHAELS

David C. Michaels, President & Treasurer



---

ACCEPTED BY:

ALBANY INTERNATIONAL CORP.

By: /s/ JOHN C. TREANOR

Name: John C. Treanor
Title: Treasurer

GESCHMAY CORP.

By: /s/ CHARLES J. SILVA, JR.

Name: Charles J. Silva, Jr.
Title: Vice President and Secretary

ALBANY INTERNATIONAL RESEARCH CO.

By: /s/ CHARLES J. SILVA, JR.

Name: Charles J. Silva, Jr.
Title: Vice President

ALBANY INTERNATIONAL TECHNIWEAVE, INC.

By: /s/ CHARLES J. SILVA, JR.

Name: Charles J. Silva, Jr.

Title: Secretary

ALBANY INTERNATIONAL CANADA INC.

By: /s/ WILLIAM M. MCCARTHY

Name: William M. McCarthy
Title: President

M & I DOOR SYSTEMS LTD.

By: /s/ CHARLES J. SILVA, JR.

Name: Charles J. Silva, Jr.
Title: Vice President



**EXHIBIT A**

**See Attached**



**Flow of Funds; Determination of Purchase Price of Receivables**

Reference is made herein to (a) the Purchase and Sale Agreement (the "Purchase Agreement"), dated as of September 28, 2001, among Albany International Corp. ("Parent"), Albany International Receivables Corporation ("AIRC"), and certain other subsidiaries of Albany International Corp. (Parent, AIRC and such other subsidiaries, collectively, the "Originators"), relating, among other things, to the purchase by AIRC of accounts receivable from the Originators, and (b) the Receivables Sale Agreement (the "Receivables Sale Agreement"), also dated as of September 28, 2001, among AIRC, Parent as Collection Agent, ABN AMRO Bank N.V. as Agent, the Committed Purchasers described therein and Amsterdam Funding Corporation, relating, among other things, to the financing by the AIRC of certain receivables which it purchases from the Originators.

The undersigned agree that, in connection with the closing of the initial purchase of receivables pursuant to the Purchase Agreement, the following information is accurate:

| Originator | Face Amount of receivables sold to AIRC | Historical Loss Factor (0.6% of Face Amount of receivables sold to AIRC) | Payment Timing Adjustment[1] | Net Purchase Price (Face amount less Historical Loss Factor less Payment Timing Adjustment) paid by AIRC | Cash Portion of Net Purchase Price Paid by AIRC | Portion of Net Purchase Price evidenced by AIRC Promissory Note to indicated Originator |
|---|---|---|---|---|---|---|
| Albany International Corp. | $ 44,070,896 | $ 264,425 | $ 154,033 | $ 43,652,437 | $ 26,219,573 | $ 16,682,865[2] |
| Albany International Research Co. | $ 194,498 | $ 1,167 | $ 430 | $ 192,901 | $ 115,715 | $ 77,186 |
| Geshmay Corp. | $ 4,645,683 | $ 27,874 | $ 14,085 | $ 4,603,723 | $ 2,763,906 | $ 1,839,817 |
| Albany International Techniweave, Inc. | $ 1,645,187 | $ 9,871 | $ 7,684 | $ 1,627,631 | $ 978,789 | $ 648,843 |
| Albany International Canada, Inc. | $ 15,313,387 | $ 91,880 | $ 135,152 | $ 15,086,355 | $ 9,110,558 | $ 5,975,797 |
| M&I Door Systems, Ltd. | $ 657,285 | $ 3,944 | $ 4,686 | $ 648,656 | $ 391,046 | $ 257,610 |
| TOTALS: | $ 66,526,936 | $ 390,719 | $ 316,071 | $ 65,811,703 | $ 39,579,586[3] | $ 25,482,117 |

1. Payment Timing Adjustment equals the product of (i) the face amount of receivables purchased pursuant to the Purchase Agreement, multiplied by (ii) 0.25% plus the Discount Rate applicable to such purchased receivables under the Receivables Sale Agreement (for calculation of the initial Payment Timing Adjustment applicable on September 28, 2001, the Discount Rate is deemed to be 2.7%), multiplied by (iii) the fraction the numerator of which is the average tenor, expressed in days, of each originators' pool, less 13 days to adjust for the approximate number of days elapsed from the original date of sale to the date of the receivable sale, over 360.

2. Albany International Corp. has made a $750,000 contribution to the capital of Albany International Holdings Two, Inc., which has made a back-to-back $750,000 contribution to the capital of AIRC. This series of capital contributions has been effected by reducing the principal amount of the Promissory Note payable by AIRC to Albany International Corp. by $750,000.

3. This cash amount equals the amount of cash which AIRC received on the date hereof from Amsterdam Funding Corporation in respect of transactions closed under the Receivables Sale Agreement.

* * * * * *

The following transactions occurred on the date hereof:

a. The capital contributions referred to in note 1 above were made, through reduction of the principal amount of the Promissory Note payable to Albany International Corp.

b. The applicable cash portion of the Net Purchase Price was paid by AIRC to each Originator.

c. Each Originator (other than Albany International Corp.) paid the cash portion so received to Albany International Corp. as a dividend, return of capital, or repayment of intercompany indebtedness.

d. Albany International Corp. made a payment in reduction of its bank debt in an aggregate amount equal to the aggregate cash portion received by all Originators (i.e. the amount shown in the "TOTALS" row for the column entitled "Cash Portion of Net Purchase Price Paid by AIRC").

e. To effect the foregoing transactions, the Originators and AIRC hereby agree that AIRC will instruct Amsterdam to pay, pursuant to the Receivables Sale Agreement, an amount equal to such aggregate cash portion directly to Albany International Corp.'s bank lenders in accordance with the instructions of Albany International Corp.

The undersigned further agree that the purchase price for receivables purchased by AIRC from time to time pursuant to the Purchase Agreement will equal (i) the face amount of such receivables, less (ii) the Historical Loss Factor (computed as indicated above), less (iii) the Payment Timing Adjustment (computed as indicated above).

[Signature Page Follows]



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IN WITNESS WHEREOF, the undersigned have executed this Flow of Funds as of this 28th day of September, 2001.

ALBANY INTERNATIONAL CORP.

By: ______________________________

Name: William M. McCarthy
Title: Group Vice President
Secretary

ALBANY INTERNATIONAL RESEARCH CO.

By: ______________________________

Name: Charles J. Silva, Jr.
Title: Vice President & Assistant

GESHMAY CORP.

By: ______________________________

Name: John C. Treanor
Title: Treasurer & Assistant Secretary

ALBANY INTERNATIONAL TECHNIWEAVE, INC.

By: ______________________________

Name: John C. Treanor
Title: Treasurer & Assistant Secretary

ALBANY INTERNATIONAL CANADA, INC.

By: ______________________________

Name: William M. McCarthy
Title: President

M&I DOOR SYSTEMS, LTD.

By: ______________________________

Name: Charles J. Silva, Jr.
Title: Vice President & Secretary

ALBANY INTERNATIONAL RECEIVABLES CORPORATION

By: ______________________________

Name: David C. Michaels
Title: President

ALBANY INTERNATIONAL HOLDINGS TWO, INC.

By: ______________________________

Name: Charles J. Silva, Jr.
Title: Vice President & Secretary



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ALBANY INTERNATIONAL RECEIVABLES CORPORATION
EXHIBIT A See Attached

Flow of Funds; Determination of Purchase Price of Receivables

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**Exhibit 13**

**2002 ANNUAL REPORT**

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## FINANCIAL SECTION

**Contents**





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## REPORT OF MANAGEMENT

Management of Albany International Corp. is responsible for the integrity and objectivity of the accompanying financial statements and related information. These statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at reasonable cost, that assets are safeguarded and that transactions and events are recorded properly. A program of internal audits and management reviews provides a monitoring process that allows the Company to be reasonably sure the system of internal accounting controls operates effectively.

The financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants. Their role is to express an opinion as to whether management's financial statements present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, the Company's financial condition and operating results. Their opinion is based on procedures which include reviewing and evaluating certain aspects of selected systems, procedures and internal accounting controls, and conducting such tests as they deem necessary.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent accountants, management and internal audit to review their work and confirm that they are properly discharging their responsibilities. In addition, the independent accountants are free to meet with the Audit Committee without the presence of management to discuss results of their work and observations on the adequacy of internal financial controls, the quality of financial reporting and other relevant matters.

Frank R. Schmeler
*Chairman of the Board and Chief Executive Officer*

Michael C. Nahl
*Senior Vice President and Chief Financial Officer*



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## REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND
SHAREHOLDERS OF ALBANY INTERNATIONAL CORP.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings, of comprehensive income and of cash flows present fairly, in all material respects, the financial position of Albany International Corp. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the consolidated financial statements, on January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

As discussed in Note 6 to the consolidated financial statements, on January 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities.*

PricewaterhouseCoopers LLP

Albany, New York
January 28, 2003



**ALBANY INTERNATIONAL CORP.**

**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2002** | **2001** | **2000** |
| | *(in thousands, except per share amounts)* | | |
| **Statements of Income** | | | |
| Net sales | $ **816,047** | $ 836,696 | $ 852,934 |
| Cost of goods sold | **475,765** | 497,301 | 515,649 |
| Gross profit | **340,282** | 339,395 | 337,285 |
| Selling and general expenses | **188,347** | 186,441 | 184,123 |
| Technical and research expenses | **49,847** | 46,950 | 49,528 |
| Restructuring, net | **—** | 21,892 | — |
| Operating income | **102,088** | 84,112 | 103,634 |
| Interest income | **(3,084)** | (1,977) | (1,336) |
| Interest expense | **20,620** | 30,893 | 43,158 |
| Other expense/(income), net | **5,003** | 2,833 | (755) |
| Income before income taxes | **79,549** | 52,363 | 62,567 |
| Income taxes | **25,041** | 19,374 | 25,027 |
| Income before associated companies | **54,508** | 32,989 | 37,540 |
| Equity in earnings of associated companies | **270** | 342 | 545 |
| Income before cumulative effect of changes in accounting principles, net of taxes | **54,778** | 33,331 | 38,085 |
| Cumulative effect of changes in accounting principles, net of taxes | **(5,837)** | (1,129) | — |
| Net income | **48,941** | 32,202 | 38,085 |
| **Retained Earnings** | | | |
| Retained earnings, beginning of period | **345,273** | 314,639 | 276,554 |
| Less dividends | **6,605** | 1,568 | — |
| Retained earnings, end of period | $ **387,609** | $ 345,273 | $ 314,639 |

| | | | |
|---|---|---|---|
| Earnings per share—basic: | | | |
| Income before cumulative effect of changes in accounting principles | **$ 1.70** | $ 1.07 | $ 1.24 |
| Cumulative effect of changes in accounting principles | **(0.18)** | (0.03) | — |
| Net income | **$ 1.52** | $ 1.04 | $ 1.24 |
| Earnings per share—diluted: | | | |
| Income before cumulative effect of changes in accounting principles | **$ 1.68** | $ 1.06 | $ 1.24 |
| Cumulative effect of changes in accounting principles | **(0.18)** | (0.03) | — |
| Net income | **$ 1.50** | $ 1.03 | $ 1.24 |
| Dividends per share | **$ 0.205** | $ 0.05 | $ — |

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



## ALBANY INTERNATIONAL CORP.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2002** | **2001** | **2000** |
| | | *(in thousands)* | |
| Net income | **$ 48,941** | $ 32,202 | $ 38,085 |
| Other comprehensive income/(loss), before tax: | | | |
| Foreign currency translation adjustments | **47,550** | (29,259) | (45,090) |
| Pension liability adjustment | **(34,815)** | (20,043) | 1,680 |
| Derivative valuation adjustments: | | | |
| Transition adjustment as of January 1, 2001 | **—** | (4,888) | — |
| Decline in fair value | **(8,484)** | (8,204) | — |
| Income taxes related to items of other comprehensive income/(loss) | **16,020** | 13,083 | 276 |
| Comprehensive income/(loss) | **$ 69,212** | $ (17,109) | $ (5,049) |

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



## ALBANY INTERNATIONAL CORP.

## CONSOLIDATED BALANCE SHEETS

| | At December 31, | |
|---|---|---|
| | **2002** | **2001** |
| | *(in thousands, except share data)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 18,799** | $ 6,153 |
| Accounts receivable, less allowance for doubtful accounts ($11,790 in 2002; $10,488 in 2001) | **135,339** | 143,156 |
| Note receivable | **20,075** | 21,103 |
| Inventories | | |
| Finished goods | **90,766** | 97,789 |
| Work in process | **44,763** | 46,638 |
| Raw material and supplies | **28,534** | 29,649 |
| Prepaid expenses | **7,173** | 5,288 |
| Deferred taxes | **43,439** | 16,170 |
| Total current assets | **388,888** | 365,946 |

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment, at cost, net | | **346,073** | | 339,102 |
| Investments in associated companies | | **4,849** | | 4,374 |
| Intangibles | | **16,274** | | 15,395 |
| Goodwill | | **137,146** | | 127,944 |
| Deferred taxes | | **65,574** | | 48,539 |
| Other assets | | **52,717** | | 30,629 |
| Total assets | **$** | **1,011,521** | $ | 931,929 |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Notes and loans payable | **$** | **12,224** | $ | 28,786 |
| Accounts payable | | **39,624** | | 42,555 |
| Accrued liabilities | | **101,510** | | 87,924 |
| Current maturities of long-term debt | | **1,914** | | 4,837 |
| Income taxes payable and deferred | | **31,222** | | 21,970 |
| Total current liabilities | | **186,494** | | 186,072 |
| Long-term debt | | **221,703** | | 248,146 |
| Other noncurrent liabilities | | **168,765** | | 156,055 |
| Deferred taxes and other credits | | **33,961** | | 25,012 |
| Total liabilities | | **610,923** | | 615,285 |
| **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 28,983,057 in 2002 and 27,711,738 in 2001 | | **29** | | 28 |
| Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 5,607,576 in 2002 and 5,867,476 in 2001 | | **6** | | 6 |
| Additional paid-in capital | | **255,484** | | 234,213 |
| Retained earnings | | **387,609** | | 345,273 |
| Accumulated items of other comprehensive income: | | | | |
| Translation adjustments | | **(147,400)** | | (194,950) |
| Derivative valuation adjustment | | **(13,592)** | | (8,248) |
| Pension liability adjustment | | **(35,962)** | | (14,027) |
| | | **446,174** | | 362,295 |
| Less treasury stock, at cost | | **45,576** | | 45,651 |
| Total shareholders' equity | | **400,598** | | 316,644 |
| Total liabilities and shareholders' equity | **$** | **1,011,521** | $ | 931,929 |

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



**ALBANY INTERNATIONAL CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2002** | **2001** | **2000** |
| | | *(in thousands)* | |
| **Operating Activities** | | | |
| Net income | **$ 48,941** | $ 32,202 | $ 38,085 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in earnings of associated companies | **(270)** | (342) | (545) |
| Depreciation and amortization | **52,863** | 57,546 | 62,216 |
| Provision for deferred income taxes, other credits and long-term liabilities | **(21,094)** | (18,634) | 6,108 |
| Cumulative effect of changes in accounting principles | **5,837** | 1,129 | — |
| Increase in cash surrender value of life insurance, net of premiums paid | **(2,617)** | (1,434) | (728) |
| Unrealized currency transaction gains | **(1,933)** | (1,040) | (3,172) |
| (Gains)/losses on disposition of assets | **(2,688)** | (1,323) | 2,152 |
| Shares contributed to ESOP | **4,635** | 4,835 | 4,489 |
| Tax benefit of options exercised | **1,672** | 577 | — |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | **14,737** | 30,066 | 1,654 |
| Sale of accounts receivable | **7,237** | 63,878 | — |

| | | | |
|---|---|---|---|
| Note receivable | **1,028** | (21,103) | — |
| Inventories | **17,687** | 42,797 | 18,809 |
| Prepaid expenses | **(1,885)** | 2,245 | (2) |
| Accounts payable | **(10,653)** | (4,449) | 4,357 |
| Accrued liabilities | **(5,671)** | 11,967 | (8,313) |
| Income taxes payable | **8,346** | 10,848 | 3,280 |
| Other, net | **2,653** | 4,513 | 2,192 |
| Net cash provided by operating activities | **118,825** | 214,278 | 130,582 |
| **Investing Activities** | | | |
| Purchases of property, plant and equipment | **(31,678)** | (25,831) | (36,866) |
| Purchased software | **(1,465)** | (2,407) | (978) |
| Proceeds from sale of assets | **6,373** | 6,828 | 8,938 |
| Acquisitions, net of cash acquired | **—** | — | (1,037) |
| (Repayments of)/loans from life insurance policies | **(25,934)** | 10,602 | — |
| Premiums paid for life insurance | **(1,159)** | (1,161) | (1,161) |
| Net cash used in investing activities | **(53,863)** | (11,969) | (31,104) |
| **Financing Activities** | | | |
| Proceeds from borrowings | **60,208** | 67,400 | 18,921 |
| Principal payments on debt | **(106,446)** | (265,158) | (102,048) |
| Proceeds from options exercised | **14,950** | 4,907 | — |
| Dividends paid | **(6,391)** | — | — |
| Net cash used in financing activities | **(37,679)** | (192,851) | (83,127) |
| Effect of exchange rate changes on cash flows | **(14,637)** | (8,664) | (18,017) |
| Increase/(decrease) in cash and cash equivalents | **12,646** | 794 | (1,666) |
| Cash and cash equivalents at beginning of year | **6,153** | 5,359 | 7,025 |
| Cash and cash equivalents at end of year | **$ 18,799** | $ 6,153 | $ 5,359 |

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

**Basis of Consolidation**

The consolidated financial statements include the accounts of Albany International Corp. and its subsidiaries (the "Company") after elimination of intercompany transactions. The Company has one subsidiary that is a qualified special purpose entity that is not consolidated in accordance with Financial Accounting Standard (FAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" (see Note 6). The Company has 50% interests in an entity in South Africa, an entity in England and an entity in Russia. The consolidated financial statements include the Company's original investment in these entities, plus its share of undistributed earnings or losses, in the account "Investments in associated companies".

**Revenue Recognition**

The Company records sales when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed and collectibility is reasonably assured. The Company limits the concentration of credit risk in receivables by closely monitoring credit and collection policies. The allowance for doubtful accounts is adequate to absorb estimated losses.

The Company records the costs of freight associated with the shipment of goods as a reduction to net sales. These freight costs were $16,452,000 in 2002, $16,797,000 in 2001, and $17,431,000 in 2000.

**Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Translation of Financial Statements**

Assets and liabilities of non-U.S. operations are translated at year-end rates of exchange, and the income statements are translated at the average rates of exchange for the year. Gains or losses resulting from translating non-U.S. currency financial statements are recorded in "Other comprehensive income" and accumulated in shareholders' equity in the caption "Translation adjustments".

Gains or losses resulting from currency transactions denominated in a currency other than the entity's local currency, forward exchange contracts which are not designated as hedges for accounting purposes and futures contracts are generally included in income in "Other expense/(income), net." Changes in value of forward exchange contracts which are effective as hedges for accounting purposes are generally recorded, net of tax, in "Other comprehensive income" and accumulated in shareholders' equity in the caption "Translation adjustments".

**Research Expense**

Research expense consists primarily of compensation and supplies and is charged to operations as incurred. Research expense was $24,918,000 in 2002, $23,224,000 in 2001, and $23,287,000 in 2000.



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**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less.

**Inventories**

Inventories are stated at the lower of cost or market and are valued at average cost.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets for financial reporting purposes; accelerated methods are used for income tax purposes. Useful lives for buildings, and machinery and equipment are 25 to 40 years, and 3 to 10 years, respectively. Significant additions or improvements extending assets' useful lives are capitalized; normal maintenance and repair costs are expensed as incurred. The cost of fully depreciated assets remaining in use are included in the respective asset and accumulated depreciation accounts. When items are sold or retired, related gains or losses are included in net income.

Effective January 1, 2002, the Company adopted FAS No. 144, "Accounting for the Impairment of Long-Lived Assets". In accordance with FAS No. 144, the Company reviews the carrying value of property, plant and equipment and other long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. Adoption of FAS No. 144 did not have a material effect on the consolidated financial statements.

**Goodwill, Intangibles and Other Assets**

The excess purchase price over fair values assigned to net assets acquired (goodwill) had been amortized on a straight-line basis over 20 to 40 years. Beginning in 2002, the Company adopted the provisions of FAS No. 142 "Goodwill and Other Intangible Assets" which eliminated the prior practice of goodwill amortization and instead adopted an impairment-only approach (see Note 4). Goodwill and other long-lived assets are reviewed 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 amount may not be recoverable. In accordance with FAS No. 142, the Company performs a test for goodwill impairment at least annually during the second quarter of the year.

Patents, trade names and technology, at cost, are amortized on a straight-line basis over 8 to 12 years. Computer software purchased for internal use, at cost, is amortized on a straight-line basis over 5 years and is included in "Other assets".

**Stock Options**

As described in Note 16, the Company has Stock Option plans for key employees. The Company accounts for non-cash stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees", and its related interpretations, which state that no compensation expense is recognized for stock options that are granted with an exercise price equal to or above the estimated fair value of the Company's common stock on the grant date. The Company has adopted the disclosure requirements of FAS No. 123, "Accounting for Stock-Based Compensation" and FAS No. 148, "Accounting for Stock-Based Compensation—an Amendment of FAS No. 123" which require proforma disclosures as if compensation expense was determined based on the fair value of the options granted at the date of the grant.



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**Derivatives**

Gains or losses on forward exchange contracts and other derivative instruments that function as an economic hedge against currency fluctuation effects on future revenue streams are recorded in "Other expense/(income), net". All open positions on forward exchange contracts are valued at fair value using the estimated forward rate of a matching contract.

Gains or losses on forward exchange contracts and other derivative instruments that are designated as a hedge of a foreign operation's net assets and long-term intercompany loans not intended to be repaid in the foreseeable future are recorded in "Translation adjustments", a separate component of shareholders' equity. These contracts reduce the risk of currency exposure on foreign currency net assets and do not exceed the foreign currency amount being hedged. To the extent the above criteria are not met, or the related assets are sold, extinguished, or terminated, activity associated with such hedges is recorded in "Other expense/(income), net".

**Income Taxes**

The Company accounts for income taxes in accordance with the asset and liability method. Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable for future years to differences between financial statement and tax bases of existing assets and liabilities. The effect of tax rate changes on deferred taxes is recognized in the income tax provision in the period that includes the enactment date.

It is the Company's policy to accrue appropriate U.S. and non-U.S. income taxes on earnings of subsidiary companies that are intended to be remitted to the parent company in the near future.

The provision for taxes is reduced by investment and other tax credits in the years such credits become available.

**Pension and Postretirement Benefit Plans**

Substantially all employees are covered under either Company or government-sponsored pension plans. The defined benefit pension plan in the United States was closed to new participants as of October 1999. The plans are generally trusteed or insured and accrued amounts are funded as required in accordance with governing laws and regulations. The annual expense and liability recognized for defined benefit pension plans and postretirement benefit plans are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets, which are updated on an annual basis. The Company considers current market conditions in making these assumptions.

**Reclassifications**

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation.

**Earnings Per Share**

Net income per share is computed using the weighted average number of shares of Class A Common Stock and Class B Common Stock outstanding during each year. Diluted net income per share includes the effect of all potentially dilutive securities (stock options). Dilutive common shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of options are used to repurchase common stock at market value.



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**Recent Accounting Pronouncements**

In August 2001, FAS No. 143, "Accounting for Asset Retirement Obligations" was issued. FAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred commencing for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of FAS No. 143 to have a material effect on its financial statements.

In April 2002, the Financial Accounting Standards Board (FASB) issued FAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002". This Standard addresses a number of items related to leases and other matters. The Company is required to adopt this Standard as of January 1, 2003. The Company does not expect the adoption of FAS No. 145 to have a material effect on its financial statements.

In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Standard provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. This statement is effective for exit or disposal activities initiated on or after January 1, 2003. Adoption of this standard is expected to affect the timing of recognizing costs associated with future exit and disposal activities.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock Based Compensation—an amendment of FAS 123". This Standard provides transitional guidance for companies that elect to adopt the provisions of FAS No. 123, and also specifies certain disclosure requirements for companies that continue to use APB 25 to account for stock options. In accordance with FAS No. 148, the disclosure requirements have been adopted and are included in this annual report.

In December 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees". This interpretation requires that certain guarantees issued or modified after December 31, 2002 be valued and recorded as liabilities while disclosure requirements are effective immediately and have been adopted. The Company does not expect the adoption of FIN 45 to have a material effect on its financial statements.

**2. EARNINGS PER SHARE**

The amounts used in computing earnings per share and the weighted average number of shares of potentially dilutive securities are as follows:

| *(in thousands)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Income available to common shareholders:** | | | |
| Income available to common shareholders | **$ 48,941** | $ 32,202 | $ 38,085 |
| **Weighted average number of shares:** | | | |
| Weighted average number of shares used in net income per share calculations | **32,126** | 31,089 | 30,632 |
| Effect of dilutive securities: stock options | **509** | 259 | 4 |
| Weighted average number of shares used in diluted net income per share calculations | **32,635** | 31,348 | 30,636 |

An option to purchase 250,000 shares of common stock at $25.56 per share was outstanding at December 31, 2002, but was not included in the computation of diluted net income per share because the option's exercise price was greater than the average market price of the common shares which was $23.41 for 2002. Total shares issued and outstanding, net of treasury shares, was 32,396,840 as of December 31, 2002 and 31,382,028 as of December 31, 2001.



## 3. PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment are summarized below:

| *(in thousands)* | 2002 | 2001 |
|---|---|---|
| Land | $ 29,241 | $ 26,620 |
| Buildings | 175,353 | 161,295 |
| Machinery and equipment | 580,338 | 527,417 |
| | 784,932 | 715,332 |
| Accumulated depreciation | 438,859 | 376,230 |
| | $ 346,073 | $ 339,102 |

Expenditures for maintenance and repairs are charged to income as incurred and amounted to $18,522,000 in 2002, $18,643,000 in 2001, and $20,300,000 in 2000.

Capital expenditures were $31,678,000 in 2002, $25,831,000 in 2001, and $36,866,000 in 2000. At the end of 2002, the Company was committed to $25,060,000 of future expenditures for new equipment and facilities.

Construction in progress was $398,000 in 2002, and none in 2001. Depreciation expense was $47,478,000 in 2002, $45,792,000 in 2001, and $49,937,000 in 2000.

## 4. GOODWILL AND INTANGIBLES

Effective January 1, 2002, the Company adopted FAS No. 142, "Goodwill and Other Intangible Assets". FAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. An initial transition impairment test of goodwill was required as of January 1, 2002. The initial transition impairment test resulted in a non-cash charge of $5,837,000 to write-off the carrying value of goodwill in the Applied Technologies business segment. This charge has been reflected as a cumulative effect of a change in accounting principle in the accompanying consolidated statements of income and retained earnings. There was no tax effect from this charge. As required by FAS No. 142, the Company performed an additional test for impairment during the second quarter of 2002 and determined there was no additional impairment.

For purposes of applying FAS No. 142, the Company has determined that the reporting units are consistent with the operating segments identified in Note 12, Operating Segment and Geographic Data. Fair values of the reporting units and the related implied fair values of their respective goodwill were established using public company analysis and discounted cash flows.

The Company is continuing to amortize certain patents and trade names that have finite lives.



The changes in intangible assets and goodwill from January 1, 2002 to December 31, 2002 were as follows:

| *(in thousands)* | Balance at January 1, 2002 | Transition Impairment | Amortization | Currency Translation/other | Balance at December 31, 2002 |
|---|---|---|---|---|---|
| Amortizable intangible assets: | | | | | |
| Patents | **$ 3,091** | $ — | $ 333 | $ 483 | $ 3,241 |
| Trade Names | **3,398** | — | 519 | 687 | 3,566 |
| Total | **6,489** | — | 852 | 1,170 | 6,807 |
| Deferred Pension Costs | **8,906** | — | — | 561 | 9,467 |
| Total Intangibles | **$ 15,395** | $ — | $ 852 | $ 1,731 | $ 16,274 |
| Unamortized intangible assets: | | | | | |
| Goodwill | **$ 127,944** | $ (5,837) | $ — | $ 15,039 | $ 137,146 |

The change in goodwill resulted primarily from the transitional impairment test and the effect of currency translation rates.

As of December 31, 2002, the remaining goodwill included $113,048,000 in the Engineered Fabrics segment and $24,098,000 in the Albany Door Systems segment.

Estimated amortization expense for the years ending December 31, 2003 through 2007 is as follows:

| *(in thousands)* | Annual Amortization |
|---|---|
| 2003 | **$ 850** |
| 2004 | **850** |
| 2005 | **850** |
| 2006 | **850** |
| 2007 | **850** |

The following table shows the effect on net income had FAS No. 142 been adopted in the prior periods.

| *(in thousands, except per share amounts)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net Income, as reported | **$ 48,941** | $ 32,202 | $ 38,085 |
| Add back amortization of goodwill | **—** | 6,800 | 7,000 |
| Adjusted net income | **$ 48,941** | $ 39,002 | $ 45,085 |
| Earnings per share-basic: | | | |
| Net income, as reported | **$ 1.52** | $ 1.04 | $ 1.24 |
| Add back amortization of goodwill | **—** | 0.21 | 0.23 |
| Adjusted net income | **$ 1.52** | $ 1.25 | $ 1.47 |
| Earnings per share-diluted: | | | |
| Net income, as reported | **$ 1.50** | $ 1.03 | $ 1.24 |
| Add back amortization of goodwill | **—** | 0.21 | 0.23 |
| Adjusted net income | **$ 1.50** | $ 1.24 | $ 1.47 |



## 5. ACCRUED LIABILITIES

Accrued liabilities consists of:

| *(in thousands)* | 2002 | 2001 |
|---|---|---|
| Salaries and wages | **$ 23,132** | $ 23,584 |
| Employee benefits | **26,666** | 16,207 |
| Pension liability—current portion (see Note 13) | **12,000** | — |
| Interest rate swaps—current portion (see Note 6) | **9,977** | — |
| Returns and allowances | **5,471** | 4,990 |
| Interest | **1,378** | 2,222 |
| Restructuring costs—current portion (see Note 17) | **5,472** | 24,279 |
| Other | **17,414** | 16,642 |
| | **$ 101,510** | $ 87,924 |



## 6. FINANCIAL INSTRUMENTS

Notes and loans payable at December 31, 2002 and 2001 were short-term debt instruments with banks, denominated in local currencies with a weighted average interest rate of 3.14% in 2002 and 7.14% in 2001.

Long-term debt at December 31, 2002 and 2001, principally to banks and bondholders, exclusive of amounts due within one year, consists of:

| *(in thousands)* | 2002 | 2001 |
|---|---|---|
| August 1999 credit agreement that expires in August 2004 with borrowings outstanding at an average interest rate of 2.19% in 2002 and 5.44% in 2001 | **$ 200,000** | $ 229,000 |
| Various notes and mortgages relative to operations principally outside the United States, at an average interest rate of 6.23% in 2002 and 5.68% in 2001, due in varying amounts through 2008 | **9,418** | 6,468 |
| Industrial revenue financings at an average interest rate of 6.32% in 2002 and 6.09% in 2001, due in varying amounts through 2009 | **12,285** | 12,678 |

| | | | |
|---|---|---|---|
| **$** | **221,703** | $ | 248,146 |

The weighted average interest rate for all debt was 3.05% in 2002 and 5.56% in 2001.

Principal payments due on long-term debt for the next five years are: 2003, $1,914,000; 2004, $206,720,000; 2005, $1,291,000; 2006 $1,134,000; 2007, $11,178,000 and thereafter $1,380,000. The Company expects to refinance its borrowings under the August 1999 credit agreement before the revolving credit agreement expires in August 2004.

Interest paid was $21,377,000 in 2002, $32,169,000 in 2001 and $40,647,000 in 2000.

In August 1999, the Company entered into a $750 million credit agreement with its banks. This facility included a $250 million term loan that was fully paid during 2001. The remaining $500 million is a revolving loan with the banks' commitment to lend terminating in August 2004. This credit agreement includes commitment fees and variable interest rates based on various loan pricing methods. The interest rate margin is determined by the Company's leverage ratio. The credit agreement contains various covenants that include limits on the disposition of assets, cash dividends, and the Company's ability to purchase its common stock. Additionally, the credit agreement specifies a minimum interest coverage of 3.0, a maximum leverage ratio of 3.0 and a limitation on guarantees to non-U.S. subsidiaries. The Company cannot purchase its common stock or pay cash dividends unless, and only to the extent that, the leverage ratio, as defined in the credit agreement, is less than 2.75. The December 31, 2002 leverage ratio as calculated under the Company's principal credit agreement was below 1.5. Borrowings are collateralized by a pledge of shares of, and intercompany loans to, certain subsidiaries of the Company. In the event of nonperformance by any bank on its commitment to extend credit, the Company could not borrow the full amount under the credit agreement. However, the Company does not anticipate nonperformance by any bank.

Under the August 1999 credit agreement, the Company could have borrowed an additional $240,000,000 at December 31, 2002. The Company's ability to borrow additional amounts under the credit agreement is conditional upon the absence of any material adverse change.

During 2000, the Company entered into swap agreements that hedge a portion of its interest rate exposure. Under the terms of the agreements, each party makes payments on a notional amount of $100,000,000. The Company pays a blended fixed rate of 7.17% and the counterparties pay a floating rate based on LIBOR. These swap agreements expire on June 6, 2005. As of December 31, 2002, the



blended rate receivable from the counterparties was 1.8%. On January 2, 2001, the Company entered into four additional swap agreements which fixed interest rates on an additional notional amount of $100,000,000. The blended fixed rate payable by the Company under these agreements is 5.65%. The counterparties pay a floating rate, based on LIBOR which, at December 31, 2002 was 1.8%. These agreements expire on August 11, 2005. The total cost of the swap agreements of $9,251,000 in 2002, $3,423,000 in 2001, and $167,000 in 2000 was recorded as "Interest expense". With the exception of the portion of debt which has been hedged, the estimated fair value of the Company's long-term debt excluding current maturities is considered to be the carrying value on the basis that the significant components are variable rate debt.

At December 31, 2002, the Company had open forward exchange contracts with a total unrealized gain of $346,000. These financial instruments were held for purposes other than trading. For all positions there is risk from the possible inability of the counterparties (major financial institutions) to meet the terms of the contracts and the risk of unfavorable changes in interest and currency rates which may reduce the benefit of the contracts. However, for most closed forward exchange contracts, both the purchase and sale sides of the Company's exposures were with the same financial institution. The Company seeks to control risk by evaluating the credit worthiness of counterparties and by monitoring the currency exchange and interest rate markets, hedging risks in compliance with internal guidelines and reviewing all principal economic hedging contracts with designated directors of the Company.

On January 1, 2001, the Company adopted the provisions of FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Standard requires that all derivative instruments are recognized on the balance sheet at their fair value and changes in fair value are recognized immediately in earnings, unless the derivatives qualify as hedges in accordance with the Standard. The change in fair value for those derivatives that qualify as hedges are recorded in shareholders' equity in the caption "Derivative valuation adjustment". The Company's interest rate swaps qualify as cash flow hedges as defined in the Standard and, accordingly, changes in the fair value are recognized in "Other noncurrent liabilities" and "Other comprehensive income". Subsequently, amounts will be reclassified to "Interest expense" in accordance with the Standard. On the date of adoption, the Company recognized an initial transition adjustment of $4,888,000. The fair value of the interest rate swaps declined an additional $8,484,000 in 2002 and $8,204,000 in 2001. As of December 31, 2002, accrued liabilities included $9,977,000 for the estimated 2003 cash payments under the swap agreements, with the remaining liability included in other noncurrent liabilities. The Company has a lease for manufacturing facilities with an embedded derivative that must be recognized in earnings in accordance with this Standard. The cumulative after-tax effect of this change in accounting principle in 2001 was expense of $1,129,000. Included in other expense/(income), net, is income of $357,000 in 2002 and $1,482,000 in 2001 related to changes in fair value of this derivative.

During 2001, the Company entered into a trade accounts receivable securitization program whereby it sells designated North American accounts receivable, with no recourse. The accounts receivable are sold on an ongoing basis to a subsidiary of the Company which is a qualified special purpose entity and, in accordance with FAS No. 140, is not consolidated in the Company's financial statements. The Company receives fees for collecting accounts receivable and for performing certain other administrative functions. The amount of accounts receivable sold is subject to change based upon certain criteria and was approximately $71,115,000 as of December 31, 2002. In addition to $48,917,000 of cash received from the sale of accounts receivable, the Company has a note receivable in the amount of $20,075,000 as of December 31, 2002. As of December 31, 2001, the Company had sold accounts receivable of $63,878,000, had received cash of $40,916,000 and a note receivable of $21,103,000. The note is subject to monthly fluctuation based on the amount of receivables sold and bears interest at variable rates. As of December 31, 2002, the interest rate was 2.41%; interest income was $578,000 in 2002 and $193,000 in 2001. The estimated fair value of the note receivable is considered to be the carrying value on the basis that the note carries a variable interest rate and the proceeds from the sale have been reduced by a discount factor. Included in other expense/(income), net, are costs of $2,053,000 in 2002 and $1,794,000 in 2001 representing initial transaction costs and the discounts applied in the sale of accounts receivable. The discount factor is based on timing of cash receipts, interest rates and anticipated credit losses.

The unconsolidated subsidiary receives cash from an unrelated third party in exchange for an undivided ownership interest in the accounts receivable. As of December 31, 2002, the unconsolidated subsidiary had assets of $20,882,000 consisting primarily of the $71,115,000 of accounts receivables sold to it by the Company, net of the $48,917,000 ownership interest sold to the unrelated third party, and an allowance for doubtful accounts. The December 31, 2002 liabilities of the unconsolidated subsidiary included a note payable of $20,075,000 to the Company.

**7. COMMITMENTS AND CONTINGENCIES**

Principal leases are for machinery and equipment, vehicles and real property. Certain leases contain renewal and purchase option provisions at fair market values. There were no significant capital leases. Total rental expense amounted to $19,962,000, $22,198,000, and $22,671,000 for 2002, 2001, and 2000, respectively.

Future rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2002 are: 2003, $15,174,000; 2004, $12,361,000; 2005, $10,329,000; 2006, $6,824,000; 2007, $5,280,000 and thereafter, $4,662,000.

The Company has guaranteed a letter of credit to a bank that loaned money to a joint venture partner in South Africa. The bank can draw upon the letter of credit if the joint venture partner defaults on the loan. The letter of credit is denominated in South African rand and was approximately $3,200,000 as of December 31, 2002.

Albany International Corp. ("Albany") and many other companies are defendants 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. Albany was defending against 21,688 such claims as of February 28, 2003. This compares with 22,593 such claims as of December 31, 2002, 17,922 claims as of October 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 and related companies. Albany anticipates that additional claims will be filed against it and the 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 over 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. (Production of asbestos-containing paper machine clothing products was limited to certain 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.) In the vast majority of these suits, claimant work histories have not been provided. In cases in which work histories have been provided, approximately one-third of the claimants have alleged time spent in a paper mill.

Approximately 18,700 of the claims pending against Albany are filed in various counties in Mississippi. The Company expects that only a portion of these claimants will be able to demonstrate time spent in a paper mill during a period in which Albany's asbestos-containing products were in use. Based on past experience, communications from certain plaintiffs' counsel and the advice of the Company's Mississippi counsel, the Company expects the percentage of claimants with paper mill exposure in the Mississippi proceedings to be considerably lower than the total number of claims asserted.



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.

While 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 under a standard reservation of rights. As of February 28, 2003, the Company had resolved, by means of settlement or dismissal, 4,348 claims, and had reached tentative agreement to resolve an additional 4,563 claims reported above as pending. The total cost of resolving all 8,911 such claims was $4,846,000. Of this amount, $4,811,000, or 99%, was paid by the Company's insurance carrier. The Company has more than $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., is also a separate defendant in most of these cases. Brandon was defending against 12,632 claims as of February 28, 2003. This compares with 11,802 such claims as of December 31, 2002, 10,347 claims as of October 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 Company acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999.

Brandon is a wholly-owned subsidiary of Geschmay Corp. Geschmay Corp. is a wholly-owned subsidiary of the Company, acquired in 1999. 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, among other things, had sold 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 28, 2003, Brandon has resolved, by means of settlement or dismissal, 2,881 claims for a total of $152,499. Brandon's insurance carriers have 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% is being sought from an insurance company that denies that it issued a policy. Brandon's internal records demonstrate otherwise, and Brandon has filed suit against this company as well as its other carriers. Based on advice of counsel, Brandon is confident that it will prevail in establishing 100% indemnification and defense cost coverage.



**Mount Vernon**

In some of these 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.

The Company believes that all asbestos-related claims against it are without merit. Based on its understanding of the insurance policies available, how settlement amounts have been allocated to various policies, its recent 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 does not believe, 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. However, 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.

## 8. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities consists of:

| *(in thousands)* | **2002** | **2001** |
|---|---|---|
| Defined benefit pension plans (see Note 13) | **$ 75,190** | $ 42,958 |
| Postretirement benefits other than pensions (see Note 14) | **57,206** | 61,681 |
| Deferred compensation (see Note 16) | **12,364** | 29,003 |
| Interest rate swaps (see Note 6) | **11,599** | 13,092 |
| Other | **12,406** | 9,321 |
| | **$ 168,765** | $ 156,055 |

## 9. SHAREHOLDERS' EQUITY

The Company has two classes of Common Stock, Class A Common Stock and Class B Common Stock, each with a par value of $.001, and equal liquidation rights. Each share of the Company's Class A Common Stock is entitled to one vote on all matters submitted to shareholders, and each share of Class B Common Stock is entitled to ten votes. Class A and Class B Common Stock will receive



equal dividends as the Board of Directors may determine from time to time. The Class B Common Stock is convertible into an equal number of shares of Class A Common Stock at any time. At December 31, 2002, 9,885,456 shares of Class A Common Stock were reserved for the conversion of Class B Common Stock and the exercise of stock options.

In January 1998, the Board authorized the purchase of 3,000,000 shares of Class A Common Stock, in the open market or otherwise, at such prices as management may from time to time consider to be advantageous to the Company's shareholders. Since January 1998, the Company has purchased 1,616,900 shares of its Class A Common Stock pursuant to this authorization and of the shares purchased, none were purchased during 2002, 2001, or 2000.

In November 2001, and February, May and August 2002, the Board declared cash dividends of $.05 per share. In November 2002, the Board declared a dividend of $.055 per share, payable in January 2003. Dividends payable were $1,781,000 and $1,568,000 as of December 31, 2002 and 2001, respectively.

As discussed in Note 6, the Company is restricted from purchasing its Common Stock or paying cash dividends when the leverage ratio, as defined in the August 1999 credit agreement, is 2.75 or higher.

Changes in shareholders' equity for 2002, 2001, and 2000 are as follows:

| (in thousands) | Class A Common Stock Shares | Class A Common Stock Amount | Class B Common Stock Shares | Class B Common Stock Amount | Additional Paid-in Capital | Treasury Stock (Class A) Shares | Treasury Stock (Class A) Amount |
|---|---|---|---|---|---|---|---|
| Balance: January 1, 2000 | 26,804 | $ 27 | 5,869 | $ 6 | $ 219,443 | 2,206 | $ 45,843 |
| Shares contributed to ESOP | 334 | — | — | — | 4,489 | — | — |
| Shares issued to Directors | — | — | — | — | (35) | (5) | (105) |
| Balance: December 31, 2000 | 27,138 | $ 27 | 5,869 | $ 6 | $ 223,897 | 2,201 | $ 45,738 |
| Shares contributed to ESOP | 261 | — | — | — | 4,835 | — | — |
| Conversion of Class B shares to Class A shares | 2 | — | (2) | — | — | — | — |
| Options exercised | 311 | 1 | — | — | 5,483 | — | — |
| Shares issued to Directors | — | — | — | — | (2) | (4) | (87) |
| Balance: December 31, 2001 | 27,712 | $ 28 | 5,867 | $ 6 | $ 234,213 | 2,197 | $ 45,651 |
| Shares contributed to ESOP | 197 | — | — | — | 4,635 | — | — |
| Conversion of Class B shares to Class A shares | 259 | — | (259) | — | — | — | — |
| Options exercised | 815 | 1 | — | — | 16,621 | — | — |
| Shares issued to Directors | — | — | — | — | 15 | (3) | (75) |
| Balance: December 31, 2002 | 28,983 | $ 29 | 5,608 | $ 6 | $ 255,484 | 2,194 | $ 45,576 |



## 10. OTHER EXPENSE/(INCOME), NET

The components of other expense/(income), net, as further described in Note 6, are:

| *(in thousands)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Currency transactions | **$ (2,680)** | $ (1,932) | $ (4,012) |
| Interest rate protection agreements | **—** | — | (382) |
| Lease with embedded derivative | **(357)** | (1,482) | — |
| Costs associated with sale of accounts receivable | **2,053** | 1,794 | — |
| Sale of buildings | **—** | (1,323) | — |
| Amortization of debt issuance costs and loan origination fees | **2,093** | 2,258 | 2,328 |
| Other | **3,894** | 3,518 | 1,311 |
| | **$ 5,003** | $ 2,833 | $ (755) |

## 11. INCOME TAXES

The components of income/(loss) before income taxes and the income tax provision are as follows:

| *(in thousands)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Income/(loss) before taxes: | | | |
| U.S. | **$ 24,527** | $ (2,775) | $ (4,469) |
| Non-U.S. | **55,022** | 55,138 | 67,036 |
| | **$ 79,549** | $ 52,363 | $ 62,567 |
| Current: | | | |
| U.S. Federal | **$ 7,892** | $ 5,545 | $ 5,506 |
| U.S. State | **539** | 1,024 | 1,360 |
| Non-U.S. | **23,571** | 29,012 | 21,177 |
| | **32,002** | 35,581 | 28,043 |
| Deferred: | | | |
| U.S. Federal | **1,169** | (5,633) | (4,212) |
| U.S. State | **709** | (897) | (578) |
| Non-U.S. | **(8,839)** | (9,677) | 1,774 |
| | **(6,961)** | (16,207) | (3,016) |
| Total income tax provision | **$ 25,041** | $ 19,374 | $ 25,027 |

The significant components of deferred income tax (benefit)/expense are as follows:

| *(in thousands, except per share amounts)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net effect of temporary differences | **$ (433)** | $ (10,388) | $ (2,727) |
| Adjustments to deferred tax assets and liabilities for enacted changes in tax laws and rates | **1,232** | (1,729) | (282) |
| Utilization (benefit) of loss carryforward | **(7,760)** | (4,090) | (7) |
| | **$ (6,961)** | $ (16,207) | $ (3,016) |



A reconciliation of the U.S. Federal statutory rate to the Company's effective tax rate is as follows:

| *(in thousands, except per share amounts)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| U.S. statutory rate | **35.0%** | 35.0% | 35.0% |
| State taxes | **1.0** | (0.5) | 1.0 |
| Non-U.S. tax rates, repatriation of earnings, and other net charges associated with prior years | **(1.9)** | 1.5 | 3.9 |
| Favorable resolution of contingency related to prior years | **(3.5)** | — | — |
| Other | **0.9** | 1.0 | 0.1 |
| Effective tax rate | **31.5%** | 37.0% | 40.0% |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of certain assets and liabilities for financial reporting and income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

| | U.S. | | Non-U.S. | |
|---|---|---|---|---|
| *(in thousands, except per share amounts)* | 2002 | 2001 | 2002 | 2001 |
| Current deferred tax assets: | | | | |
| Accounts receivable | **$ 1,606** | $ 1,439 | **$ 687** | $ 387 |
| Inventories | **2,870** | 2,884 | **—** | (31) |
| Tax credit carryforward | **7,913** | — | **—** | — |
| Tax loss carryforward | **—** | — | **10,087** | 3,220 |
| Restructuring accruals | **6,843** | — | **—** | — |
| Other | **2,442** | — | **10,991** | 8,271 |
| Total current deferred tax assets | **21,674** | 4,323 | **21,765** | 11,847 |
| Noncurrent deferred tax assets: | | | | |
| Sale leaseback transaction | **1,052** | 935 | **753** | — |
| Deferred compensation | **12,509** | 12,365 | **—** | — |
| Depreciation | **(14,697)** | (14,088) | **77** | 2,208 |
| Postretirement benefits | **40,760** | 23,087 | **2,041** | 706 |
| Tax loss carryforward | **868** | — | **20,608** | 13,553 |
| Other | **2,914** | 8,272 | **379** | 3,640 |
| Total noncurrent deferred tax assets before valuation allowance | **43,406** | 30,571 | **23,858** | 20,107 |
| Less: valuation allowance | **—** | — | **(1,690)** | (2,139) |
| Total noncurrent deferred tax assets | **43,406** | 30,571 | **22,168** | 17,968 |
| Total deferred tax assets | **$ 65,080** | $ 34,894 | **$ 43,933** | $ 29,815 |
| Current deferred tax liabilities | **$ —** | $ — | **$ 7,129** | $ 8,103 |
| Noncurrent deferred tax liability—depreciation | **—** | — | **27,448** | 19,950 |
| Other | **—** | — | **—** | (5,162) |
| Total deferred tax liabilities | **$ —** | $ — | **$ 34,577** | $ 22,891 |

The deferred income tax assets will be realized through the reversals of existing taxable temporary differences with the remainder, net of the valuation allowance, dependent on future taxable income. Management believes that sufficient taxable income will be earned in the future to realize the remaining deferred income tax assets. The Company has a tax loss carryforward of $1,690,000 for which a full valuation allowance has been recorded.

At December 31, 2002, the Company has available $29,005,000 of net operating loss carryforwards with expiration dates ranging from one year to indefinite that may be applied against future taxable income. The Company expects to utilize 35% of the tax loss carryforwards next year. In addition, the Company has available foreign tax credit carryforwards of approximately $7,835,000 which begin to expire in 2007.

The Company has not recognized U.S. deferred income taxes on $165,298,000 of undistributed earnings of its foreign subsidiaries because management considers such earnings to be permanently reinvested. If the earnings were distributed, the Company may be subject to both U.S. income taxes and foreign withholding taxes. Determination of the amount of this unrecognized deferred income tax liability is not practical.

In February 2003, the Company received notification of a final agreement resolving certain income tax matters. The resolution of these matters will result in a reduction of approximately $5,000,000 in the income tax provision in the first quarter of 2003.

Taxes paid, net of refunds, were $18,147,000 in 2002, $18,902,000 in 2001, and $18,362,000 in 2000. Income taxes payable were $24,093,000 and $13,869,000 as of December 31, 2002 and 2001, respectively.

**Operating Segment and Geographic Data**

In accordance with Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information", the internal organization that is used by management for making operating decisions and assessing performance is used as the source of the Company's reportable segments. The accounting policies of the segments are the same as those described in Note 1.

The primary segment of the Company is Engineered Fabrics which includes developing, manufacturing, marketing and servicing custom designed engineered fabrics used in the manufacture of paper, paperboard and products in other process industries. Another segment of the Company, Albany Door Systems is an aggregation of the Company's operations that manufacture, market and service high- performance doors. The Applied Technologies segment is made up of operations that manufacture products outside of the core businesses of the Company.



The following table shows data by operating segment, reconciled to consolidated totals included in the financial statements.

| *(in thousands, except per share amounts)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Net Sales** | | | |
| Engineered Fabrics | **$ 683,179** | $ 690,784 | $ 702,486 |
| Albany Door Systems | **91,185** | 99,206 | 101,609 |
| Applied Technologies | **41,683** | 46,706 | 48,839 |
| Consolidated total | **$ 816,047** | $ 836,696 | $ 852,934 |
| **Depreciation and Amortization** | | | |
| Engineered Fabrics | **$ 44,815** | $ 47,818 | $ 53,329 |
| Albany Door Systems | **2,136** | 2,659 | 2,255 |
| Applied Technologies | **2,122** | 2,097 | 2,711 |
| Corporate | **3,790** | 4,972 | 3,921 |
| Consolidated total | **$ 52,863** | $ 57,546 | $ 62,216 |
| Operating Income | | | |
| Engineered Fabrics | **$ 161,875** | $ 156,936 | $ 150,653 |
| Restructuring of operations | **—** | (21,892) | — |
| | **161,875** | 135,044 | 150,653 |
| Albany Door Systems | **1,093** | 9,556 | 8,152 |
| Applied Technologies | **3,311** | 1,651 | 3,397 |
| Research expense | **(24,918)** | (23,224) | (23,287) |
| Unallocated expenses | **(39,273)** | (38,915) | (35,281) |
| Operating income | **102,088** | 84,112 | 103,634 |
| Reconciling items: | | | |
| Interest income | **3,084** | 1,977 | 1,336 |
| Interest expense | **(20,620)** | (30,893) | (43,158) |
| Other (expense)/income, net | **(5,003)** | (2,833) | 755 |
| Consolidated income before income taxes | **$ 79,549** | $ 52,363 | $ 62,567 |

| *(in thousands)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Operating Assets | | | |
| Engineered Fabrics | **$ 1,164,610** | $ 1,074,047 | $ 1,267,794 |

| | | | |
|---|---|---|---|
| Albany Door Systems | **69,938** | 66,178 | 68,703 |
| Applied Technologies | **90,162** | 95,083 | 83,578 |
| Reconciling items: | | | |
| Accumulated depreciation | **(438,859)** | (376,230) | (362,901) |
| Deferred tax assets | **109,013** | 64,709 | 46,806 |
| Investment in associated companies | **4,849** | 4,374 | 4,300 |
| Other | **11,808** | 3,768 | 3,972 |
| Consolidated total assets | **$ 1,011,521** | $ 931,929 | $ 1,112,252 |
| Capital Expenditures | | | |
| Engineered Fabrics | **$ 30,042** | $ 22,448 | $ 33,137 |
| Albany Door Systems | **993** | 605 | 531 |
| Applied Technologies | **551** | 2,635 | 2,790 |
| Corporate | **92** | 143 | 408 |
| Consolidated total | **$ 31,678** | $ 25,831 | $ 36,866 |



The following table shows data by geographic area. Net sales are based on the location of the operation recording the final sale to the customer.

| *(in thousands)* | **2002** | **2001** | **2000** |
|---|---|---|---|
| **Net Sales** | | | |
| United States | **$ 317,178** | $ 329,787 | $ 334,253 |
| Canada | **57,832** | 57,873 | 60,188 |
| Sweden | **76,993** | 81,624 | 80,828 |
| Germany | **99,959** | 94,697 | 98,131 |
| Other countries | **264,085** | 272,715 | 279,534 |
| Consolidated total | **$ 816,047** | $ 836,696 | $ 852,934 |
| **Property, Plant and Equipment, at cost, net** | | | |
| United States | **$ 118,908** | $ 122,985 | $ 134,487 |
| Canada | **15,866** | 17,530 | 20,356 |
| Sweden | **49,833** | 34,968 | 42,638 |
| Germany | **62,512** | 48,678 | 55,144 |
| Other countries | **98,954** | 114,941 | 135,033 |
| Consolidated total | **$ 346,073** | $ 339,102 | $ 387,658 |

**Pension Plans**

The Company has a noncontributory, qualified defined benefit pension plan covering U.S. employees, a noncontributory, nonqualified pension plan covering certain U.S. executives and both contributory and noncontributory pension plans covering non-U.S. employees. The U.S. qualified defined benefit pension plan has been closed to new participants since October 1999. Eligible employees are covered primarily by plans that provide pension benefits based on the employee's service and average compensation during the three to five years before retirement or termination of employment.

The following table sets forth the components of amounts recognized in the Company's consolidated balance sheets:

| *(in thousands, except per share amounts)* | **2002** | **2001** |
|---|---|---|
| Projected benefit (obligation) in excess of plan assets | **$ (107,688)** | $ (62,655) |
| Unrecognized actuarial net loss | **77,137** | 40,839 |
| Prior service cost not yet recognized in net periodic pension cost | **8,794** | 9,095 |
| Remaining unrecognized net obligation | **257** | 231 |
| Contributions | **858** | 704 |
| Accrued pension (liability) | **$ (20,642)** | $ (11,786) |

The weighted average expected long-term rate of return for these plans was 8.5% for 2002 and 9.0% for 2001. The weighted average discount rate was 6.4% for 2002 and 6.8% for 2001. The weighted average rate of increase in future compensation levels was 3.4% for 2002 and 4.7% for 2001.

Certain employees of the Company who were active on June 30, 2002 are entitled to receive additional qualified supplemental retirement (QSERP) benefits under the U.S. pension plan. Under the QSERP, each covered employee is credited with an initial QSERP account balance in a specified amount. Each such participant has renounced any and all claims to an equal amount under the Company's deferred compensation plans. The amount of this plan amendment, including credited plan benefits, was $10,222,000.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with an accumulated benefit obligation in excess of plan assets were $242,424,000, $221,379,000, and $134,982,000, respectively for 2002 and $201,477,000, $182,166,000, and $138,996,000 respectively, for 2001.

The following table sets forth the reconciliation of beginning and ending balances of the benefit obligation and fair value of plan assets, and the funded status of the plans.

| *(in thousands, except per share amounts)* | 2002 | 2001 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | **$ 209,352** | $ 206,947 |
| Service cost | **5,694** | 6,084 |
| Interest cost | **14,576** | 14,287 |
| Participant contributions | **547** | 687 |
| Plan amendments | **10,222** | — |
| Special termination benefits | **1,083** | — |
| Benefits paid | **(13,247)** | (14,193) |
| Actuarial loss/(gain) | **11,215** | 2,020 |
| Exchange rate loss/(gain) | **11,400** | (6,480) |
| Benefit obligation at end of year | **$ 250,842** | $ 209,352 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | **$ 146,697** | $ 162,900 |
| Actual return on plan assets | **(11,718)** | (8,990) |
| Employer contributions | **16,651** | 10,064 |
| Participant contributions | **547** | 687 |
| Benefits paid | **(13,247)** | (14,193) |
| Administrative expenses | **(369)** | (875) |
| Exchange rate gain/(loss) | **4,593** | (2,896) |
| Fair value of plan assets at end of year | **$ 143,154** | $ 146,697 |

Amounts recognized in the consolidated balance sheets are as follows:

| *(in thousands, except per share amounts)* | 2002 | 2001 |
|---|---|---|
| Accrued pension liability | **$ (87,190)** | $ (42,958) |
| Intangible asset | **9,467** | 8,906 |
| Accumulated other comprehensive income | **57,081** | 22,266 |
| Net amount recognized at year-end | **$ (20,642)** | $ (11,786) |

As of December 31, 2002, accrued liabilities included $12,000,000 representing the estimated current portion of the accrued pension liability, with the remaining balance included in other noncurrent liabilities. The Company was required to accrue an additional minimum liability for those plans for which accumulated plan benefits exceeded plan assets. This liability at December 31, 2002 and 2001 respectively, of $66,548,000 and $31,172,000 was offset by an intangible asset amounting to $9,467,000 and $8,906,000 and a before tax charge to equity of $57,081,000 and $22,266,000.



Net periodic pension cost included the following components:

| *(in thousands, except per share amounts)* | 2002 | 2001 | 2000 |
|---|---|---|---|
| Service cost | **$ 5,694** | $ 6,084 | $ 6,498 |
| Interest cost on projected benefit obligation | **14,576** | 14,287 | 14,146 |
| Expected return on assets | **(13,518)** | (14,142) | (13,504) |
| Net amortization and deferral | **2,056** | 1,120 | 1,215 |
| Net periodic pension cost | **$ 8,808** | $ 7,349 | $ 8,355 |

Net periodic pension cost charged to operating expense for all Company plans, including all statutory and defined contribution plans, was $17,423,000 for 2002, $11,645,000 for 2001, and $13,791,000 for 2000.

**Postretirement Benefits Other Than Pensions**

In addition to providing pension benefits, the Company provides certain medical, dental and life insurance benefits for its retired United States employees. Substantially all of the Company's U.S. employees may become eligible for these benefits, which are subject to change, if they reach normal retirement age while working for the Company. Retirees share in the cost of these benefits. The Company's non-U.S. operations do not offer such benefits to retirees.

The Company accrues the cost of providing postretirement benefits during the active service period of the employees. The Company currently funds the plan as claims are paid.

The following table reflects the status of the postretirement benefit plan:

| *(in thousands)* | **2002** | 2001 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | **$ 82,173** | $ 75,620 |
| Service cost | **2,213** | 1,907 |
| Interest cost | **6,010** | 5,647 |
| Plan participants' contributions | **1,067** | 1,054 |
| Amendments | **—** | (1,798) |
| Actuarial loss | **18,250** | 6,458 |
| Benefits paid | **(7,643)** | (6,715) |
| Benefit obligation at end of year | **102,070** | 82,173 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | **—** | — |
| Employer contributions | **6,576** | 5,661 |
| Plan participants' contributions | **1,067** | 1,054 |
| Benefits paid | **(7,643)** | (6,715) |
| Fair value of plan assets at end of year | **—** | — |
| Unfunded status | **102,070** | 82,173 |
| Unrecognized prior service cost | **8,462** | 9,409 |
| Unrecognized net loss | **(46,750)** | (29,901) |
| Accrued postretirement cost | **$ 63,782** | $ 61,681 |



Net periodic postretirement benefit cost included the following:

| *(in thousands)* | **2002** | 2001 | 2000 |
|---|---|---|---|
| Service cost of benefits earned | **$ 2,213** | $ 1,907 | $ 1,848 |
| Interest cost on accumulated postretirement benefit obligation | **6,010** | 5,647 | 5,862 |
| Amortization of gains and losses | **1,401** | 1,146 | 971 |
| Amortization of unrecognized prior service cost | **(947)** | (947) | (97) |
| Net periodic postretirement benefit cost | **$ 8,677** | $ 7,753 | $ 8,584 |

For measurement purposes at December 31, 2002, the annual rate of increase in the per capita cost of covered medical and prescription drug benefits was assumed to be 9.0% and 11.0%, respectively. The rate was assumed to decrease to 5.0 percent for 2008 and remain at that level thereafter.



The weighted average discount rate was 6.75% for 2002, 7.25% for 2001 and 7.5% for 2000.

A one percentage point increase in the health care cost trend rate would result in an increase of $13,917,000 in the postretirement benefit obligation as of December 31, 2002 and an increase of $1,300,000 in the aggregate service and interest cost components of the net periodic postretirement benefit cost.

**Translation Adjustments**

The Consolidated Statements of Cash Flows were affected by translation as follows:

| *(in thousands)* | **2002** | 2001 | 2001 |
|---|---|---|---|
| Change in cumulative translation adjustments | **$ 47,550** | $ (29,259) | $ (44,814) |
| Other noncurrent liabilities | **6,343** | (2,749) | (3,392) |
| Deferred taxes | **(3,257)** | (118) | (5,911) |
| Long-term debt | **308** | (411) | (1,205) |
| Accounts receivable | **(12,226)** | 10,173 | 13,110 |
| Inventories | **(7,674)** | 6,453 | 9,298 |
| Investments in associated companies | **(340)** | 1,018 | 634 |

| | | | |
|---|---|---|---|
| Property, plant and equipment, net | **(26,940)** | 15,141 | 24,835 |
| Goodwill and intangibles | **(17,216)** | 6,824 | 10,719 |
| Other | **(1,185)** | (15,736) | (21,291) |
| Effect of exchange rate changes | $ **(14,637)** | $ (8,664) | $ (18,017) |

Shareholders' equity was affected by translation as follows: increase/(decrease) from translation of non-U.S. financial statements of $53,345,000, ($28,296,000), and ($39,454,000), and a decrease from remeasurement of loans of $5,795,000, $963,000, and $5,360,000, in 2002, 2001, and 2000 respectively.

**Stock Options and Incentive Plans**

During 1988, 1992 and 1998, the shareholders approved stock option plans for key employees. The 1988 and 1992 plans, under which options can no longer be granted, each provided for the granting of up to 2,000,000 shares of Class A Common Stock. The 1998 plan provides for the granting of up to 5,000,000 shares of Class A Common Stock. In addition, in 1997 the Board of Directors granted one option outside these plans for 250,000 shares of Class A Common Stock. Options are normally exercisable in five cumulative annual amounts beginning 12 months after date of grant. Option exercise prices are normally equal to and are not permitted to be less than the market value on the date of grant. The option granted by the Board in 1997 is not exercisable unless the Company's share price reaches $48 per share and is then limited to 10% of the total number of shares multiplied by the number of full years of employment elapsed since the grant date. During 2000, the Board of Directors approved an amendment to increase the period after retirement to exercise options from 5 years to 10 years. This amendment, however, does not change the original termination date of each option. Unexercised options generally terminate twenty years after date of grant for all plans.

For the purpose of applying FAS No. 123, "Accounting for Stock-Based Compensation", the fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model. No adjustments were made for certain factors that are generally recognized to reduce the value of option contracts. These factors include limited transferability, a 20% per year vesting schedule, a share price threshold with vesting based on years of employment and the risk of forfeiture of the non-vested portion if employment is terminated. The cash dividend yield assumption was 1.1% for 2002 and 1.0% for 2001. No dividend was assumed for 2000. The expected volatility was 28.3% in 2002, 27.6% in 2001, and 26.8% in 2000. The expected life of the options varies based on employee group



and ranges from 11 to 20 years. The risk-free interest rate ranges from 3.4% to 5.0% in 2002, 5.7% to 5.9% in 2001, and 5.3% to 5.7% in 2000. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", in accounting for the stock option plans. Accordingly, no compensation cost was recognized in 2002, 2001, or 2000. The weighted average fair value of options granted during 2002, 2001, and 2000, for the purposes of FAS No. 123, was $10.64, $11.41, and $7.35 per share, respectively.

Had the Company elected to adopt FAS No. 123 for its stock option plans, net income and earnings per share would have been affected by additional compensation cost as indicated by the proforma amounts below:

| ***(in thousands)*** | **2002** | **2001** | **2001** |
|---|---|---|---|
| Proforma stock-based employee compensation cost, net of taxes | **$ 2,115** | $ 2,127 | $ 3,938 |
| Net income, as reported | **$ 48,941** | $ 32,202 | $ 38,085 |
| Proforma | **46,826** | 30,075 | 34,147 |
| Net income per share—basic, as reported | **$ 1.52** | $ 1.04 | $ 1.24 |
| Proforma | **1.46** | 0.97 | 1.11 |
| Net income per share—diluted, as reported | **$ 1.50** | $ 1.03 | $ 1.24 |
| Proforma | **1.43** | 0.96 | 1.11 |

Activity with respect to these plans is as follows:

| ***(in thousands)*** | **2002** | **2001** | **2001** |
|---|---|---|---|
| Shares under option at January 1 | **4,296,695** | 4,234,750 | 3,927,650 |
| Options granted | **413,500** | 433,500 | 348,000 |
| Options cancelled | **62,180** | 60,325 | 41,200 |
| Options exercised | **813,790** | 311,230 | — |
| Shares under option at December 31 | **3,834,225** | 4,296,695 | 4,234,750 |
| Options exercisable at December 31 | **2,493,215** | 2,959,305 | 2,896,200 |
| Shares available for options | **443,655** | 293,175 | 168,150 |

The weighted average exercise price is as follows:

| ***(in thousands)*** | **2002** | **2001** | **2001** |
|---|---|---|---|
| Shares under option at January 1 | **$ 18.42** | $ 17.98 | $ 18.65 |
| Options granted | **20.63** | 20.45 | 10.56 |
| Options cancelled | **16.98** | 16.06 | 18.70 |
| Options exercised | **18.37** | 15.77 | — |

| | | | |
|---|---|---|---|
| Shares under option at December 31 | **18.69** | 18.42 | 17.98 |
| Options exercisable at December 31 | **18.16** | 18.31 | 18.18 |



The following is a summary of the status of options outstanding at December 31, 2002:

| | Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|---|
| Exercise Price Range | Number | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| $10.56 | 297,575 | 17.9 | $ 10.56 | 123,365 | $ 10.56 |
| 15.00-15.50 | 485,000 | 5.8 | 15.41 | 485,000 | 15.41 |
| 15.69-16.25 | 443,050 | 14.0 | 15.84 | 316,750 | 15.90 |
| 16.75 | 214,000 | 7.3 | 16.75 | 214,000 | 16.75 |
| 17.63-18.75 | 164,300 | 9.6 | 18.69 | 164,300 | 18.69 |
| 19.38-19.75 | 618,150 | 13.3 | 19.56 | 558,150 | 19.58 |
| 20.45 | 416,300 | 18.4 | 20.45 | 94,300 | 20.45 |
| 20.63 | 411,000 | 19.9 | 20.63 | 2,500 | 20.63 |
| 22.25 | 534,850 | 11.1 | 22.25 | 534,850 | 22.25 |
| 25.56 | 250,000 | 14.8 | 25.56 | — | — |
| | 3,834,225 | | | 2,493,215 | |

The Company's voluntary deferred compensation plans provided that a portion of certain employees' salaries are deferred in exchange for amounts payable, upon their retirement, disability or death, during a period selected by the participants in accordance with the provisions of each plan. Voluntary withdrawals are permitted under some circumstances. The plans were terminated for active employees during 2002, resulting in $9,548,000 of the liability being renounced by certain participants and $7,721,000 being paid out in January 2003 (see Note 13). The portion paid out in January 2003 was included in accounts payable as of December 31, 2002. The plans are still in effect for retired employees of the Company. The remaining deferred compensation liability was included in the caption "Other noncurrent liabilities" and was $12,364,000 and $29,003,000 at December 31, 2002 and 2001, respectively. The Company is the beneficiary of life insurance policies on the lives of certain plan participants. The Company's expense for all plans, net of the increase in cash surrender value, was $3,187,000 in 2002, $3,058,000 in 2001, and $1,780,000 in 2000. The increase in cash surrender value, net of premiums, was $2,617,000 in 2002, $1,434,000 in 2001, and $728,000 in 2000.

The Company maintains a voluntary savings plan covering substantially all employees in the United States. The Plan, known as "Prosperity Plus," is a 401(k) plan under the U.S. Internal Revenue Code. Employees may contribute 1% to 15% of their regular wages which under Section 401(k) are tax deferred. The Company matches between 50% and 100% of each dollar contributed by employees up to 10% of their wages, in the form of Class A Common Stock which is contributed to an Employee Stock Ownership Plan. The investment of employee contributions to the plan is self-directed. The cost of the plan amounted to $4,144,000 in 2002, $4,086,000 in 2001, and $4,150,000 in 2000.

The Company's profit-sharing plan covers substantially all employees in the United States. After the close of each year, the Board of Directors determines the amount of the profit-sharing contribution and whether the contribution will be made in cash or in shares of the Company's Class A Common Stock. Contributions are only made to current active participants in Prosperity Plus. The expense recorded for this plan was $1,358,000 in 2002, $1,448,000 in 2001, and $974,000 in 2000.

**Restructuring**

In 2001, the Company recorded a charge for restructuring of operations of $21,892,000 that included $13,714,000 for termination benefits, $4,106,000 for plant rationalization costs, $6,465,000 for losses on disposal of assets, and a reversal of accruals from previous restructuring programs of



$2,393,000. There are approximately 600 employee terminations related to this restructuring. In 2002, pursuant to the previously announced restructuring initiatives, the Company terminated 568 employees.

The change in accrued restructuring costs from December 31, 2001 to December 31, 2002 was as follows:

| **(in thousands)** | December 31, 2001 | New Charges, net | Payments | Currency translation/other | December 31, 2002 |
|---|---|---|---|---|---|
| Termination costs | $ 17,532 | $ — | $ (12,200) | $ (21) | $ 5,311 |
| Plant rationalization costs | 2,327 | — | (246) | (1,530) | 551 |
| Lease obligations | 4,658 | — | (1,470) | 383 | 3,571 |
| | $ 24,517 | $ — | $ (13,916) | $ (1,168) | $ 9,433 |

The change in accrued restructuring costs from January 1, 2001 to December 31, 2001 was as follows:

| (in thousands) | December 31, 2001 | New Charges, net | Payments | Currency translation/other | December 31, 2002 |
|---|---|---|---|---|---|
| Termination costs | $ 11,248 | $ 11,321 | $ (4,337) | $ (700) | $ 17,532 |
| Plant rationalization costs | — | 8,303 | — | (5,976) | 2,327 |
| Lease obligations | 3,071 | 2,268 | (892) | 211 | 4,658 |
| | $ 14,319 | $ 21,892 | $ (5,229) | $ (6,465) | $ 24,517 |



FINANCIAL REVIEW

**Critical Accounting Policies and Assumptions**

The Company's discussion and analysis of its financial condition and results of operation are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires the Company to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The Company has interest rate swap agreements that fix the rate of interest on $200 million of the Company's debt. The Company has determined that the swaps qualify for hedge accounting in accordance with GAAP, and accordingly, changes in the fair value of these swaps are recorded in shareholders' equity in the caption, "Derivative valuation adjustment". Future events, such as a change in the Company's underlying debt arrangements, could require that the Company record changes in fair value in earnings. The Company values these swaps by estimating the cost of entering into one or more inverse swap transactions that would neutralize the original transactions. As of December 31, 2002, the pre-tax cost to neutralize the original swap transactions would have been approximately $21.6 million.

Goodwill and other long-lived assets are reviewed 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 amount may not be recoverable. The Company performs a test for goodwill impairment at least annually. The determination of whether these assets are impaired involves significant judgments based upon short and long-term projections of future performance. Changes in strategy and/or market conditions may result in adjustments to recorded asset balances.

The Company has pension and postretirement benefit costs and liabilities that are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected 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 the assumptions.

During 2001, the Company entered into a trade accounts receivable securitization program whereby it sells designated North American accounts receivable, with no recourse. The accounts receivable are sold on an ongoing basis to a subsidiary of the Company which is a qualified special purpose entity and, in accordance with GAAP, is not consolidated in the Company's financial statements. As of December 31, 2002, the Company had sold accounts receivable of $71.1 million and received cash of $48.9 million plus a note receivable. If the securitization program were terminated, the Company might need to borrow from its existing credit facilities for working capital requirements.

Albany International Corp. ("Albany") and many other companies are defendants 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. Albany was defending against 21,688 such claims as of February 28, 2003. This compares with 22,593 such claims as of December 31, 2002, 17,922 claims as of October 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 and related companies. Albany anticipates that additional claims will be filed against it and the 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 over 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. (Production of asbestos-containing paper machine clothing products was limited to certain 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.) In the vast majority of these suits, claimant work histories have not been provided. In cases in which work histories have been provided, approximately one-third of the claimants have alleged time spent in a paper mill.

Approximately 18,700 of the claims pending against Albany are filed in various counties in Mississippi. The Company expects that only a portion of these claimants will be able to demonstrate time spent in a paper mill during a period in which Albany's asbestos-containing products were in use. Based on past experience, communications from certain plaintiffs' counsel and the advice of the Company's Mississippi counsel, the Company expects the percentage of claimants with paper mill exposure in the Mississippi proceedings to be considerably lower than the total number of claims asserted.

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.

While 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 under a standard reservation of rights. As of February 28, 2003, the Company had resolved, by means of settlement or dismissal, 4,348 claims, and had reached tentative agreement to resolve an additional 4,563 claims reported above as pending. The total cost of resolving all 8,911 such claims was $4,846,000. Of this amount, $4,811,000, or 99%, was paid by the Company's insurance carrier. The Company has more than $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., is also a separate defendant in most of these cases. Brandon was defending against 12,632 claims as of February 28, 2003. This compares with 11,802 such claims as of December 31, 2002, 10,347 claims as of October 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 Company acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999.

Brandon is a wholly-owned subsidiary of Geschmay Corp. Geschmay Corp. is a wholly-owned subsidiary of the Company, acquired in 1999. 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, among other things, had sold 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.



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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 28, 2003, Brandon has resolved, by means of settlement or dismissal, 2,881 claims for a total of $152,499. Brandon's insurance carriers have 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% is being sought from an insurance company that denies that it issued a policy. Brandon's internal records demonstrate otherwise, and Brandon has filed suit against this company as well as its other carriers. Based on advice of counsel, Brandon is confident that it will prevail in establishing 100% indemnification and defense cost coverage.

**Mount Vernon**

In some of these 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.

The Company believes that all asbestos-related claims against it are without merit. Based on its understanding of the insurance policies available, how settlement amounts have been allocated to various policies, its recent 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 does not believe, 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. However, 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.

**Review of Operations**

**2002 vs. 2001**

Net sales decreased $20.6 million or 2.5% as compared with 2001. Currency translation had the effect of increasing net sales by $11.6 million. Excluding currency effects, net sales decreased 3.9% as compared to 2001.

In the Engineered Fabrics segment, net sales decreased 1.1% in U.S. dollars and decreased 2.2% excluding currency translation effects. Sales were negatively affected by a sluggish global demand for



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paper and paperboard as well as paper machine closures and downtime. Geographically, Engineered Fabrics net sales in the United States were down 2.7% in comparison to 2001. Net sales in Canada were down 5.6% in U.S. dollars and 4.3% in local currency. Engineered Fabrics European sales increased 0.5% in U.S. dollars, but decreased 4.5% in local currencies.

Albany Door Systems net sales in U.S. dollars were down 8.1% in comparison to 2001. Excluding currency translation effects, net sales were down 11.9%. The weak economy in Europe and, particularly in Germany, negatively affected sales and operating income in this segment.

Applied Technologies net sales were down 10.8% in U.S. dollars and 10.5% excluding currency translation effects. In addition to global economic weakness, sales were lower due to the sale of a portion of the Company's Mexican operation and the shutdown of nonperforming portions of this segment in the fourth quarter of 2001.

Gross profit was 41.7% of net sales in 2002 compared to 40.6% in 2001. Cost of goods sold includes expenses incurred in relation to cost reduction initiatives of $6.2 million in 2002 and $1.6 million in 2001. Amortization of goodwill was discontinued as of January 1, 2002 in accordance with Financial Accounting Standards No. 142 (FAS 142) "Goodwill and Other Intangible Assets". Goodwill amortization was approximately $6.8 million in 2001. Excluding the expenses related to cost reduction initiatives in both years, and adjusting 2001 gross profit as if FAS 142 had been in effect in 2001, gross profit as a percent of net sales would have been 42.5% in 2002 and 41.6% in 2001.

Selling, general, technical and research expenses increased 2.1% in 2002 as compared to 2001. Excluding the effect of currency translation, these costs increased 0.2%. Selling and general expenses include $3.6 million in 2002 and $0.5 million in 2001 of remeasurement losses at certain Company operations related to trade accounts receivable denominated in currencies other than their functional currency. Excluding this additional effect, 2002 selling, general, technical and research expenses were down 1.1% in comparison to 2001.

In 2001, the Company recorded a $21.9 million charge for restructuring of operations related to a $25 million cost reduction initiative that was announced in July 2001. The charge included $13.7 million for termination benefits, $4.1 million for plant rationalization costs, $6.5 million for losses on disposal of assets, and a reversal of accruals from previous restructuring initiatives of $2.4 million. The initiatives resulted in the closing of three plants in Europe and were completed by December 2002. The cost and savings are primarily related to the Engineered Fabrics segment.

Operating income before the restructuring charge decreased 3.7% to $102.1 million. The decrease was primarily due to lower net sales. In the Engineered Fabrics segment, operating income before restructuring was 23.7% of net sales in 2002, compared to 22.7% in 2001. The higher percentage in 2002 is primarily due to the benefits derived from cost reduction initiatives. In the Albany Door Systems segment, operating income as a percentage of net sales was 1.2% in 2002 in comparison to 9.6% in 2001. The decrease is primarily attributable to lower net sales. In the Applied Technologies segment, operating income as a percentage of net sales was 7.9% in 2002 in comparison to 3.5% in 2001. The improvement is due to the shutdown of nonperforming portions of this segment in the fourth quarter of 2001.

Other expense/(income), net, was expense of $5.0 million in 2002 compared to $2.8 million in 2001. The increase in expense is primarily due to 2001 results including a larger favorable adjustment on a derivative and a gain of $1.3 million related to the sale of buildings.

Interest expense decreased $10.3 million as compared with 2001. This decrease was due to lower average debt during 2002, as compared to 2001. Interest income increased $1.1 million in comparison to 2001 as the Company maintained higher average balances of cash and cash equivalents.

The tax rate for 2002 was 31.5%, compared to 37% in 2001. During the fourth quarter of 2002, the Company recognized a benefit of approximately $2.8 million related to the favorable resolution of certain income tax contingencies. The 2002 tax rate prior to this item was 35%. The decline from 37% to 35% was primarily due to the elimination of goodwill amortization in accordance with FAS 142.



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In 2002, the Company recorded a charge of $5.8 million for the cumulative effect of a change in accounting principle. The charge relates to the adoption of FAS 142. As a result of the transitional impairment test required by FAS 142, the Company determined that the goodwill in the Applied Technologies segment was impaired. There was no tax effect from this charge.

In 2001, the Company recorded a charge of $1.1 million for the cumulative effect of a change in accounting principle, net of tax. The charge relates to the adoption of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company has a lease for manufacturing facilities in Italy that has been accounted for as an adjustment to income in accordance with this Standard.

Earnings per share before the cumulative effect of changes in accounting principles in both years was $1.70 in 2002 compared to $1.07 in 2001. The increase is primarily due to the restructuring charge recorded in 2001. Net income per share was $1.52 in 2002 and $1.04 in 2001. Net income per share on a diluted basis was $1.50 in 2002 and $1.03 in 2001.

**2001 vs. 2000**

Net sales decreased $16.2 million or 1.9% as compared with 2000. Net sales were reduced by $28.9 million from the effect of a stronger U.S. dollar as compared to 2000. Excluding currency effects, net sales increased 1.5% as compared to 2000.

In the Engineered Fabrics segment, net sales decreased 1.7% as compared to 2000, but increased 1.4% excluding currency translation effects. Net sales in the United States decreased 1.3% in 2001 as compared to 2000. Net sales in Canada decreased 1.4% in U.S. dollars but increased 2.8% in local currency. European net sales decreased 1.9% in U.S. dollars, but increased 3.5% in local currencies.

In the Albany Door Systems segment, 2001 sales were down 2.4% when measured in U.S. dollars, but were up 3.6% when excluding currency effects. Applied Technologies sales were down 4.4% in U.S. dollars and 2.0% in local currencies.

Gross profit was 40.6% of net sales in 2001 as compared to 39.5% in 2000. Excluding the effects of currency fluctuation and costs in both years related to the relocation of assets, gross profit was 40.8% in 2001 and 40.7% in 2000.

Selling, general, technical and research expenses decreased 0.1% in 2001 as compared to 2000. Excluding the effect of the stronger U.S. dollar, these costs increased 2.7%, principally due to lower currency remeasurement gains on receivables and a one-time insurance benefit received in 2000.

In 2001, the Company recorded a $21.9 million charge for restructuring of operations related to a $25 million cost reduction initiative that was announced in July 2001. The charge included $13.7 million for termination benefits, $4.1 million for plant rationalization costs, $6.5 million for losses on disposal of assets, and a reversal of accruals from previous restructuring initiatives of $2.4 million. Cost of goods sold includes costs of $1.6 million in 2001 and $9.7 million in 2000 for the relocation of equipment.

Operating income before restructuring rose 2.3% in comparison to 2000. In the Engineered Fabrics segment, operating income before restructuring was 22.7% of net sales in 2001, compared to 21.4% in 2000. The higher percentage in 2001 is primarily due to higher asset relocation costs in 2000. In the Albany Door Systems segment, operating income as a percentage of net sales was 9.6% in 2001 in comparison to 8.0% in 2000. The increase is primarily attributable to operating efficiency improvements. In the Applied Technologies segment, operating income was lower as the global economic slowdown negatively impacted results.

Other expense/(income), net was $2.8 million of expense in 2001 compared to $0.8 million of income in 2000. Currency transactions generated income of $1.9 million in 2001 and $4.0 million in 2000. During 2001, the Company entered into a program to sell a portion of its North American accounts receivable (see Notes 1, 6 and 10 of Notes to Consolidated Financial Statements). In 2001, other expense/(income), net, includes costs of $1.8 million associated with this program. Also included in other expense/(income), net, for 2001 is a gain of $1.3 million related to the sale of buildings.



Interest expense decreased $12.3 million as compared with 2000. This decrease was due to lower average debt and interest rates during 2001, as compared to 2000.

The tax rate for 2001 was 37%, compared to 40% in 2000. The lower tax rate resulted from improvements in the tax efficiency of the Company's global operations.

The Company recorded a charge in 2001 of $1.1 million for the cumulative effect of a change in accounting principle, net of tax. The charge relates to the adoption of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company has a lease for manufacturing facilities in Italy that has been accounted for as an adjustment to income in accordance with this Standard.

Diluted net income per share was $1.03 in 2001 compared to $1.24 in 2000. Excluding the cumulative effect of the change in accounting principle, restructuring charges, and asset relocation costs in both years, diluted earnings per share were $1.54 in 2001 compared to $1.43 per share in 2000.

**International Activities**

The Company conducts more than half of its business in countries outside of the United States. As a result, the Company experiences transaction and translation gains and losses because of currency fluctuations. The Company periodically enters into foreign currency contracts to hedge this exposure (see Notes 6, 10 and 15 of Notes to Consolidated Financial Statements). The Company believes that the risks associated with its operations and locations outside the United States are not other than those normally associated with operations in such locations.

Operating income as a percentage of net sales related to the Company's geographic regions in 2002 as compared to 2001 increased in the United States and Canada and decreased in Europe. Operating income, before the restructuring charges, as a percent of net sales for the United States was 15.8% in 2002, 13.8% in 2001, and 14.1% in 2000; for Canada was 26.3% in 2002, 23.3% in 2001, and 21.8% in 2000; for Europe was 5.5% in 2002, 8.3% in 2001, and 8.8% in 2000; and combined for the rest of the countries where the Company has operations, the percentages were 18.1% in 2002, 17.6% in 2001, and 10.7% in 2000.

**Liquidity and Capital Resources**

At December 31, 2002 the Company's order backlog was $567.5 million, a decrease of approximately 4.6% from the prior year-end. The decrease is partially due to a change in the timing of when the Company records orders. The change was made to assist with the Company's inventory management programs.

Accounts receivable decreased $7.8 million and inventory decreased $10.0 million from December 31, 2001. Excluding the effect of currency translation and an increase in the amount of accounts receivable sold, the combined decrease in accounts receivable and inventory was $30.8 million.

During 2001, the Company entered into a program to sell a portion of its North American accounts receivable. In exchange for the accounts receivable sold, the Company receives cash and a note. As of December 31, 2002, accounts receivable sold under this program were $71.1 million and the note receivable was $20.1 million. The note is subject to monthly fluctuation based on the amount of receivables sold and bears interest at variables rates. As of December 31, 2002, the interest rate was 2.41%.

Cash flow provided by operating activities was $118.8 million in 2002 compared with $214.3 million in 2001 and $130.6 million in 2000. The cash flow in 2001 included approximately $40.9 million from the sale of accounts receivable. This cash flow contributed to the Company's ability to reduce debt by $197.8 million during 2001 and an additional $46.2 million in 2002.

In 2002, the Company made an annual contribution of $12.0 million to its United States pension plan compared to $7.4 million in 2001. 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.



Continued weakness in investment returns and low interest rates may result in the Company making equal or greater pension plan contributions in future years, as compared to 2002. As of December 31, 2002, the Company has classified $12.0 million of its accrued pension liability as a current liability.

Capital expenditures were $31.7 million in 2002, $25.8 million in 2001, and $36.9 million in 2000. Capital expenditures are expected to be about $55 million in 2003. The increase is due to a new plant in France, where the Company will consolidate production to serve the nonwovens market, and to an expansion in Finland that will enable the Company to consolidate dryer production into two European locations. The Company will continue to finance these expenditures with cash from operations and existing credit facilities.

In August 1999, the Company entered into a $750 million credit agreement with its banks. This facility included a $250 million term loan that was fully paid during 2001. The remaining $500 million is a revolving loan with the banks' commitment to lend terminating in 2004. This agreement includes commitment fees and variable interest rates based on various loan pricing methods. The interest rate margin is determined by the Company's leverage ratio. The credit agreement contains various covenants that include limits on the disposition of assets, cash dividends, and the Company's ability to purchase its Common Stock. Additionally, the credit agreement specifies minimum interest coverage of 3.0, a maximum leverage ratio of 3.0 and a limitation on guarantees to non-U.S. subsidiaries. The December 31, 2002 leverage ratio as calculated under the Company's principal credit agreement was below 1.5. Borrowings are collateralized by a pledge of shares of, and intercompany loans to, certain subsidiaries of the Company. The Company believes it has adequate cash and cash resources to meet its obligations during the next twelve months.

As described in Note 6 of Notes to Consolidated Financial Statements, the banks' commitment to lend under the Company's primary debt agreement terminates in 2004. The Company expects to refinance its debt before the revolving credit agreement expires in 2004. Under this debt agreement, the Company could have borrowed an additional $240 million at December 31, 2002. The Company's ability to borrow additional amounts under the credit agreement is conditional upon the absence of any material adverse change.

As described in Notes 1 and 6 of Notes to Consolidated Financial Statements, the Company has one subsidiary that is a qualified special purpose entity and is not consolidated into the Company's financial statements. As of December 31, 2002, this unconsolidated subsidiary had assets of $20.9 million, liabilities of $20.1 million, and equity of $0.8 million.

As of December 31, 2002, the Company had accrued liabilities for restructuring of approximately $9.4 million. The Company anticipates that cash payments of this liability will be approximately $5.5 million in 2003, $2.0 million in 2004, $0.6 million in 2005, $0.5 million in 2006, $0.5 million in 2007 and thereafter $0.3 million.

The Company has guaranteed a letter of credit to a bank that loaned money to a joint venture partner in South Africa. The bank can draw upon the letter of credit if the joint venture partner defaults on the loan. The letter of credit is denominated in South African rand and was approximately $3.2 million as of December 31, 2002.

A cash dividend of $.05 per share was declared in November 2001 and February, May and August 2002. In November 2002, a cash dividend of $.055 per share was declared.



As of December 31, 2002, the Company had the following cash flow obligations:

**Payments Due by Period**

| *(in millions)* | Total | Less Than One Year | One to Three Years | Three to Five Years | After Five Years |
|---|---|---|---|---|---|
| Total debt | $ 235.8 | $ 14.1 | $ 208.0 | $ 12.3 | $ 1.4 |
| Operating leases | 54.6 | 15.2 | 22.7 | 12.1 | 4.7 |
| | $ 290.4 | $ 29.3 | $ 230.7 | $ 24.1 | $ 6.1 |

**Recent Accounting Pronouncements**

In August 2001, FAS No. 143, "Accounting for Asset Retirement Obligations" was issued. FAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred commencing for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of FAS No. 143 to have a material effect on its financial statements.

In April 2002, the Financial Accounting Standards Board (FASB) issued FAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002". This Standard addresses a number of items related to leases and other matters. The Company is required to adopt this Standard as of January 1, 2003. The Company does not expect the adoption of FAS No. 145 to have a material effect on its financial statements.

In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Standard provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. This statement is effective for exit or disposal activities initiated on or after January 1, 2003. Adoption of this standard is expected to affect the timing of recognizing costs associated with future exit and disposal activities.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock Based Compensation—an amendment of FAS 123". This Standard provides transitional guidance for companies that elect to adopt the provisions of FAS No. 123, and also specifies certain disclosure requirements for companies that continue to use APB 25 to account for stock options. In accordance with FAS No. 148, the disclosure requirements have been adopted and are included in this annual report.

In December 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees". This interpretation requires that certain guarantees issued or modified after December 31, 2002 be valued and recorded as liabilities while disclosure requirements are effective immediately and have been adopted. The Company does not expect the adoption of FIN 45 to have a material effect on its financial statements.

**Market Risk Sensitivity**

The Company has market risk with respect to foreign currency exchange rates and interest rates. The market risk is the potential loss arising from adverse changes in these rates as discussed below.

The Company has manufacturing plants in 15 countries and sales worldwide and therefore is subject to foreign currency risk. This risk is composed of both potential losses from the translation of foreign currency financial statements and the remeasurement of foreign currency transactions. To manage this risk, the Company periodically enters into forward exchange contracts to either hedge the net assets of a foreign investment or to provide an economic hedge against future cash flows. The total net assets of non-U.S. operations and long-term intercompany loans denominated in non-functional currencies subject to potential loss amount to approximately $589 million. The potential loss in fair value resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates



amounts to $58.9 million. Furthermore, related to foreign currency transactions, the same 10% change would cause an additional loss of $1.1 million. Actual results may differ.

Including the effect of the interest rate swap agreements, the Company had fixed the interest rate on approximately 85% of its total debt. Included in liabilities is $21.6 million which represents the estimated decline in market value since entering into the swap agreements.

**Outlook**

The Company expects further consolidation and restructuring in paper manufacturing in 2003, aimed at balancing supply and demand. In response, the Company will balance manufacturing capacity to customer demand. Because Company facilities are strategically located, the Company will be able to support customer needs whenever and wherever they develop.

It is important that the Company listen to the needs of customers and that customers understand the value delivered through Company products and services. In 2002, the Company created the Albany Value Concept, a campaign to focus internally and externally on value delivered. The Company will continue to develop new products and technology to drive value delivered, which will assist customers in enhancing their products, expanding their markets, and improving their profitability. The Company understands that the success of its customers is essential to its future.

Ongoing process improvement activities in Albany Door Systems, combined with new product development and cost reductions should positively affect this segment's operations in 2003. Reorganization within the Applied Technologies segment along with new products should lead to improved operating results in 2003.

Having successfully completed the previously announced cost reduction initiatives, which reduced costs by $75 million since 1999, the Company has announced its intention to reduce costs an additional $30 million by June 2004. This global initiative will focus on the continued rationalization of assets, the reorganization of our research and development activities, and reductions in selling, general, technical and research costs. During February 2003, the Company resolved certain income tax matters that will result in a reduction of approximately $5 million in the first-quarter 2003 income tax provision. The Company expects the favorable resolution of these tax matters to cause the estimated 2003 tax rate to be less than the 30% rate provided as guidance in its fourth-quarter 2002 earnings release.

**Forward-Looking Statements**

This annual report contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These statements include statements about such matters as future earnings, pricing, markets, cost reductions, allowances for doubtful accounts, borrowing capacity, exchange rates, new products, paper industry consolidation and outlook, tax rate, capital expenditures, depreciation and amortization, litigation, contingencies, adoption of new accounting standards and operating efficiency. Actual future events and circumstances (including future performance, results and trends) could differ materially from those set forth in such statements due to various factors. These factors include more competitive marketing conditions resulting from customer consolidations, possible softening of customer demand, the occurrence of unanticipated events or difficulties relating to divestiture, joint venture, operating, capital, global integration and other projects, changes in currency exchange rates, changes in general economic and competitive conditions, technological developments, and other risks and uncertainties, including those detailed in the Company's filings with the Securities and Exchange Commission.



**ELEVEN YEAR SUMMARY**
**ALBANY INTERNATIONAL CORP.**

| *(in thousands, except per share amounts)* | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|
| **Summary of Operations** | | | | |
| Net sales | $ **816,047** | $ 836,696 | $ 852,934 | $ 778,366 |
| Cost of goods sold | **475,765** | 497,301 | 515,649 | 458,930 |
| Operating income (1) | **102,088** | 84,112 | 103,634 | 76,987 |
| Interest expense, net | **17,536** | 28,916 | 41,822 | 25,552 |
| Income before income taxes | **79,549** | 52,363 | 62,567 | 51,916 |
| Income taxes | **25,041** | 19,374 | 25,027 | 22,325 |
| Income before associated companies | **54,508** | 32,989 | 37,540 | 29,591 |
| Income/(loss) before cumulative effect of changes in accounting principles | **54,778** | 33,331 | 38,085 | 30,222 |
| Cumulative effect of changes in accounting principles, net of tax (2) | **(5,837)** | (1,129) | — | — |
| Net income/(loss) (3) | **48,941** | 32,202 | 38,085 | 30,222 |
| Net income/(loss) per share—basic | **1.52** | 1.04 | 1.24 | 1.00 |
| Net income/(loss) per share—diluted | **1.50** | 1.03 | 1.24 | 0.99 |
| Average number of shares outstanding | **32,126** | 31,089 | 30,632 | 30,340 |
| Capital expenditures | **31,678** | 25,831 | 36,866 | 34,953 |
| Cash dividends declared | **6,605** | 1,568 | — | — |
| Per Class A common share | **0.205** | 0.05 | — | — |
| Per Class B common share | **0.205** | 0.05 | — | — |

| | | | | |
|---|---|---|---|---|
| **Financial position** | | | | |
| Current assets | **$ 388,888** | $ 365,946 | $ 494,287 | $ 508,073 |
| Current liabilities | **186,494** | 186,072 | 222,034 | 176,964 |
| Current ratio | **2.1** | 2.0 | 2.2 | 2.9 |
| Property, plant and equipment, net | **346,073** | 339,102 | 387,658 | 435,172 |
| Total assets | **1,011,521** | 931,929 | 1,112,252 | 1,206,842 |
| Long-term debt | **221,703** | 248,146 | 398,087 | 521,257 |
| Shareholders' equity | **400,598** | 316,644 | 324,917 | 325,407 |
| Shareholders' equity per share | **12.37** | 10.09 | 10.55 | 10.68 |
| Total capital (4) | **636,439** | 598,413 | 804,856 | 889,677 |
| Total debt to total capital | **37.1%** | 47.1% | 59.6% | 63.4% |
| Return on shareholders' equity | **12.2%** | 10.2% | 11.7% | 9.3% |
| **Number of Employees** | **6,208** | 6,769 | 6,929 | 7,164 |

(1) In 1992, the Company reported a charge of $12,045,000 for restructuring of certain operations, including plant closings in Norway and Germany and other workforce reductions.

In 1998, the Company reported a charge of $20,191,000 for restructuring certain operations in the United States and Europe.

In 1999, the Company reported a charge of $16,872,000 for restructuring certain operations in the United States and Germany. The restructuring charge included $12,956,000 for termination benefits, $1,540,000 for plant rationalization costs, and $2,376,000 for losses on disposals of fixed assets.

In 2001, the Company recorded a charge of $21,892,000 for restructuring operations in the Engineered Fabrics segment. The charge included $13.7 million for termination benefits, $4.1 million for plant rationalization costs, $6.5 million for losses on disposal of fixed assets, and a reversal of previous restructuring accruals of $2.4 million.

(2) In 2001, the Company adopted Financial Accounting Standard (FAS) 133, "Accounting for Derivative Instruments and Hedging Activities", which resulted in a net of tax charge of $1,129,000 for the cumulative effect change in accounting principle.

In 2002, the Company adopted FAS 142, "Goodwill and Other Intangible Assets", which resulted in a charge of $5,837,000 for the cumulative effect of a change in accounting principle. There was no tax effect on this charge.



**ELEVEN YEAR SUMMARY**

**ALBANY INTERNATIONAL CORP.**

| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| $ 722,653 | $ 710,079 | $ 692,760 | $ 652,645 | $ 567,583 | $ 546,120 | $ 561,084 |
| 417,375 | 404,982 | 399,311 | 379,696 | 338,991 | 345,468 | 366,756 |
| 70,608 | 99,619 | 96,785 | 88,827 | 62,821 | 40,051 | 18,893 |
| 19,310 | 15,467 | 15,833 | 20,009 | 16,820 | 16,115 | 18,829 |
| 51,704 | 79,631 | 80,940 | 69,842 | 41,677 | 24,566 | 3,282 |
| 20,163 | 31,055 | 31,570 | 27,208 | 17,921 | 9,679 | 1,247 |
| 31,541 | 48,576 | 49,370 | 42,634 | 23,756 | 14,887 | 2,035 |
| 31,772 | 49,059 | 48,306 | 43,011 | 23,882 | 15,003 | (3,114) |
| — | — | — | — | — | — | — |
| 31,772 | 49,059 | 48,306 | 43,011 | 23,882 | 15,003 | (3,114) |
| 1.02 | 1.52 | 1.51 | 1.36 | 0.76 | 0.54 | (0.12) |
| 1.01 | 1.50 | 1.50 | 1.29 | 0.76 | 0.53 | (0.12) |
| 31,073 | 32,312 | 31,907 | 31,737 | 31,476 | 28,035 | 26,858 |
| 38,825 | 50,804 | 53,473 | 41,921 | 36,322 | 30,940 | 20,219 |
| 3,140 | 12,921 | 12,159 | 11,708 | 10,488 | 9,361 | 8,950 |
| 0.105 | 0.42 | 0.40 | 0.3875 | 0.35 | 0.35 | 0.35 |
| 0.105 | 0.42 | 0.40 | 0.3875 | 0.35 | 0.35 | 0.35 |
| $ 409,713 | $ 373,323 | $ 384,627 | $ 364,207 | $ 319,947 | $ 270,034 | $ 256,422 |
| 220,038 | 170,440 | 176,746 | 126,945 | 115,863 | 101,069 | 112,955 |
| 1.9 | 2.2 | 2.2 | 2.9 | 2.8 | 2.7 | 2.3 |
| 325,109 | 321,611 | 339,461 | 342,150 | 320,719 | 302,829 | 308,618 |
| 866,366 | 796,897 | 831,917 | 802,232 | 727,157 | 661,314 | 652,745 |
| 181,137 | 173,654 | 187,100 | 245,265 | 232,767 | 208,620 | 239,732 |
| 314,850 | 343,108 | 332,330 | 304,942 | 274,632 | 247,223 | 193,975 |
| 10.42 | 10.63 | 10.38 | 9.57 | 8.70 | 7.87 | 7.20 |
| 613,993 | 594,560 | 586,890 | 567,460 | 525,119 | 467,320 | 456,773 |
| 48.7% | 42.3% | 43.4% | 46.3% | 47.7% | 47.1% | 57.5% |
| 10.1% | 14.3% | 14.5% | 14.1% | 8.7% | 6.1% | -1.6% |
| 6,011 | 5,881 | 5,854 | 5,658 | 5,404 | 5,286 | 5,678 |

(3) In 1992, the Company elected to adopt FAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", effective January 1, 1992, and recognize the accumulated liability. This adoption resulted in a charge of $27,431,000, net of tax of $16,813,000, and a reduction of 1992 operating income of $2,798,000.

The Company's election to adopt FAS No. 109 as of January 1, 1992, resulted in an increase to 1992 income of $20,142,000.

During the fourth quarter of 1992, the Company elected an early payment of a $3,000,000 tax-exempt financing for $1,357,000, which resulted in an extraordinary gain of $1,019,000, net of tax.

In 1996, the Company recorded a one-time, extraordinary, non-cash charge to income of $1,296,000, net of tax of $828,000, related to the redemption of 5.25% convertible subordinated debentures.

(4) Includes shareholders' equity and debt.



**QUARTERLY FINANCIAL DATA**

**(unaudited)**

| *(in millions, except per share amounts)* | **1st** | **2nd** | **3rd** | **4th** |
|---|---|---|---|---|
| **2002** | | | | |
| Net sales | $ 191.8 | $ 203.9 | $ 205.1 | $ 215.2 |
| Gross profit | 80.5 | 86.4 | 84.7 | 88.7 |
| Net income before cumulative effect of a change in accounting principle | 8.9 | 13.9 | 14.2 | 17.8 |
| Net income | 3.0 | 13.9 | 14.2 | 17.8 |
| Income per share before cumulative effect of a change in accounting principle—basic | 0.28 | 0.43 | 0.44 | 0.55 |
| Net income per share—basic | 0.10 | 0.43 | 0.44 | 0.55 |
| Net income per share before cumulative effect of a change in accounting principle—diluted | 0.27 | 0.43 | 0.43 | 0.55 |
| Net income per share—diluted | 0.09 | 0.43 | 0.43 | 0.54 |
| Cash dividends per share | 0.050 | 0.050 | 0.050 | 0.055 |
| Class A Common Stock prices: | | | | |
| High | 30.10 | 29.88 | 26.11 | 21.60 |
| Low | 20.77 | 24.18 | 18.93 | 16.96 |
| 2001 | | | | |
| Net sales | $ 208.5 | $ 207.1 | $ 202.7 | $ 218.4 |
| Gross profit | 87.1 | 85.9 | 76.9 | 89.5 |
| Net income before cumulative effect of a change in accounting principle | 12.3 | 10.9 | 9.4 | 0.7 |
| Net income | 11.2 | 10.9 | 9.4 | 0.7 |
| Income per share before cumulative effect of a change in accounting principle—basic | .40 | .35 | .30 | .02 |
| Net income per share—basic | .37 | .35 | .30 | .02 |
| Income per share before cumulative effect of a change in accounting principle—diluted | .39 | .35 | .30 | .02 |
| Net income per share—diluted | .36 | .35 | .30 | .02 |
| Cash dividends per share | — | — | — | .05 |
| Class A Common Stock prices: | | | | |
| High | 19.44 | 22.88 | 21.10 | 21.85 |
| Low | 12.94 | 17.58 | 14.55 | 14.79 |
| 2000 | | | | |
| Net sales | $ 215.7 | $ 213.0 | $ 201.1 | $ 223.1 |
| Gross profit | 87.3 | 85.3 | 79.4 | 85.3 |
| Net income | 10.0 | 9.4 | 9.4 | 9.3 |
| Net income per share—basic | .33 | .31 | .30 | .30 |
| Net income per share—diluted | .33 | .31 | .30 | .30 |
| Cash dividends per share | — | — | — | — |
| Class A Common Stock prices: | | | | |
| High | 15.50 | 15.38 | 15.13 | 14.31 |
| Low | 12.75 | 12.94 | 11.94 | 9.62 |



**Stock and Shareholders**

The Company's Class A Common Stock is traded principally on the New York Stock Exchange. At December 31, 2002 there were approximately 5,700 shareholders.

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**Exhibit 21**

## SUBSIDIARIES OF REGISTRANT

| Affiliate | Percent Ownership Direct | Percent Ownership Indirect | Country of Incorporation |
|---|---|---|---|
| Albany International Corp. | | | United States |
| Albany International Holdings Two, Inc. | 100% | | United States |
| Albany International Research Co. | 100% | | United States |
| Albany International Techniweave, Inc. | 100% | | United States |
| Geschmay Corp. | 100% | | United States |
| Geschmay Export Corp. | | 100% | Virgin Islands |
| Albany International Pty., Ltd. | | 100% | Australia |
| Albany Door Systems GmbH | | 100% | Austria |
| SA Alfadoor NV | | 100% | Belgium |
| Albany International Tecidos Tecnicos Ltda. | | 100% | Brazil |
| Albany International Feltros e Telas Industriais Ltda. | | 100% | Brazil |
| Albany International Canada Corp. | | 100% | Canada |
| Albany International Receivables Corporation | | 100% | Cayman Islands |
| Albany International (China) Co., Ltd. | 100% | | China |
| Albany Door Systems A/S | | 67% | Denmark |
| Albany International Oy | | 100% | Finland |
| Metco Form Oy | | 100% | Finland |
| Albany Door Systems S.A.R.L. | | 100% | France |
| Albany International France, S.A.S. | | 100% | France |
| Albany International S.A.S. | | 100% | France |
| Cofpa S.A. | | 100% | France |
| Albany Door Systems GmbH | | 100% | Germany |
| Albany International Germany Holding GmbH | | 100% | Germany |
| Albany International Germany Three GmbH | | 100% | Germany |
| Albany International GmbH | | 100% | Germany |
| Albany International GmbH & Co. KG | | 100% | Germany |
| Nomafa GmbH | | 100% | Germany |
| Wurttembergische Filztuchfabrik D. Geschmay GmbH & Co. KG | | 100% | Germany |
| Albany International Financial Services Company | | 100% | Ireland |
| Albany International Italia S.a.r.l. | | 100% | Italy |
| Albany International S.p.A. | | 100% | Italy |
| Albany Nordiskafilt Kabushiki Kaisha | | 100% | Japan |
| Albany International Korea, Inc. | | 100% | Korea |
| Albany International Holding S.A. de C.V. | 100% | | Mexico |
| Albany International de Mexico S.A. de C.V. | | 100% | Mexico |
| Albany International Service Company S.A. de C.V. | | 100% | Mexico |
| Martel Wire S.A. de C.V. | | 100% | Mexico |
| Albany Door Systems B.V. | | 100% | Netherlands |
| Albany International B.V. | | 100% | Netherlands |
| Albany International AS | | 100% | Norway |
| Schieffer Polska Sp. zo.o. | 100% | | Poland |
| Nevo-Cloth Ltd. | | 50% | Russia |
| Geschmay Asia Private Limited | | 100% | Singapore |
| Beier Albany and Company (Proprietary Limited) | 50% | | South Africa |
| Nordiskafilt S.A. (Proprietary) Ltd. | | 100% | South Africa |
| Albany International Holding AB | | 100% | Sweden |
| Albany Door Systems AB | | 100% | Sweden |
| Albany International AB | | 100% | Sweden |
| Portsam AB | | 100% | Sweden |
| Albany International Holding (Switzerland) AG | | 100% | Switzerland |
| AI (Switzerland) GmbH | | 100% | Switzerland |
| Albany Door Systems AG | | 100% | Switzerland |
| Albany International Ltd. | | 100% | United Kingdom |
| Loading Bay Specialists Limited | | 50% | United Kingdom |

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SUBSIDIARIES OF REGISTRANT

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**Exhibit 23**

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-28028, 33-60767, 333-76078, and 333-90069) of Albany International Corp. of our report dated January 28, 2003 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 28, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Albany, New York
March 20, 2003

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**Exhibit 24**

**POWERS OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned directors and officers of Albany International Corp., a Delaware corporation ("the Company"), which contemplates that from time to time it will file with the Securities and Exchange Commission ("the SEC") under, or in connection with, the provisions of the Securities Exchange Act of 1934, as amended, or rules and regulations promulgated thereunder, reports (including, without limitation, reports on Forms 8-K, 10-Q, and 10-K), statements and other documents (such reports, statements, and other documents, together with amendments, supplements, and exhibits thereto, are collectively hereinafter referred to as "1934 Act Reports"), hereby constitutes and appoints Frank R. Schmeler, Michael C. Nahl, Richard A. Carlstrom, Thomas H. Hagoort, David C. Michaels, and Charles J. Silva Jr., and each of them with full power to act without the others, his or her true and lawful attorneys-in-fact and agents, with full and several power of substitution, for him and her and in his or her name, place, and stead, in any and all capacities, to sign any or all 1934 Act Reports and any or all other documents relating thereto, with power where appropriate to affix the corporate seal of the Company thereto and to attest said seal, and to file any or all 1934 Act Reports, together with any and all other information and documents in connection therewith, with the SEC, hereby granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

The appointment of any attorney-in-fact and agent hereunder shall automatically terminate at such time as such attorney-in-fact and agent ceases to be an officer of the Company. Any of the undersigned may terminate the appointment of any of his or her attorneys-in-fact and agents hereunder by delivering written notice thereof to the Company.

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IN WITNESS WHEREOF, the undersigned have duly executed this Power of Attorney this 9th day of February, 2003.

/s/ FRANK R. SCHMELER

Frank R. Schmeler
*Chairman of the Board and Director (Chief Executive Officer)*

/s/ MICHAEL C. NAHL

Michael C. Nahl
*Senior Vice President*
*(Chief Financial Officer)*

/s/ RICHARD A. CARLSTROM

Richard A. Carlstrom
*Vice President—Controller (Principal Accounting Officer)*

/s/ FRANCIS L. MCKONE

Francis L. McKone
*Director*

/s/ CHARLES B. BUCHANAN

Charles B. Buchanan
*Director*

/s/ THOMAS R. BEECHER JR.

Thomas R. Beecher Jr.
*Director*

/s/ ALLAN STENSHAMN

Allan Stenshamn
*Director*

/s/ BARBARA P. WRIGHT

Barbara P. Wright
*Director*

/s/ JOSEPH G. MORONE

Joseph G. Morone, Ph.D.
*Director*

/s/ CHRISTINE L. STANDISH

Christine L. Standish
*Director*

/s/ ERLAND E. KAILBOURNE

Erland E. Kailbourne
*Director*

/s/ JAMES L. FERRIS

James L. Ferris
*Director*

/s/ JOHN C. STANDISH

John C. Standish
*Director*



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**Exhibit 99.1**

**Certification**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), Frank R. Schmeler, the Chief Executive Officer of Albany International Corp., a Delaware corporation (the "*Company*"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2002 (the "*Form 10-K*") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company, for the period covered by the report.

| | |
|---|---|
| Dated: March 21, 2003 | /s/ FRANK R. SCHMELER |
| | Frank R. Schmeler<br>*Chairman and Chief Executive Officer* |

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Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

**Exhibit 99.2**

**Certification**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), Frank R. Schmeler, the Chief Executive Officer of Albany International Corp., a Delaware corporation (the "*Company*"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2002 (the "*Form 10-K*") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company, for the period covered by the report.

| | |
|---|---|
| Dated: March 21, 2003 | /s/ MICHAEL C. NAHL |
| | Michael C. Nahl<br>*Senior Vice President and Chief Financial Officer* |