UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: June 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

216 Airport Drive, Rochester, New Hampshire

(Address of principal executive offices)

14-0462060

(IRS Employer Identification No.)

03867

(Zip Code)

603-330-5850

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.001 par value per share	AIN	The New York Stock Exchange (NYSE)
Class B Common Stock, $0.001 par value per share	AIN	The New York Stock Exchange (NYSE)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The registrant had 30.7 million shares of Class A Common Stock and 1.6 million shares of Class B Common Stock outstanding as of July 21, 2020.

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ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net sales	$ 225,990	$ 273,949	$ 461,754	$ 525,321
Cost of goods sold	123,010	168,767	269,302	328,368
Gross profit	102,980	105,182	192,452	196,953
Selling, general, and administrative expenses	38,543	40,816	78,649	81,761
Technical and research expenses	8,873	9,242	18,003	19,491
Restructuring expenses, net	2,837	899	3,479	1,383
Operating income	52,727	54,225	92,321	94,318
Interest expense, net	3,823	4,631	7,800	9,048
Other expense/(income), net	1,091	930	16,660	(278)
Income before income taxes	47,813	48,664	67,861	85,548
Income tax expense	15,364	14,405	27,818	21,881
Net income	32,449	34,259	40,043	63,667
Net (loss)/income attributable to the noncontrolling interest	95	205	(1,420)	423
Net income attributable to the Company	$ 32,354	$ 34,054	$ 41,463	$ 63,244
Earnings per share attributable to Company shareholders - Basic	$ 1.00	$ 1.05	$ 1.28	$ 1.96
Earnings per share attributable to Company shareholders - Diluted	$ 1.00	$ 1.05	$ 1.28	$ 1.96
Shares of the Company used in computing earnings per share:				
Basic	32,328	32,299	32,320	32,286
Diluted	32,336	32,311	32,328	32,298
Dividends declared per share, Class A and Class B	$ 0.19	$ 0.18	$ 0.38	$ 0.36

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

ALBANY INTERNATIONAL CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	$ 32,449	$ 34,259	$ 40,043	$ 63,667
Other comprehensive income/(loss), before tax:				
Foreign currency translation and other adjustments	8,753	(50)	(16,202)	(2,202)
Pension/postretirement settlements and curtailments	378	—	378	—
Amortization of pension liability adjustments:				
Prior service credit	(1,114)	(1,105)	(2,228)	(2,210)
Net actuarial loss	1,232	1,118	2,476	2,239
Payments and amortization related to interest rate swaps included in earnings	1,116	(420)	1,523	(872)
Derivative valuation adjustment	(1,366)	(5,887)	(12,130)	(9,264)
Income taxes related to items of other comprehensive income/(loss):				
Pension/postretirement settlements and curtailments	(113)	—	(113)	—
Amortization of pension liability adjustment	(30)	(4)	(62)	(9)
Payments and amortization related to interest rate swaps included in earnings	(286)	108	(390)	223
Derivative valuation adjustment	349	1,504	3,102	2,367
Comprehensive income	41,368	29,523	16,397	53,939
Comprehensive income/(loss) attributable to the noncontrolling interest	247	207	(1,159)	417
Comprehensive income/(loss) attributable to the Company	$ 41,121	$ 29,316	$ 17,556	$ 53,522

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

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

	June 30, 2020		December 31, 2019	
ASSETS				
Cash and cash equivalents	$	204,037	$	195,540
Accounts receivable, net		202,612		218,271
Contract assets, net		96,092		79,070
Inventories		115,532		95,149
Income taxes prepaid and receivable		5,998		6,162
Prepaid expenses and other current assets		26,209		24,142
Total current assets	$	650,480	$	618,334
Property, plant and equipment, net		443,046		466,462
Intangibles, net		49,706		52,892
Goodwill		181,302		180,934
Deferred income taxes		40,999		51,621
Noncurrent receivables, net		36,901		41,234
Other assets		59,526		62,891
Total assets	$	1,461,960	$	1,474,368
LIABILITIES AND SHAREHOLDERS' EQUITY				
Accounts payable	$	50,181	$	65,203
Accrued liabilities		115,458		125,885
Current maturities of long-term debt		17		20
Income taxes payable		11,546		11,611
Total current liabilities		177,202		202,719
Long-term debt		435,000		424,009
Other noncurrent liabilities		134,898		132,725
Deferred taxes and other liabilities		8,702		12,226
Total liabilities		755,802		771,679
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; 39,112,722 issued in 2020 and 39,098,792 in 2019		39		39
Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 1,617,998 in 2020 and 2019		2		2
Additional paid in capital		432,738		432,518
Retained earnings		726,233		698,496
Accumulated items of other comprehensive income:				
Translation adjustments		(139,635)		(122,852)
Pension and postretirement liability adjustments		(48,962)		(49,994)
Derivative valuation adjustment		(11,030)		(3,135)
Treasury stock (Class A), at cost; 8,394,022 shares in 2020 and 8,408,770 shares in 2019		(256,074)		(256,391)
Total Company shareholders' equity		703,311		698,683
Noncontrolling interest		2,847		4,006
Total equity		706,158		702,689
Total liabilities and shareholders' equity	$	1,461,960	$	1,474,368

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
OPERATING ACTIVITIES				
Net income	$ 32,449	$ 34,259	$ 40,043	$ 63,667
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	15,498	15,345	31,004	30,987
Amortization	2,456	2,409	5,020	4,723
Change in deferred taxes and other liabilities	3,543	319	9,360	(746)
Provision for write-off of property, plant and equipment	36	720	233	1,106
Non-cash interest expense	20	152	171	303
Compensation and benefits paid or payable in Class A Common Stock	1,198	1,170	516	623
Fair value adjustment on foreign currency option	—	—	64	—
Provision for credit losses from uncollected receivables and contract assets	114	219	1,769	804
Foreign currency remeasurement loss/(gain) on intercompany loans	194	100	15,581	(1,607)
Changes in operating assets and liabilities that provided/(used) cash:				
Accounts receivable	11,511	14,215	8,117	2,006
Contract assets	(11,169)	3,528	(20,009)	3,047
Inventories	(4,878)	(1,505)	(24,628)	(18,167)
Prepaid expenses and other current assets	(301)	(1,384)	(2,457)	(4,188)
Income taxes prepaid and receivable	29	(316)	(208)	358
Accounts payable	(9,337)	(14,276)	(10,383)	7,474
Accrued liabilities	4,171	(1,074)	(10,901)	(12,169)
Income taxes payable	5,526	5,724	1,955	7,230
Noncurrent receivables	628	(46)	397	(340)
Other noncurrent liabilities	(464)	(481)	(524)	(2,160)
Other, net	(552)	(548)	(1,086)	145
Net cash provided by operating activities	50,672	58,530	44,034	83,096
INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(9,212)	(14,606)	(21,971)	(35,404)
Purchased software	—	(27)	(46)	(49)
Net cash used in investing activities	(9,212)	(14,633)	(22,017)	(35,453)
FINANCING ACTIVITIES				
Proceeds from borrowings	—	—	70,000	20,000
Principal payments on debt	(56,005)	(9,004)	(59,011)	(37,008)
Principal payments on finance lease liabilities	(329)	(178)	(6,463)	(578)
Taxes paid in lieu of share issuance	—	—	(490)	(971)
Proceeds from options exercised	20	28	20	72
Dividends paid	(6,141)	(5,813)	(12,280)	(11,621)
Net cash used in financing activities	(62,455)	(14,967)	(8,224)	(30,106)
Effect of exchange rate changes on cash and cash equivalents	2,352	(1,082)	(5,296)	(59)
Increase/(decrease) in cash and cash equivalents	(18,643)	27,848	8,497	17,478
Cash and cash equivalents at beginning of period	222,680	187,385	195,540	197,755
Cash and cash equivalents at end of period	$ 204,037	$ 215,233	$ 204,037	$ 215,233

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

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

1. Significant Accounting Policies

Basis of Presentation

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

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

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Albany International Corp.’s Annual Report on Form 10-K for the year ended December 31, 2019.

Effective January 1, 2020, we adopted the provisions of ASC 326, *Current Expected Credit Losses (CECL)*, using the effective date (or modified retrospective) approach for transition. Under this transition method, periods prior to 2020 were not restated. The pre-tax cumulative effect of initially applying the new standard was an increase in credit loss reserves of $1.8 million, primarily for Accounts receivable and Contract assets. Including tax effects, Retained earnings was reduced by $1.4 million as a result of transitioning to the new standard. The effect of the application of CECL during the first quarter of 2020 is further described in Notes 11 and 12.

2. Reportable Segments

In accordance with applicable disclosure guidance for enterprise segments and related information, the internal organization that is used by management for making operating decisions and assessing performance is used as the basis for our reportable segments.

The Machine Clothing (“MC”) segment supplies permeable and impermeable belts used in the manufacture of paper, paperboard, tissue and towel, nonwovens, fiber cement and several other industrial applications. We sell our MC products directly to customer end-users in countries across the globe. Our products, manufacturing processes, and distribution channels for MC are substantially the same in each region of the world in which we operate.

We design, manufacture, and market paper machine clothing (used in the manufacturing of paper, paperboard, tissue and towel) for each section of the paper machine and for every grade of paper. Paper machine clothing products are customized, consumable products of technologically sophisticated design that utilize polymeric materials in a complex structure.

The Albany Engineered Composites (“AEC”) segment, including Albany Safran Composites, LLC (“ASC”), in which our customer SAFRAN Group (“Safran”) owns a 10 percent noncontrolling interest, provides highly engineered, advanced composite structures to customers in the commercial and defense aerospace industries. AEC’s largest program relates to CFM International’s LEAP engine. Under this program, AEC through ASC, is the exclusive supplier of advanced composite fan blades and cases under a long-term supply contract. The manufacturing spaces used for the production of parts under the long-term supply agreement are owned by Safran, and leased to the Company at either a market rent or a minimal cost. All lease expense is reimbursable by Safran to the Company due to the cost-plus nature of the supply agreement. In the fourth quarter of 2019, Safran leased manufacturing space from AEC for the GE9X program. Rent paid by Safran under this lease amounted to $0.5 million for the first six months of 2020. AEC net sales to Safran, substantially all of which were through ASC, were $57.0 million and $116.3 million in the first six months of 2020 and 2019, respectively.

The total of Accounts receivable, Contract assets and Noncurrent receivables due from Safran amounted to $105.4 million and $114.5 million as of June 30, 2020 and December 31, 2019, respectively. Other significant programs by AEC include the F-35, Boeing 787, Sikorsky CH-53K and JASSM, as well as the fan case for the GE9X engine. In 2019, approximately 25 percent of AEC sales were related to U.S. government contracts or programs.

The following tables show data by reportable segment, reconciled to consolidated totals included in the financial statements:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2020	2019	2020	2019
Net sales				
Machine Clothing	**$ 153,433**	$ 155,016	**$ 290,035**	$ 299,349
Albany Engineered Composites	**72,557**	118,933	**171,719**	225,972
Consolidated total	**$ 225,990**	$ 273,949	**$ 461,754**	$ 525,321
Operating income/(loss)				
Machine Clothing	**$ 56,543**	$ 49,538	**$ 103,718**	$ 93,781
Albany Engineered Composites	**8,299**	17,732	**15,922**	27,254
Corporate expenses	**(12,115)**	(13,045)	**(27,319)**	(26,717)
Operating income	**$ 52,727**	$ 54,225	**$ 92,321**	$ 94,318
Reconciling items:				
Interest income	**(348)**	(587)	**(795)**	(1,186)
Interest expense	**4,171**	5,218	**8,595**	10,234
Other expense/(income), net	**1,091**	930	**16,660**	(278)
Income before income taxes	**$ 47,813**	$ 48,664	**$ 67,861**	$ 85,548

There were no material changes in the total assets of the reportable segments in the first six months of 2020.

The table below presents restructuring costs by reportable segment (also see Note 5):

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2020	2019	2020	2019
Machine Clothing	**$ 388**	$ 935	**$ 1,030**	$ 1,336
Albany Engineered Composites	**2,248**	(32)	**2,248**	51
Corporate expenses	**201**	(4)	**201**	(4)
Total	**$ 2,837**	$ 899	**$ 3,479**	$ 1,383

Products and services provided under long-term contracts represent a significant portion of sales in the Albany Engineered Composites segment and we account for these contracts using the percentage of completion (actual cost to estimated cost) method. That method requires significant judgment and estimation, which could be considerably different if the underlying circumstances were to change. When adjustments in estimated contract revenues or costs are required, any changes from prior estimates are included in earnings in the period the change occurs. In 2020, net adjustments to the estimated profitability of long-term contracts increased gross profit by $7.4 million and $6.4 million for the three and six month periods,respectively, ended June 30, 2020. In 2019, net adjustments to the estimated profitability of long-term contracts increased gross profit by $5.0 million and $5.6 million for the three and six month periods, respectively, ended June 30, 2019.

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

The following table disaggregates revenue for each product group by timing of revenue recognition:

	Three months ended June 30, 2020		
(in thousands)	**Point in Time Revenue Recognition**	**Over Time Revenue Recognition**	**Total**
Machine Clothing	**$ 152,585**	**$ 848**	**$ 153,433**
Albany Engineered Composites			
ASC	**—**	**17,576**	**17,576**
Other AEC	**4,143**	**50,838**	**54,981**
Total Albany Engineered Composites	**4,143**	**68,414**	**72,557**
Total revenue	**$ 156,728**	**$ 69,262**	**$ 225,990**

	Six months ended June 30, 2020		
(in thousands)	**Point in Time Revenue Recognition**	**Over Time Revenue Recognition**	**Total**
Machine Clothing	**$ 288,339**	**$ 1,696**	**$ 290,035**
Albany Engineered Composites			
ASC	**—**	**55,470**	**55,470**
Other AEC	**10,463**	**105,786**	**116,249**
Total Albany Engineered Composites	**10,463**	**161,256**	**171,719**
Total revenue	**$ 298,802**	**$ 162,952**	**$ 461,754**

	Three months ended June 30, 2019		
(in thousands)	**Point in Time Revenue Recognition**	**Over Time Revenue Recognition**	**Total**
Machine Clothing	$ 154,216	$ 800	$ 155,016
Albany Engineered Composites			
ASC	—	58,694	58,694
Other AEC	9,897	50,342	60,239
Total Albany Engineered Composites	9,897	109,036	118,933
Total revenue	$ 164,113	$ 109,836	$ 273,949

(in thousands)	Six months ended June 30, 2019 Point in Time Revenue Recognition	Over Time Revenue Recognition	Total
Machine Clothing	$ 297,749	$ 1,600	$ 299,349
Albany Engineered Composites			
ASC	—	114,137	114,137
Other AEC	16,142	95,693	111,835
Total Albany Engineered Composites	16,142	209,830	225,972
Total revenue	$ 313,891	$ 211,430	$ 525,321

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2020	2019	2020	2019
Americas PMC	**$ 81,225**	$ 81,583	**$ 154,902**	$ 156,923
Eurasia PMC	**54,166**	54,081	**99,297**	105,519
Engineered Fabrics	**18,042**	19,352	**35,836**	36,907
Total Machine Clothing Net sales	**$ 153,433**	$ 155,016	**$ 290,035**	$ 299,349

In accordance with ASC 606, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less. Contracts in the MC segment are generally for periods of less than a year. Most contracts in the AEC segment are short duration firm-fixed-price orders representing performance obligations with an original maturity of less than one year. Remaining performance obligations on contracts that had an original duration of greater than one year totaled $85 million and $112 million as of June 30, 2020 and 2019, respectively, and related primarily to firm contracts in the AEC segment. Of the remaining performance obligations as of June 30, 2020, we expect to recognize as revenue approximately $52 million during 2020 and the remainder during 2021.

3. Business Acquisition

On November 20, 2019, the Company acquired CirComp GmbH, a privately-held developer and manufacturer of high-performance composite components located in Kaiserslautern, Germany for $32.4 million. The Company also agreed to pay approximately $5.5 million that will become due as certain post-closing obligations are performed. Expense related to that agreement will be recognized over the five years performance period. The Company funded the acquisition using a combination of cash on hand and funds drawn on its revolving credit facility. In March 2020, the Company purchased, in cash, the primary operating facility in Germany for $5.8 million, which resulted in the recording of land and building assets, and the removal of the Right of use assets and associated lease liabilities included in the acquisition-date balance sheet.

The seller provided representations, warranties and indemnities customary for acquisition transactions, including indemnities for certain customer claims identified, before closing. The acquired entity is part of the AEC segment. CirComp specializes in designing and manufacturing customized engineered composite components for aerospace and other demanding industrial applications.

The following table summarizes the allocation of the purchase price to the fair value of the assets and liabilities acquired:

(in thousands)		November 20, 2019
Assets acquired		
Cash	$	1,607
Accounts receivable		986
Contract assets		1,992
Inventories		525
Prepaid expenses and other current assets		452
Right of use assets		5,686
Property, plant and equipment		4,884
Amortizable intangible assets		10,302
Goodwill		17,676
Total assets acquired	$	44,110
Liabilities assumed		
Accounts payable	$	65
Accrued liabilities		2,777
Lease liabilities		502
Deferred income taxes		3,182
Other noncurrent liabilities		5,184
Total liabilities assumed	$	11,710
Net assets acquired	$	32,400
Purchase of business, net of cash acquired	$	30,793

During the first six months of 2020, management identified adjustments to the provisional value of assets and liabilities acquired reported in the Form 10-K for the year ended December 31, 2019, which resulted in a decrease to Contract assets of $0.3 million, an increase to Accrued liabilities of $0.5 million, an increase to Amortizable intangible assets of $0.3 million, a decrease to Deferred income tax liabilities of $0.2 million, and an increase to Goodwill of $0.3 million. Management's review of the purchase price allocation has been completed.

Acquired Goodwill of $17.7 million reflects the Company’s belief that the acquisition complements and expands Albany’s portfolio of proprietary, advanced manufacturing technologies for composite components, increases the Company’s position as a leading innovator in advanced materials processing and automation, and opens a geographic footprint in Europe to better serve our global customer base. The acquisition significantly increases the Company’s opportunities for future growth. The goodwill is non-deductible for tax purposes.

4. Pensions and Other Postretirement Benefit Plans

Pension Plans

The Company has defined benefit pension plans covering certain U.S. and non-U.S. employees. The U.S. qualified defined benefit pension plan has been closed to new participants since October 1998, and benefits accrued under this plan have been frozen since February 2009. As a result of the freeze, employees covered by the pension plan will receive, at retirement, benefits already accrued through February 2009 but no new benefits accrue after that date. Benefit accruals under the U.S. Supplemental Executive Retirement Plan ("SERP") were similarly frozen. The eligibility, benefit formulas, and contribution requirements for plans outside of the U.S. vary by location.

Other Postretirement Benefits

The Company also provides certain postretirement benefits to retired employees in the U.S. and Canada. The Company accrues the cost of providing postretirement benefits during the active service period of the employees. The Company currently funds the plans as claims are paid.

The composition of the net periodic benefit cost for the six months ended June 30, 2020 and 2019, was as follows:

	Pension plans		Other postretirement benefits	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Components of net periodic benefit cost:				
Service cost	**$ 1,148**	$ 1,261	**$ 100**	$ 95
Interest cost	**3,071**	3,578	**857**	1,057
Expected return on assets	**(3,415)**	(4,102)	**—**	—
Settlement cost	**145**	—	**—**	—
Curtailment cost	**233**	—	**—**	—
Amortization of prior service cost/(credit)	**16**	34	**(2,244)**	(2,244)
Amortization of net actuarial loss	**1,180**	1,125	**1,296**	1,114
Net periodic benefit cost	**$ 2,378**	$ 1,896	**$ 9**	$ 22

The amount of net periodic pension cost is determined at the beginning of each year and generally only varies from quarter to quarter when a significant event occurs, such as a curtailment or a settlement. In the second quarter of 2020, the Company recorded expense of $0.4 million related to curtailments and settlements.

Service cost for defined benefit pension and postretirement plans are reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net periodic benefit cost are presented in the income statement separately from the service cost component and outside a subtotal of income from operations, in the line item Other (income)/expense, net in the Consolidated Statements of Income.

5. Restructuring

In the second quarter of 2020, AEC reduced its workforce at various locations, principally in the United States, leading to restructuring charges of $2.2 million.

Machine Clothing restructuring charges for the first six months of 2020 and 2019 were principally related to discontinued operations at its MC production facility in Sélestat, France that was announced in 2017. Since 2017, we have recorded $13.1 million of restructuring charges related to this action.

The following table summarizes charges reported in the Consolidated Statements of Income under “Restructuring expenses, net”:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2020	2019	2020	2019
Machine Clothing	**$ 388**	$ 935	**$ 1,030**	$ 1,336
Albany Engineered Composites	**2,248**	(32)	**2,248**	51
Corporate expenses	**201**	(4)	**201**	(4)
Total	**$ 2,837**	$ 899	**$ 3,479**	$ 1,383

Six Months Ended June 30, 2020 (in thousands)	Total restructuring costs incurred	Termination and other costs	Impairment of assets
Machine Clothing	**$ 1,030**	**$ 1,030**	**$ —**
Albany Engineered Composites	**2,248**	**2,248**	**—**
Corporate expenses	**201**	**201**	**—**
Total	**$ 3,479**	**$ 3,479**	**$ —**

Six Months Ended June 30, 2019 (in thousands)	Total restructuring costs incurred	Termination and other costs	Impairment of assets
Machine Clothing	$ 1,336	$ 1,309	$ 27
Albany Engineered Composites	51	51	—
Corporate expenses	(4)	(4)	—
Total	$ 1,383	$ 1,356	$ 27

We expect that approximately $3.7 million of Accrued liabilities for restructuring at June 30, 2020 will be paid within one year and approximately $0.4 million will be paid the following year. The table below presents the year-to-date changes in restructuring liabilities for 2020 and 2019, all of which are related to termination costs:

(in thousands)	December 31, 2019	Restructuring charges accrued	Payments	Currency translation /other	June 30, 2020
Total termination and other costs	**$ 2,042**	**$ 3,479**	**$ (1,410)**	**$ (5)**	**$ 4,106**

(in thousands)	December 31, 2018	Restructuring charges accrued	Payments	Currency translation /other	June 30, 2019
Total termination and other costs	$ 5,570	$ 1,356	$ (3,129)	$ (290)	$ 3,507

6. Other (Income)/Expense, net

The components of Other (Income)/Expense, net are:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2020	2019	2020	2019
Currency transaction (gains)/losses	**$ 17**	$ 342	**$ 14,851**	$ (1,696)
Bank fees and amortization of debt issuance costs	**93**	72	**168**	181
Components of net periodic pension and postretirement cost other than service	**754**	281	**1,139**	562
Other	**227**	235	**502**	675
Total	**$ 1,091**	$ 930	**$ 16,660**	$ (278)

Other (Income)/Expense, net for the first three months of 2020 includes losses related to the revaluation of nonfunctional-currency balances of $14.8 million, which principally resulted from an intercompany demand loan payable by a Mexican subsidiary combined with the effects of a much weaker peso in 2020. As a result of changes in business conditions that occurred in the first quarter of 2020, certain loan repayments are no longer expected in the foreseeable future and, beginning April 1, 2020, the revaluation effects for those loans are being recorded in Other comprehensive income. This resulted in gains of $0.6 million being recorded in Other comprehensive income in the second quarter of 2020. Other (income)/expense, net, for the first six months of 2019 included gains related to the revaluation of nonfunctional-currency balances of $1.7 million.

7. Income Taxes

The following table presents components of income tax expense for the three and six months ended June 30, 2020 and 2019:

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except percentages)	**2020**	**2019**	**2020**	**2019**
Income tax based on income from continuing operations, at estimated tax rates of 34.0% and 28.4%, respectively	**$ 16,262**	$ 13,821	**$ 23,571**	$ 24,668
Provision for change in estimated tax rate	**(490)**	(382)	**(490)**	(382)
Income tax before discrete items	**15,772**	13,439	**23,081**	24,286
Discrete tax expense:				
Exercise of U.S. stock options	**—**	(6)	**—**	(56)
Adjustments to prior period tax liabilities	**879**	—	**767**	—
Provision for/resolution of tax audits and contingencies, net	**(1,489)**	153	**(1,733)**	347
Out-of-period adjustments to deferred tax assets	**—**	5	**1,830**	(2,227)
Changes in opening valuation allowance	**(13)**	—	**3,656**	(1,346)
Changes in valuation allowance	**222**	841	**222**	841
Other	**(7)**	(27)	**(5)**	36
Total income tax expense	**$ 15,364**	$ 14,405	**$ 27,818**	$ 21,881

The second quarter estimated annual effective tax rate on continuing operations was 34.0 percent in 2020, compared to 28.4 percent for the same period in 2019.

Income tax expense for the quarter was computed in accordance with ASC 740-270, Income Taxes – Interim Reporting. Under this method, loss jurisdictions, which cannot recognize a tax benefit with regard to their generated losses, are excluded from the annual effective tax rate (AETR) calculation and their taxes will be recorded discretely in each quarter.

The Company's tax rate is affected by recurring items such as the income tax rate in the U.S. and in non-U.S. jurisdictions and the mix of income earned in those jurisdictions, including changes in losses and income from excluded loss jurisdictions, and the impact of discrete items in the respective quarter. The higher estimated second quarter 2020 income tax rate is primarily driven by an increase in losses in a foreign jurisdiction that is excluded in calculating the quarterly income tax provision.

The Company records the residual U.S. and foreign taxes on certain amounts of foreign earnings that have been targeted for repatriation to the U.S. These amounts are not considered to be indefinitely reinvested, and the Company accrued for the tax cost on these earnings to the extent they cannot be repatriated in a tax-free manner. The Company has targeted for repatriation $143.0 million of current year and prior year earnings of the Company's foreign operations. If these earnings were distributed, the Company would be subject to foreign withholding taxes of $2.3 million and state income taxes of $2.4 million which have already been recorded.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including major jurisdictions such as the United States, Brazil, Canada, France, Germany, Italy, Mexico, and Switzerland. The open tax years in these jurisdictions range from 2007 to 2020. The Company is currently under audit in U.S and non-U.S. tax jurisdictions, including but not limited to Canada and Italy. In the first quarter of 2020, the Company recorded a $1.8 million out-of-period immaterial charge related to developments in ongoing tax audits, which resulted in a corresponding decrease in deferred tax assets.In the second quarter of 2020, the US state tax audit was settled. As a result of the audit settlement, the Company recorded a net tax benefit of $1.5 million.

The Company recorded a net deferred tax expense of $1.0 million due to an adjustment of net operating losses related to settled audits. Additionally, the Company also recorded a $0.2 million valuation allowance on the net deferred tax assets of one of its foreign subsidiaries in the second quarter of 2020.

The Company's subsidiary in Mexico has an intercompany loan payable in U.S. dollars. As a result of the weaker Mexican peso, the Company recorded a revaluation loss of $12.7 million in the first quarter of 2020. That foreign currency loss is not deductible under Mexican tax law, which had a $3.7 million discrete tax impact in the first quarter of 2020. This intercompany loan was designated as a long-term loan as of April 1, 2020 and, as such, the foreign currency impacts are not recorded in the income statement.

8. 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:

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except market price and earnings per share)	**2020**	**2019**	**2020**	**2019**
Net income attributable to the Company	**$ 32,354**	$ 34,054	**$ 41,463**	$ 63,244
Weighted average number of shares:				
Weighted average number of shares used in calculating basic net income per share	**32,328**	32,299	**32,320**	32,286
Effect of dilutive stock-based compensation plans:				
Stock options	**8**	12	**8**	12
Weighted average number of shares used in calculating diluted net income per share	**32,336**	32,311	**32,328**	32,298
Average market price of common stock used for calculation of dilutive shares	**$ 54.08**	$ 74.86	**$ 59.73**	$ 73.08
Net income attributable to the Company per share:				
Basic	**$ 1.00**	$ 1.05	**$ 1.28**	$ 1.96
Diluted	**$ 1.00**	$ 1.05	**$ 1.28**	$ 1.96

9. Accumulated Other Comprehensive Income (AOCI)

The table below presents changes in the components of AOCI for the period December 31, 2019 to June 30, 2020:

(in thousands)	Translation adjustments	Pension and postretirement liability adjustments	Derivative valuation adjustment	Total Accumulated Other Comprehensive Income
December 31, 2019	**$ (122,852)**	**$ (49,994)**	**$ (3,135)**	**$ (175,981)**
Other comprehensive income/(loss) before reclassifications, net of tax	(16,783)	581	(9,028)	(25,230)
Pension/postretirement curtailment loss, net of tax	—	265	—	265
Interest expense related to swaps reclassified to the Consolidated Statements of Income, net of tax	—	—	1,133	1,133
Pension and postretirement liability adjustments reclassified to Consolidated Statements of Income, net of tax	—	186	—	186
Net current period other comprehensive income	(16,783)	1,032	(7,895)	(23,646)
June 30, 2020	**$ (139,635)**	**$ (48,962)**	**$ (11,030)**	**$ (199,627)**

The table below presents changes in the components of AOCI for the period December 31, 2018 to June 30, 2019:

(in thousands)	Translation adjustments	Pension and postretirement liability adjustments	Derivative valuation adjustment	Total Accumulated Other Comprehensive Income
December 31, 2018	**$ (115,976)**	**$ (47,109)**	**$ 4,697**	**$ (158,388)**
Other comprehensive income/(loss) before reclassifications, net of tax	(655)	(201)	(6,897)	(7,753)
Interest expense related to swaps reclassified to the Consolidated Statements of Income, net of tax	—	—	(649)	(649)
Pension and postretirement liability adjustments reclassified to Consolidated Statements of Income, net of tax	—	20	—	20
Adjustment related to prior period change in opening valuation allowance	—	(1,346)	—	(1,346)
Net current period other comprehensive income	(655)	(1,527)	(7,546)	(9,728)
June 30, 2019	**$ (116,631)**	**$ (48,636)**	**$ (2,849)**	**$ (168,116)**

The components of our Accumulated Other Comprehensive Income that are reclassified to the Statement of Income relate to our pension and postretirement plans and interest rate swaps.

The table below presents the expense/(income) amounts reclassified, and the line items of the Statement of Income that were affected for the three and six months ended June 30, 2020 and 2019:

(in thousands)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Pretax Derivative valuation reclassified from Accumulated Other Comprehensive Income:				
Expense/(income) related to interest rate swaps included in Income before taxes (a)	**$ 1,116**	$ (420)	**$ 1,523**	$ (872)
Income tax effect	**(286)**	108	**(390)**	223
Effect on net income due to items reclassified from Accumulated Other Comprehensive Income	**$ 830**	$ (312)	**$ 1,133**	$ (649)
Pretax pension and postretirement liabilities reclassified from Accumulated Other Comprehensive Income:				
Pension/postretirement curtailment	**$ 378**	$ —	**$ 378**	$ —
Amortization of prior service credit	**(1,114)**	(1,105)	**(2,228)**	(2,210)
Amortization of net actuarial loss	**1,232**	1,118	**2,476**	2,239
Total pretax amount reclassified (b)	**496**	13	**626**	29
Income tax effect	**(143)**	(4)	**(175)**	(9)
Effect on net income due to items reclassified from Accumulated Other Comprehensive Income	**$ 353**	$ 9	**$ 451**	$ 20

(a) Included in Interest expense, net are payments related to the interest rate swap agreements and amortization of swap buyouts (see Notes 15 and 16).

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 4).

10. Noncontrolling Interest

The table below presents a reconciliation of income attributable to the noncontrolling interest and noncontrolling equity in the Company's subsidiary Albany Safran Composites, LLC:

(in thousands, except percentages)	Six months ended June 30, 2020	Six months ended June 30, 2019
Net (loss)/income of Albany Safran Composites (ASC)	**$ (13,612)**	$ 4,884
Less: Return attributable to the Company's preferred holding	**587**	652
Net (loss)/income of ASC available for common ownership	**$ (14,199)**	$ 4,232
Ownership percentage of noncontrolling shareholder	**10 %**	10 %
Net (loss)/income attributable to noncontrolling interest	**$ (1,420)**	$ 423
Noncontrolling interest, beginning of year	**$ 4,006**	$ 3,031
Net (loss)/income attributable to noncontrolling interest	**(1,420)**	423
Changes in other comprehensive income attributable to noncontrolling interest	**261**	(6)
Noncontrolling interest, end of interim period	**$ 2,847**	$ 3,448

11. Accounts Receivable

Accounts receivable includes trade receivables. In connection with certain sales in Asia, the Company accepts a bank promissory note as customer payment. The notes may be presented for payment at maturity, which is less than one year. As of June 30, 2020 and December 31, 2019, Accounts receivable consisted of the following:

(in thousands)	June 30, 2020	December 31, 2019
Trade and other accounts receivable	**$ 186,266**	$ 201,427
Bank promissory notes	**20,279**	18,563
Allowance for expected credit losses	**(3,933)**	(1,719)
Accounts receivable, net	**$ 202,612**	$ 218,271

The Company has Noncurrent receivables in the AEC segment that represent revenue earned, which has extended payment terms. The Noncurrent receivables are invoiced to the customer, with 2% interest, over a 10-year period that began in 2020. As of June 30, 2020 and December 31, 2019, Noncurrent receivables consisted of the following:

(in thousands)		June 30, 2020		December 31, 2019
Noncurrent receivables	**$**	**37,288**	$	41,234
Allowance for expected credit losses		**(387)**		—
Noncurrent receivables, net	**$**	**36,901**	$	41,234

As described in Note 1, effective January 1, 2020, the Company adopted the provisions of ASC 326, *Current Expected Credit Losses (CECL).* The overarching purpose of the new standard is to provide greater transparency and understanding of the Company's credit risk. The CECL accounting update replaces the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the new standard, the Company recognizes an allowance for expected credit losses on financial assets measured at amortized cost, such as Accounts receivable, Contract assets and Noncurrent receivables. The allowance is determined using a CECL model that is based on an historical average three-year loss rate and is measured by financial asset type on a collective (pool) basis when similar risk characteristics exist, at an amount equal to lifetime expected credit losses. The estimate reflects the risk of loss due to credit default, even when the risk is remote, and considers available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable expected future economic conditions.

While an expected credit loss allowance is recorded at the same time the financial asset is recorded, the Company monitors financial assets for credit impairment events to assess whether there has been a significant increase in credit risk since initial recognition, and considers both quantitative and qualitative information. The risk of loss due to credit default increases when one or more events occur that can have a detrimental impact on estimated future cash flows of that financial asset. Evidence that a financial asset is subject to greater credit risk include observable data about significant financial difficulty of the customer, a breach of contract, such as a default or past due event, or it becomes probable that the customer will enter bankruptcy or other financial reorganization, among other factors. It may not be possible to identify a single discrete event, but rather, the combined effect of several events may cause an increase in risk of loss.

The probability of default is driven by the relative financial health of our customer base and that of the industries in which we do business, as well as the broader macro-economic environment. A changing economic environment or forecasted economic scenario can lead to a different probability of default and can suggest that credit risk has changed. Such is the case with the global COVID-19 pandemic, which has increased uncertainty and poses a significant challenge to the macro-economic environment. Management believes this has increased the probability of credit default, causing the Company to increase the allowance for expected credit losses during the current year.

At each reporting period, the Company will recognize the amount of change in current expected credit losses as an allowance gain or loss in Selling, general, and administrative expenses in the Consolidated Statements of Income.

Financial assets are written-off when the Company has no reasonable expectation of recovering the financial asset, either in its entirety, or a portion thereof. This is the case when the Company determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

The following table presents the year-to-date (increases)/decreases in the allowance for credit losses for Accounts receivable:

(in thousands)		December 31, 2019		CECL transition adjustment		Charges		Currency translation		Other		June 30, 2020
Specific customer reserves	$	(1,719)	$	(44)	$	(197)	$	99	$	107	$	(1,754)
Incremental expected credit losses		—		(1,139)		(1,067)		30		(3)		(2,179)
Accounts receivable expected credit losses	$	(1,719)	$	(1,183)	$	(1,264)	$	129	$	104	$	(3,933)

The following table presents the year-to-date (increases)/decreases in the allowance for credit losses for Noncurrent receivables:

(in thousands)	December 31, 2019	CECL transition adjustment	Charges	Currency translation	Other	June 30, 2020
Noncurrent receivables expected credit losses	$ —	$ (206)	$ (190)	$ 9	$ —	$ (387)

12. Contract Assets and Liabilities

Contract assets includes unbilled amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized, and revenue recognized exceeds the amount billed to the customer. Contract assets are transferred to Accounts receivable, net when the entitlement to pay becomes unconditional. Contract liabilities include advance payments and billings in excess of revenue recognized. Contract liabilities are included in Accrued liabilities in the Consolidated Balance Sheets.

Contract assets and Contract liabilities are reported on the Consolidated Balance Sheets in a net position on a contract-by-contract basis at the end of each reporting period.

As of June 30, 2020 and December 31, 2019, Contract assets and Contract liabilities consisted of the following:

(in thousands)	June 30, 2020	December 31, 2019
Contract assets	**$ 96,794**	$ 79,070
Allowance for expected credit losses	**(702)**	—
Contract assets, net	**$ 96,092**	$ 79,070
Contract liabilities	**$ 8,759**	$ 5,656

Contract assets increased $17.0 million during the six-month period ended June 30, 2020. The increase was primarily due to an increase in unbilled revenue related to the satisfaction of performance obligations, in excess of the amounts billed to customers for contracts that were in a contract asset position. There were no impairment losses related to our Contract assets during the six month periods ended June 30, 2020 and 2019.

As described in Notes 1 and 11, effective January 1, 2020, the Company adopted the provisions of ASC 326, *Current Expected Credit Losses (CECL).*

The following table presents the year-to-date (increases)/ decreases in the allowance for credit losses for Contract assets:

(in thousands)	December 31, 2019	CECL transition adjustment	Charges	Currency translation	Other	June 30, 2020
Contract assets expected credit losses	$ —	$ (403)	$ (315)	$ 9	$ 7	$ (702)

Contract liabilities increased $3.1 million during the six-month period ended June 30, 2020, primarily due to increased billings in excess of revenue recognized from satisfied performance obligations for contracts that were in a contract liability position. Revenue recognized for the six-month periods ended June 30, 2020 and 2019 that was included in the Contract liability balance at the beginning of the year was $2.1 million and $5.2 million, respectively.

13. Inventories

Costs included in inventories are raw materials, labor, supplies and allocable depreciation and overhead. Raw material inventories are valued on an average cost basis. Other inventory cost elements are valued at cost, using the first-in, first-out method. The Company writes down the inventories for estimated obsolescence, and to lower of cost or net realizable value based upon assumptions about future demand and market conditions. If actual demand or market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. Once established, the original cost of the inventory less the related write-down represents the new cost basis of such inventories.

As of June 30, 2020 and December 31, 2019, Inventories consisted of the following:

(in thousands)	June 30, 2020	December 31, 2019
Raw materials	**$ 64,897**	$ 52,960
Work in process	**39,096**	31,744
Finished goods	**11,539**	10,445
Total inventories	**$ 115,532**	$ 95,149

14. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually at the reporting unit level. Impairment is the condition that exists when the carrying amount of a reporting unit, including goodwill, exceeds its fair value. Our reportable segments are consistent with our operating segments.

Determining the fair value of a reporting unit requires the use of significant estimates and assumptions, including revenue growth rates, operating margins, discount rates, and future market conditions, among others. 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.

To determine fair value, we utilize market-based approaches and an income approach. Under the market-based approaches, we utilize information regarding the Company, as well as publicly available industry information, to determine earnings multiples and sales multiples. Under the income approach, we determine fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn.

In the second quarter of 2020, management applied the quantitative assessment approach in performing its annual evaluation of goodwill and concluded that no impairment provision was required. As part of this evaluation, the Company considered projected cash flows and market multiples for the Company's Machine Clothing reporting unit and three AEC reporting units. Management performed assessments as to whether the fair value of each reporting unit was less than its carrying value as of June 30, 2020 and concluded that it was more likely than not that each reporting unit's fair value continued to exceed its carrying value. In addition, there were no amounts at risk due to the estimated spread between the fair and carrying values. Accordingly, no impairment charges have been recorded during the six months ended June 30, 2020.

We are continuing to amortize certain patents, trade names, customer relationships, customer contracts and technology assets that have finite lives. The gross carrying value, accumulated amortization and net values of intangible assets and goodwill as of June 30, 2020 and December 31, 2019, were as follows:

As of June 30, 2020 (in thousands)	Weighted average amortization life in years		Gross carrying amount		Accumulated amortization		Net carrying amount
Amortized intangible assets:							
AEC Trademarks and trade names	6-15	$	208	$	(143)	$	65
AEC Technology	10-15		6,262		(696)		5,566
AEC Intellectual property	15		1,250		(48)		1,202
AEC Customer contracts	6		17,471		(12,383)		5,088
AEC Customer relationships	8-15		51,621		(13,885)		37,736
AEC Other intangibles	5		322		(273)		49
Total amortized intangible assets		$	77,134	$	(27,428)	$	49,706
Unamortized intangible assets:							
MC Goodwill		$	67,689	$	—	$	67,689
AEC Goodwill			113,613		—		113,613
Total unamortized intangible assets:		$	181,302	$	—	$	181,302

As of December 31, 2019 (in thousands)	Weighted average amortization life in years		Gross carrying amount		Accumulated amortization		Net carrying amount
Amortized intangible assets:							
AEC Trademarks and trade names	6-15	$	208	$	(135)	$	73
AEC Technology	10-15		6,191		(387)		5,804
AEC Intellectual property	15		1,250		(7)		1,243
AEC Customer contracts	6		17,471		(10,927)		6,544
AEC Customer relationships	8-15		51,255		(12,108)		39,147
AEC Other intangibles	5		322		(241)		81
Total amortized intangible assets		$	76,697	$	(23,805)	$	52,892
Unamortized intangible assets:							
MC Goodwill		$	67,672	$	—	$	67,672
AEC Goodwill			113,262		—		113,262
Total unamortized intangible assets:		$	180,934	$	—	$	180,934

The changes in intangible assets, net and goodwill from December 31, 2019 to June 30, 2020, were as follows:

(in thousands)	December 31, 2019	Other Changes	Amortization	Currency Translation	June 30, 2020
Amortized intangible assets:					
AEC Trademarks and trade names	$ 73	$ —	$ (8)	$ —	$ 65
AEC Technology	5,804	—	(309)	71	5,566
AEC Intellectual property	1,243	—	(41)	—	1,202
AEC Customer contracts	6,544	—	(1,456)	—	5,088
AEC Customer relationships	39,147	329	(1,744)	4	37,736
AEC Other intangibles	81	—	(32)	—	49
Total amortized intangible assets	$ 52,892	$ 329	$ (3,590)	$ 75	$ 49,706
Unamortized intangible assets:					
MC Goodwill	$ 67,672	$ —	$ —	$ 17	$ 67,689
AEC Goodwill	113,262	335	—	16	113,613
Total unamortized intangible assets:	$ 180,934	$ 335	$ —	$ 33	$ 181,302

Estimated amortization expense of intangibles for the years ending December 31, 2020 through 2024, is as follows:

Year	Annual amortization (in thousands)
2020	$ 7,200
2021	7,100
2022	4,900
2023	4,200
2024	4,200

15. Financial Instruments

Long-term debt, principally to banks and noteholders, consists of:

(in thousands, except interest rates)	June 30, 2020	December 31, 2019
Revolving credit agreement with borrowings outstanding at an end of period interest rate of 3.11% in 2020 and 3.43% in 2019 (including the effect of interest rate hedging transactions, as described below), due in 2022	**$ 435,000**	$ 424,000
Other debt, at an average end of period rate of 5.50% in both 2020 and 2019, due in varying amounts through 2021	**17**	29
Long-term debt	**435,017**	424,029
Less: current portion	**(17)**	(20)
Long-term debt, net of current portion	**$ 435,000**	$ 424,009

On November 7, 2017, we entered into a $685 million unsecured Five-Year Revolving Credit Facility Agreement (the “Credit Agreement”) which amended and restated the prior $550 million Agreement, entered into on April 8, 2016 (the “Prior Agreement”). Under the Credit Agreement, $435 million of borrowings were outstanding as of June 30, 2020. The applicable interest rate for borrowings was LIBOR plus a spread, based on our leverage ratio at the time of borrowing. At the time of the last borrowing on June 26, 2020, the spread was 1.375%. The spread was based on a pricing grid, which ranged from 1.250% to 1.750%, based on our leverage ratio. Based on our maximum leverage ratio and our Consolidated EBITDA, and without modification to any other credit agreements, as of June 30, 2020, we would have been able to borrow an additional $250 million under the Agreement.

The Credit Agreement contains customary terms, as well as affirmative covenants, negative covenants and events of default that are comparable to those in the Prior Agreement. The Borrowings are guaranteed by certain of the Company’s subsidiaries.

Our ability to borrow additional amounts under the Credit Agreement is conditional upon the absence of any defaults, as well as the absence of any material adverse change (as defined in the Credit Agreement).

On November 27, 2017, we terminated our interest rate swap agreements, originally entered into on May 9, 2016, that had effectively fixed the interest rate on $300 million of revolving credit borrowings, in order to enter into a new interest rate swap with a greater notional amount, and the same maturity as the Credit Agreement. We received $6.3 million when the swap agreements were terminated and that payment will be amortized into interest expense through March 2021.

On May 6, 2016, we terminated other interest rate swap agreements that had effectively fixed the interest rate on $120 million of revolving credit borrowings, in order to enter into a new interest rate swap with a greater notional amount, and the same maturity as the Credit Agreement. We paid $5.2 million to terminate the swap agreements, which was fully amortized into interest expense through June 2020.

On November 28, 2017, we entered into interest rate swap agreements for the period December 18, 2017 through October 17, 2022. These transactions have the effect of fixing the LIBOR portion of the effective interest rate (before addition of the spread) on $350 million of indebtedness drawn under the Credit Agreement at the rate of 2.11% during the period. Under the terms of these transactions, we pay the fixed rate of 2.11% and the counterparties pay a floating rate based on the one-month LIBOR rate at each monthly calculation date, which on June 16, 2020 was .20%, during the swap period. On June 16, 2020, the all-in-rate on the $350 million of debt was 3.485%.

These interest rate swaps are accounted for as a hedge of future cash flows, as further described in Note 16. No cash collateral was received or pledged in relation to the swap agreements.

Under the Credit Agreement, we are currently required to maintain a leverage ratio (as defined in the agreement) of not greater than 3.50 to 1.00 and minimum interest coverage (as defined) of 3.00 to 1.00.

As of June 30, 2020, our leverage ratio was 1.48 to 1.00 and our interest coverage ratio was 14.51 to 1.00. We may purchase our Common Stock or pay dividends to the extent our leverage ratio remains at or below 3.50 to 1.00, and may make acquisitions with cash, provided our leverage ratio does not exceed the limits noted above.

Indebtedness under the Credit Agreement is ranked equally in right of payment to all unsecured senior debt.

We were in compliance with all debt covenants as of June 30, 2020.

16. Fair-Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting principles establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Level 3 inputs are unobservable data points for the asset or liability, and include situations in which there is little, if any, market activity for the asset or liability. We had no Level 3 financial assets or liabilities at June 30, 2020, or at December 31, 2019.

The following table presents the fair-value hierarchy for our Level 1 and Level 2 financial and non-financial assets and liabilities, which are measured at fair value on a recurring basis:

(in thousands)	June 30, 2020 Quoted prices in active markets (Level 1)	June 30, 2020 Significant other observable inputs (Level 2)	December 31, 2019 Quoted prices in active markets (Level 1)	December 31, 2019 Significant other observable inputs (Level 2)
Fair Value				
Assets:				
Cash equivalents	$ 21,322	$ —	$ 16,375	$ —
Other Assets:				
Common stock of unaffiliated foreign public company (a)	708	—	839	—
Interest rate swaps	—	—	—	—
Liabilities:				
Other noncurrent liabilities:				
Interest rate swaps	—	(15,701) [b]	—	(5,518) [c]

(a) Original cost basis $0.5 million.
(b) Net of $1.7 million receivable floating leg and $17.4 million liability fixed leg.
(c) Net of $15.2 million receivable floating leg and $20.7 million liability fixed leg.

Cash equivalents include short-term securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities.

The common stock of the unaffiliated foreign public company is traded in an active market exchange. The shares are measured at fair value using closing stock prices and are recorded in the Consolidated Balance Sheets as Other assets. Changes in the fair value of the investment are reported in the Consolidated Statements of Income.

We operate our business in many regions of the world, and currency rate movements can have a significant effect on operating results. Foreign currency instruments are entered into periodically, and consist of foreign currency option contracts and forward contracts that are valued using quoted prices in active markets obtained from independent pricing sources. These instruments are measured using market foreign exchange prices and are recorded in the Consolidated Balance Sheets as Other current assets and Accounts payable, as applicable. Changes in fair value of these instruments are recorded as gains or losses within Other (income)/expense, net.

When exercised, the foreign currency instruments are net settled with the same financial institution that bought or sold them. For all positions, whether options or forward contracts, there is risk from the possible inability of the financial institution to meet the terms of the contracts and the risk of unfavorable changes in interest and currency rates, which may reduce the value of the instruments. We seek to mitigate risk by evaluating the creditworthiness of counterparties and by monitoring the currency exchange and interest rate markets while reviewing the hedging risks and contracts to ensure compliance with our internal guidelines and policies.

Changes in exchange rates can result in revaluation gains and losses that are recorded in Selling, general and administrative expenses or Other (income)/expense, net. Revaluation gains and losses occur when our business units have cash, intercompany (recorded in Other (income)/expense, net) or third-party trade (recorded in selling, general and administrative expenses) receivable or payable balances in a currency other than their local reporting (or functional) currency.

Operating results can also be affected by the translation of sales and costs, for each non-U.S. subsidiary, from the local functional currency to the U.S. dollar. The translation effect on the Consolidated Statements of Income is dependent on our net income or expense position in each non-U.S. currency in which we do business. A net income position exists when sales realized in a particular currency exceed expenses paid in that currency; a net expense position exists if the opposite is true.

The interest rate swaps are accounted for as hedges of future cash flows. The fair value of our interest rate swaps are derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve, and is included in Other assets and/or Other noncurrent liabilities in the Consolidated Balance Sheets. Unrealized gains and losses on the swaps flow through the caption Derivative valuation adjustment in the Shareholders' equity section of the Consolidated Balance Sheets. As of June 30, 2020, these interest rate swaps were determined to be highly effective hedges of interest rate cash flow risk. Amounts accumulated in Other comprehensive income are reclassified as Interest expense, net when the related interest payments (that is, the hedged forecasted transactions), and amortization related to the swap buyouts, affect earnings. Interest (income)/expense related to payments under the active swap agreements totaled $1.9 million for the six month period ended June 30, 2020, and $(0.6) million for the six month period ended June 30, 2019. Additionally, non-cash interest income related to the amortization of swap buyouts totaled $0.4 million for the six month period ended June 30, 2020 and $0.2 million for the six month period ended June 30, 2019.

Gains/(losses) related to changes in fair value of derivative instruments that were recognized in Other (income)/expense, net in the Consolidated Statements of Income were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Derivatives not designated as hedging instruments				
Foreign currency options gains/(losses)	**$ —**	$ —	**$ 64**	$ —

17. Contingencies

Asbestos Litigation

Albany International Corp. is a defendant in suits brought in various courts in the United States by plaintiffs who allege that they have suffered personal injury as a result of exposure to asbestos-containing paper machine clothing synthetic dryer fabrics marketed during the period from 1967 to 1976 and used in certain paper mills.

We were defending 3,693 claims as of June 30, 2020.

The following table sets forth the number of claims filed, the number of claims settled, dismissed or otherwise resolved, and the aggregate settlement amount during the periods presented:

Year ended December 31,	**Opening Number of Claims**	**Claims Dismissed, Settled, or Resolved**	**New Claims**	**Closing Number of Claims**	**Amounts Paid (thousands) to Settle or Resolve**
2015	3,821	116	86	3,791	$ 164
2016	3,791	148	102	3,745	758
2017	3,745	105	90	3,730	55
2018	3,730	152	106	3,684	100
2019	3,684	51	75	3,708	25
2020 (As of June 30)	**3,708**	**38**	**23**	**3,693**	**$ 47**

We anticipate that additional claims will be filed against the Company and related companies in the future, but are unable to predict the number and timing of such future claims. Due to the fact that information sufficient to meaningfully estimate a range of possible loss of a particular claim is typically not available until late in the discovery process, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to pending or future claims and therefore are unable to estimate a range of reasonably possible loss in excess of amounts already accrued for pending or future claims.

While we believe we have meritorious defenses to these claims, we have settled certain claims for amounts we consider reasonable given the facts and circumstances of each case. Our insurance carrier has defended each case and funded settlements under a standard reservation of rights. As of June 30, 2020, we had resolved, by means of settlement or dismissal, 37,835 claims. The total cost of resolving all claims was $10.4 million. Of this amount, almost 100% was paid by our insurance carrier, who has confirmed that we have approximately $140 million of remaining coverage under primary and excess policies that should be available with respect to current and future asbestos claims.

The Company's subsidiary, Brandon Drying Fabrics, Inc. ("Brandon"), is also a separate defendant in many of the asbestos cases in which Albany is named as a defendant, despite never having manufactured any fabrics containing asbestos. While Brandon was defending against 7,710 claims as of June 30, 2020, only twelve claims have been filed against Brandon since January 1, 2012, and no settlement costs have been incurred since 2001. Brandon was acquired by the Company in 1999, and has its own insurance policies covering periods prior to 1999. Since 2004, Brandon's insurance carriers have covered 100% of indemnification and defense costs, subject to policy limits and a standard reservation of rights.

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In some of these asbestos cases, the Company is named both as a direct defendant and as the “successor in interest” to Mount Vernon Mills (“Mount Vernon”). We 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. We deny 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, we have successfully moved for dismissal in a number of actions.

We currently do not anticipate, based on currently available information, that the ultimate resolution of the aforementioned proceedings will have a material adverse effect on the financial position, results of operations, or cash flows of the Company. Although we cannot predict the number and timing of future claims, based on the foregoing factors, the trends in claims filed against us, and available insurance, we also do not currently anticipate that potential future claims will have a material adverse effect on our financial position, results of operations, or cash flows.

18. Changes in Shareholders’ Equity

The following table summarizes changes in Shareholders’ Equity for the period December 31, 2019 to June 30, 2020:

	Class A Common Stock		Class B Common Stock				Accumulated items of other	Class A Treasury Stock			
(in thousands)	**Shares**	**Amount**	**Shares**	**Amount**	**Additional paid-in capital**	**Retained earnings**	**comprehensive income**	**Shares**	**Amount**	**Noncontrolling Interest**	**Total Equity**
December 31, 2019	**39,099**	**$ 39**	**1,618**	**$ 2**	**$ 432,518**	**$ 698,496**	**$ (175,981)**	**8,409**	**$ (256,391)**	**$ 4,006**	**$ 702,689**
Adoption of accounting standards (a)	—	—	—	—	—	(1,443)	—	—	—	—	(1,443)
Net income	—	—	—	—	—	9,109	—	—	—	(1,515)	7,594
Compensation and benefits paid or payable in shares	13	—	—	—	(682)	—	—	—	—	—	(682)
Options exercised	—	—	—	—	—	—	—	—	—	—	—
Shares issued to Directors	—	—	—	—	—	—	—	—	—	—	—
Dividends declared											
Class A Common Stock, $0.19 per share	—	—	—	—	—	(5,834)	—	—	—	—	(5,834)
Class B Common Stock, $0.19 per share	—	—	—	—	—	(307)	—	—	—	—	(307)
Cumulative translation adjustments	—	—	—	—	—	—	(25,747)	—	—	109	(25,638)
Pension and postretirement liability adjustments	—	—	—	—	—	—	890	—	—	—	890
Derivative valuation adjustment	—	—	—	—	—	—	(7,708)	—	—	—	(7,708)
March 31, 2020	**39,112**	**$ 39**	**1,618**	**$ 2**	**$ 431,836**	**$ 700,021**	**$ (208,546)**	**8,409**	**$ (256,391)**	**$ 2,600**	**$ 669,561**
Net income	—	—	—	—	—	32,354	—	—	—	95	32,449
Compensation and benefits paid or payable in shares	—	—	—	—	466	—	—	(15)	317	—	783
Options exercised	1	—	—	—	20	—	—	—	—	—	20
Shares issued to Directors	—	—	—	—	416	—	—	—	—	—	416
Dividends declared											
Class A Common Stock, $0.19 per share	—	—	—	—	—	(5,835)	—	—	—	—	(5,835)
Class B Common Stock, $0.19 per share	—	—	—	—	—	(307)	—	—	—	—	(307)
Cumulative translation adjustments	—	—	—	—	—	—	8,964	—	—	152	9,116
Pension and postretirement liability adjustments	—	—	—	—	—	—	142	—	—	—	142
Derivative valuation adjustment	—	—	—	—	—	—	(187)	—	—	—	(187)
Three Months Ended June 30, 2020	**39,113**	**$ 39**	**1,618**	**$ 2**	**$ 432,738**	**$ 726,233**	**$ (199,627)**	**8,394**	**$ (256,074)**	**$ 2,847**	**$ 706,158**

The following table summarizes changes in Shareholders' Equity for the period December 31, 2018 to June 30, 2019:

	Class A Common Stock		Class B Common Stock		Additional paid-in capital	Retained earnings	Accumulated items of other comprehensive income	Class A Treasury Stock		Noncontrolling Interest	Total Equity
(in thousands)	Shares	Amount	Shares	Amount				Shares	Amount		
December 31, 2018	**37,450**	**$ 37**	**3,234**	**$ 3**	**$ 430,555**	**$ 589,645**	**$ (158,388)**	**8,419**	**$ (256,603)**	**$ 3,031**	**$ 608,280**
Adoption of accounting standards (b)	—	—	—	—	—	35	—	—	—	—	35
Net income	—	—	—	—	—	29,190	—	—	—	218	29,408
Compensation and benefits paid or payable in shares	25	—	—	—	(547)	—	—	—	—	—	(547)
Options exercised	3			—	44	—	—	—	—	—	44
Shares issued to Directors	—	—	—	—	—	—	—	—	—	—	—
Dividends declared											
Class A Common Stock, $0.18 per share	—	—	—	—	—	(5,231)	—	—	—	—	(5,231)
Class B Common Stock, $0.18 per share	—	—	—	—	—	(582)	—	—	—	—	(582)
Cumulative translation adjustments	—	—	—	—	—	—	(654)	—	—	(8)	(662)
Pension and postretirement liability adjustments	—	—	—	—	—	—	(1,487)	—	—	—	(1,487)
Derivative valuation adjustment	—	—	—	—	—	—	(2,851)	—	—	—	(2,851)
March 31, 2019	**37,478**	**$ 37**	**3,234**	**$ 3**	**$ 430,052**	**$ 613,057**	**$ (163,380)**	**8,419**	**$ (256,603)**	**$ 3,241**	**$ 626,407**
Net income	—	—	—	—	—	34,054	—	—	—	205	34,259
Compensation and benefits paid or payable in shares	—	—	—	—	958	—	—	(10)	212	—	1,170
Options exercised	2	—	—	—	28	—	—	—	—	—	28
Shares issued to Directors	—	—	—	—	—	—	—	—	—	—	—
Dividends declared											
Class A Common Stock, $0.18 per share	—	—	—	—	—	(5,523)	—	—	—	—	(5,523)
Class B Common Stock, $0.18 per share	—	—	—	—	—	(291)	—	—	—	—	(291)
Conversion of Class B shares to Class A shares, rounding	1,616	2	(1,616)	(1)	(1)	—	—	—	—	—	—
Cumulative translation adjustments	—	—	—	—	—	—	(1)	—	—	2	1
Pension and postretirement liability adjustments	—	—	—	—	—	—	(40)	—	—	—	(40)
Derivative valuation adjustment	—	—	—	—	—	—	(4,695)	—	—	—	(4,695)
June 30, 2019	**39,096**	**$ 39**	**1,618**	**$ 2**	**$ 431,037**	**$ 641,297**	**$ (168,116)**	**8,409**	**$ (256,391)**	**$ 3,448**	**$ 651,316**

(a) As described in Note 1, the Company adopted the provisions of ASC 326, Current Expected Credit Losses (CECL) effective January 1, 2020, which resulted in a decrease to Retained earnings of $1.4 million.

(b) The Company adopted ASC 842, *Leases* effective January 1, 2019, which resulted in an increase to Retained earnings of less than $0.1 million.

19. Recent Accounting Pronouncements

In August 2018, an accounting update was issued which aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing defined benefit plan disclosures. We plan to adopt the new standard effective January 1, 2021. We do not expect the adoption of this update to significantly impact our financial statements.

In December 2019, an accounting update was issued which removes certain exceptions for recognizing deferred taxes for investments and performing intra-period tax allocations. The update also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. We plan to adopt the new standard as of January 1, 2021 and we are assessing the potential impact on our financial statements.

In March 2020, an accounting update was issued which provides optional guidance for a limited time to ease the potential accounting burden associated with transitioning away from reference rates such as LIBOR. The expedients and exceptions provided by this update will not be available after December 31, 2022, other than for certain hedging relationships entered into prior. We are currently assessing the potential impact on our financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Forward-looking statements

This quarterly report and the documents incorporated or deemed to be incorporated by reference in this quarterly report contain statements concerning our future results and performance and other matters that are "forward-looking" statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The words "believe," "expect," "anticipate," "intend," "estimate," "project," "look for," "will," "should," "guidance," "guide" and similar expressions identify forward-looking statements, which generally are not historical in nature. Because forward-looking statements are subject to certain risks and uncertainties, (including, without limitation, those set forth in the Company's most recent Annual Report on Form 10-K or prior Quarterly Reports on Form 10-Q) actual results may differ materially from those expressed or implied by such forward-looking statements.

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

- Conditions in the industries in which our Machine Clothing and Albany Engineered Composites segments compete, along with the general risks associated with macroeconomic conditions;
- In the Machine Clothing segment, greater than anticipated declines in the demand for publication grades of paper, or lower than anticipated growth in other paper grades; and continuation of coronavirus effects for an extended period;
- In the Albany Engineered Composites segment, extended weakness in commercial aerospace activity, further delays in the Boeing 737 MAX return to service, or unanticipated reductions in demand, delays, technical difficulties, or delays/cancellations in other aerospace programs;
- Failure to achieve or maintain anticipated profitable growth in our Albany Engineered Composites segment; and
- Other risks and uncertainties detailed in this report.

Further information concerning important factors that could cause actual events or results to be materially different from the forward-looking statements can be found in "Business Environment Overview and Trends" sections of this quarterly report, as well as in Item 1A-"Risk Factors" section of our most recent Annual Report on Form 10-K. Although we believe the expectations reflected in our other forward-looking statements are based on reasonable assumptions, it is not possible to foresee or identify all factors that could have a material and negative impact on our future performance. The forward-looking statements included or incorporated by reference in this report are made on the basis of our assumptions and analyses, as of the time the statements are made, in light of our experience and perception of historical conditions, expected future developments, and other factors believed to be appropriate under the circumstances.

Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained or incorporated by reference in this report to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

Business Environment Overview and Trends

Our reportable segments, Machine Clothing ("MC") and Albany Engineered Composites ("AEC"), draw on the same advanced textiles and materials processing capabilities, and compete on the basis of product-based advantage that is grounded in those core capabilities.

The MC segment is the Company's long-established core business and primary generator of cash. While it has suffered from well-documented declines in publication grades in the Company's traditional markets, the paper and paperboard industry has stabilized in recent years, driven by demand for packaging and tissue grades, as well as the expansion of paper consumption and production in Asia and South America. We feel we are now well-positioned in key markets, with high-quality, low-cost production in growth markets, substantially lower fixed costs in mature markets, and continued strength in new product development, technical product support, and manufacturing technology. Because of pricing pressures and industry overcapacity, the machine clothing and paper industries will continue to face top line pressure. Despite continued market pressure on revenue, the business retains the potential for maintaining stable earnings in the future. It has been a significant generator of cash, and we seek to maintain the cash-generating potential of this business by maintaining the low costs that we achieved through continuous focus on cost reduction initiatives, and competing vigorously by using our differentiated and technically superior products to reduce our customers' total cost of operation and improve their paper quality.

The AEC segment provides long-term growth potential for our Company. Our strategy is to grow by focusing our proprietary 3D-woven technology, as well as our non-3D technology capabilities, on high-value aerospace (both commercial and defense) applications, while at the same time performing successfully on our portfolio of growth programs. AEC (including Albany Safran Composites, LLC ("ASC"), in which our customer SAFRAN Group owns a 10 percent noncontrolling interest) supplies a number of customers in the aerospace industry. AEC's largest aerospace customer is the SAFRAN Group and sales to SAFRAN, through ASC, (consisting primarily of fan blades and cases for CFM's LEAP engine) accounted for approximately 22 percent of the Company's consolidated Net sales in 2019. AEC, through ASC, also supplies 3D-woven composite fan cases for the GE9X engine. AEC's current portfolio of non-3D programs includes components for the F-35, fuselage components for the Boeing 787, components for the CH-53K helicopter, vacuum waste tanks for Boeing 7-Series aircraft, and missile bodies for Lockheed Martin's JASSM air-to-surface missiles. AEC is actively engaged in research to develop new applications in both commercial and defense aircraft engine and airframe markets. In 2019, approximately 25 percent of AEC sales were related to U.S. government contracts or programs.

A number of countries, including the United States, have issued orders grounding Boeing 737 MAX aircraft. If these groundings cause a further decrease in demand in production for this aircraft, it could have an adverse impact on demand for LEAP engines, which, in turn, could have an adverse impact on demand for our LEAP engine parts. The Company is continuing to monitor developments with our customer. Considerable uncertainty exists with respect to the return-to-service of the 737-MAX and the subsequent ramp-up in our production of LEAP-1B components, which may lead to additional impacts to our revenues from LEAP-1B components in 2020 and future periods. The nature of our cost-plus fee arrangement, however, should somewhat mitigate the impact of such factors on gross margin rate in such future periods. In April 2020, the Company announced the temporary closure of all three of its LEAP production facilities, resulting from depressed demand, due to the ongoing Boeing 737 MAX situation and a pause in production of the Airbus A320neo family. The resumption of operations at these facilities will be undertaken in coordination with our customer and in compliance with all local, state/provincial, and national guidelines or directives. As a result, the year-over-year comparisons for LEAP revenue in the third quarter are expected to be very unfavorable. While management expects to see some recovery in the later part of the year, management expects that full-year LEAP program revenue will be less than half of that generated in 2019.

Consolidated Results of Operations

Net sales

The following table summarizes our Net sales by business segment:

(in thousands, except percentages)	Three months ended June 30, 2020	2019	% Change	Six months ended June 30, 2020	2019	% Change
Machine Clothing	**$ 153,433**	$ 155,016	(1.0)%	**$ 290,035**	$ 299,349	(3.1)%
Albany Engineered Composites	**72,557**	118,933	(39.0)%	**171,719**	225,972	(24.0)%
Consolidated total	**$ 225,990**	$ 273,949	(17.5)%	**$ 461,754**	$ 525,321	(12.1)%

The following tables provide a comparison of 2020 Net sales, excluding the impact of currency translation effects, to 2019 Net sales:

(in thousands, except percentages)	Net sales as reported, Q2 2020	Decrease due to changes in currency translation rates	Q2 2020 sales on same basis as Q2 2019 currency translation rates	Net sales as reported, Q2 2019	% Change compared to Q2 2019, excluding currency rate effects
Machine Clothing	**$ 153,433**	$ 1,559	$ 154,992	$ 155,016	— %
Albany Engineered Composites	**72,557**	26	72,583	118,933	(39.0)%
Consolidated total	**$ 225,990**	$ 1,585	$ 227,575	$ 273,949	(16.9)%

(in thousands, except percentages)	Net sales as reported, YTD 2020	Decrease due to changes in currency translation rates	YTD 2020 sales on same basis as 2019 currency translation rates	Net sales as reported, YTD 2019	% Change compared to 2019, excluding currency rate effects
Machine Clothing	**$ 290,035**	$ 3,124	$ 293,159	$ 299,349	(2.1)%
Albany Engineered Composites	**171,719**	486	172,205	225,972	(23.8)%
Consolidated total	**$ 461,754**	$ 3,610	$ 465,364	$ 525,321	(11.4)%

Three month comparison

- Changes in currency translation rates had the effect of decreasing Net sales by $1.6 million during the second quarter of 2020, as compared to 2019, principally due to the weaker euro and Chinese renminbi in 2020.
- Excluding the effect of changes in currency translation rates:
  - Net sales decreased 16.9% compared to the same period in 2019.
  - Net sales in MC were flat compared to the second quarter of 2019, as growth in sales for tissue, pulp, and packaging grades were almost completely offset by declines in publications grades and in engineered fabrics.
  - Net sales in AEC decreased 39% primarily driven by decline in LEAP program sales.

Six month comparison

- Changes in currency translation rates had the effect of decreasing Net sales by $3.6 million during the first six months of 2020, as compared to 2019, principally due to the weaker euro and Chinese renminbi in 2020.
- Excluding the effect of changes in currency translation rates:
  - Net sales decreased 11.4% compared to the same period in 2019.
  - Net sales in MC decreased 2.1% compared to the first six months of 2019. A decline in sales for the publication and pulp grades sales was partially offset by an increase in packaging grades.

- Net sales in AEC decreased 23.8% primarily driven by decline in LEAP program sales.

Gross Profit

The following table summarizes Gross profit by business segment:

	Three months ended June 30,				Six months ended June 30,			
(in thousands, except percentages)	**2020**		**2019**		**2020**		**2019**	
Machine Clothing	**$**	**83,612**	$	80,287	**$**	**156,264**	$	154,815
Albany Engineered Composites		**19,368**		24,895		**36,188**		42,138
Consolidated total	**$**	**102,980**	$	105,182	**$**	**192,452**	$	196,953
% of Net sales		**45.6 %**		38.4 %		**41.7 %**		37.5 %

Three month comparison

The decrease in 2020 Gross profit, as compared to the same period in 2019, was principally due to the effect of lower Net sales in AEC, partially offset by an increase in gross profit as a percentage of sales. Gross profit as a percentage of sales:

- Increased from 51.8% in 2019 to 54.5% in 2020 in Machine Clothing, principally due to favorable foreign currency movements (a weaker Brazilian real and Mexican peso), efficiency gains, and reduced depreciation expense.
- Increased from 20.9% in 2019 to 26.7% in 2020 in AEC, driven by a favorable shift in the mix of program revenue and an increase in favorable adjustments to the estimated profitability of long-term contracts, which increased second quarter 2020 Gross profit over $7 million, compared to $5 million in the second quarter of 2019.

Six month comparison

The decrease in 2020 Gross profit, as compared to the same period in 2019, was principally due to the effect of lower Net sales in AEC, partially offset by an increase in gross profit as a percentage of sales. Gross profit as a percentage of sales:

- Increased from 51.7% in 2019 to 53.9% in 2020 in Machine Clothing, principally due to lower depreciation expense. The gross profit margin in 2020 was also favorably impacted by a weaker Brazilian real and Mexican peso.
- Increased from 18.6% in 2019 to 21.1% in 2020 in AEC, principally due to a favorable shift in the mix of program revenue.

Selling, Technical, General, and Research (STG&R)

Selling, Technical, General and Research (STG&R) expenses include; selling, general, administrative, technical and research expenses.

The following table summarizes STG&R expenses by business segment:

	Three months ended June 30,				Six months ended June 30,			
(in thousands, except percentages)	**2020**		**2019**		**2020**		**2019**	
Machine Clothing	**$**	**26,682**	$	29,814	**$**	**51,517**	$	59,700
Albany Engineered Composites		**8,821**		7,195		**18,018**		14,832
Corporate expenses		**11,913**		13,049		**27,117**		26,720
Consolidated total	**$**	**47,416**	$	50,058	**$**	**96,652**	$	101,252
% of Net sales		**21.0 %**		18.3 %		**20.9 %**		19.3 %

Three month comparison

The overall decrease in STG&R expenses in the second quarter of 2020, compared to the same period in 2019, was principally due to the net effect of the following individually significant items:

- In MC, revaluation of nonfunctional currency assets and liabilities resulted in second-quarter losses of $1.1 million in 2020, compared to losses of $0.3 million in 2019. Travel expenses were significantly lower in 2020, as a result of the COVID-19 pandemic.
- In AEC, STG&R expenses increased $1.6 million, principally due STG&R costs of CirComp, which the Company acquired in November 2019.

Six month comparison

The overall decrease in STG&R expenses in the first six months of 2020, compared to the same period in 2019, was principally due to the net effect of the following individually significant items:

- In MC, revaluation of nonfunctional currency assets and liabilities resulted in a gain of $2.6 million in the first six months of 2020, compared to a loss of $0.3 million in 2019. Travel expenses were significantly lower in 2020, as a result of the COVID-19 pandemic. The factors above were partially offset by a charge of $1.0 million in the first quarter of 2020 for additional estimated credit losses recognized in accordance with ASC 326.

- In AEC, STG&R expenses increased due to expenses at CirComp, which the Company acquired in November 2019, and a charge of $0.5 million in the first quarter of 2020 for additional estimated credit losses recognized in accordance with ASC 326.

- Corporate STG&R expenses increased principally due to former CEO termination costs, partially offset by lower professional fees and travel expenses.

Restructuring Expense

In addition to the items discussed above affecting Gross profit, and STG&R expenses, operating income was affected by restructuring costs of $3.5 million in the first six months of 2020, and $1.4 million for the same period in 2019.

The following table summarizes restructuring expenses by business segment:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2020**	**2019**	**2020**	**2019**
Machine Clothing	**$ 388**	$ 935	**$ 1,030**	$ 1,336
Albany Engineered Composites	**2,248**	(32)	**2,248**	51
Corporate expenses	**201**	(4)	**201**	(4)
Consolidated total	**$ 2,837**	$ 899	**$ 3,479**	$ 1,383

In the second quarter of 2020, AEC reduced its workforce at various locations, principally in the United States, leading to restructuring charges of $2.2 million. As a result of these actions, annual cost savings associated with this action will principally lower Cost of goods sold and Selling, general, and administrative expenses in 2020.

Machine Clothing restructuring charges include expenses for the first six months of 2020 and 2019 principally related to discontinued operations at its production facility in Sélestat, France announced in 2017. The restructuring program was driven by the Company's need to balance manufacturing capacity with demand. Since 2017, we have recorded $13.1 million of restructuring charges related to this action. Annual cost savings associated with this action has resulted in lower cost of goods sold.

For more information on our restructuring charges, see Note 5 to the Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

Operating Income

The following table summarizes operating income/(loss) by business segment:

(in thousands)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Machine Clothing	**$ 56,543**	$ 49,538	**$ 103,718**	$ 93,781
Albany Engineered Composites	**8,299**	17,732	**15,922**	27,254
Corporate expenses	**(12,115)**	(13,045)	**(27,319)**	(26,717)
Consolidated total	**$ 52,727**	$ 54,225	**$ 92,321**	$ 94,318

Other Earnings Items

(in thousands)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Interest expense, net	**$ 3,823**	$ 4,631	**$ 7,800**	$ 9,048
Other expense/(income), net	**1,091**	930	**16,660**	(278)
Income tax expense	**15,364**	14,405	**27,818**	21,881
Net income/(loss) attributable to the noncontrolling interest	**95**	205	**(1,420)**	423

Interest Expense, net

Year-to-date 2020 Interest expense, net, was lower as compared to 2019 due to lower average debt and lower interest rates. See the Capital Resources section for further discussion of borrowings and interest rates.

Other (income)/expense, net

Three and six month comparison

The increase in Other (income)/expense, net included the following individually significant items:

- The revaluation of nonfunctional currency cash and intercompany balances resulted in a loss of $0.3 million in the second quarter of 2019 and a negligible effect in the same period of 2020. In the second quarter of 2020, we recorded a charge of $0.4 million related to a pension settlement/curtailment, while no similar item occurred in the same period of 2019.

- For the first six months of 2020, revaluation of nonfunctional currency cash and intercompany balances resulted in a loss of $14.9 million, compared to a net gain of $1.7 million in 2019. The loss in 2020 principally resulted from an intercompany demand loan payable by a Mexican subsidiary, combined with the effects of a much weaker peso in 2020.

Income Tax

The Company has operations which constitute a taxable presence in 18 countries outside of the United States. The majority of these countries had income tax rates that are above the United States federal tax rate of 21% during the periods reported. The jurisdictional location of earnings is a significant component of our effective tax rate each year. The rate impact of this component is influenced by the specific location of non-U.S. earnings and the level of our total earnings. From period to period, the jurisdictional mix of earnings can vary as a result of operating fluctuations in the normal course of business, as well as the extent and location of other income and expense items, such as pension settlement and restructuring charges.

Three and six month comparison

The Company's effective tax rates for the second quarter of 2020 and 2019 were 32.1% and 29.6%, respectively, and for the first half of 2020 and 2019, were 41.0% and 25.6%, respectively. The tax rate is affected by recurring items, such as the income tax rate in the U.S. and in non-U.S. jurisdictions and the mix of income earned in those jurisdictions. The tax rate is also affected by U.S. tax costs on foreign earnings, and by discrete items that may occur in any given year but are not consistent from year to year.

Significant items that impacted the effective tax rate in the second quarter of 2020 and 2019 included the following (percentages reflect the effect of each item as a percentage of income before income taxes):

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
(in thousands, except percentages)	**Tax Amount**	%	Tax Amount	%	**Tax Amount**	%	Tax Amount	%
Continuing Operations (excluding discrete items)	**$ 16,262**	**34.0 %**	$ 13,821	28.4 %	**$ 23,081**	**34.0 %**	$ 24,286	28.4 %
Audit settlements	**(1,492)**	**(3.1)%**	—	— %	**(1,492)**	**(2.2)%**	—	— %
Changes in uncertain tax positions	**3**	**— %**	5	— %	**(241)**	**(0.4)%**	(2,227)	(2.6)%
Out-of-period adjustments to deferred tax assets	**—**	**— %**	—	— %	**1,830**	**2.7 %**	—	— %
Impact of Mexico foreign currency revaluation losses	**(13)**	**— %**	—	— %	**3,656**	**5.4 %**	—	— %
Changes in opening valuation allowance	**—**	**— %**	—	— %	**—**	**— %**	(1,346)	(1.6)%
Changes in valuation allowance	**222**	**0.5 %**	841	1.7 %	**222**	**0.3 %**	841	1.0 %
Other tax adjustments	**382**	**0.7 %**	(262)	(0.5)%	**762**	**1.2 %**	327	0.4 %
Effective Tax Rate	**$ 15,364**	**32.1 %**	$ 14,405	29.6 %	**$ 27,818**	**41.0 %**	$ 21,881	25.6 %

For more information on income tax, see Note 7 to the Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

Segment Results of Operations

Machine Clothing Segment

Machine Clothing is our primary business segment and accounted for 63% of our consolidated revenues during the first six months of 2020. MC products are purchased primarily by manufacturers of paper and paperboard.

While the MC business has suffered from well-documented declines in publication grades in the Company's traditional markets, the paper and paperboard industry is still expected to grow slightly on a global basis, driven by demand for packaging and tissue grades as well as the expansion of paper consumption and production in Asia and South America. We feel we are well-positioned in these markets, with high-quality, low-cost production in growth markets, substantially lower fixed costs in mature markets, and continued strength in new product development, technical product support, and manufacturing technology. Recent technological advances in paper machine clothing, while contributing to the papermaking efficiency of customers, have lengthened the useful life of many of our products and had an adverse impact on overall paper machine clothing demand.

The Company's manufacturing and product platforms position us well to meet these shifting demands across product grades and geographic regions. Our strategy for meeting these challenges continues to be to grow share in all markets, with new products and technology, and to maintain our manufacturing footprint to align with global demand, while we offset the effects of inflation through continuous productivity improvement.

We have incurred significant restructuring charges in recent periods as we reduced MC manufacturing capacity and administrative positions in various countries.

Review of Operations

(in thousands, except percentages)	Three months ended June 30, 2020	2019	Six months ended June 30, 2020	2019
Net sales	**$ 153,433**	$ 155,016	**$ 290,035**	$ 299,349
Gross profit	**83,612**	80,287	**156,264**	154,815
% of Net sales	**54.5 %**	51.8 %	**53.9 %**	51.7 %
STG&R expenses	**26,682**	29,814	**51,517**	59,700
Operating income	**56,543**	49,538	**103,718**	93,781

Net Sales

Three month comparison

- Net sales decreased by 1.0%.
- Changes in currency translation rates had the effect of decreasing second-quarter 2020 sales by $1.6 million compared to the same period in 2019. That currency translation effect was principally due to the weaker euro and Chinese renminbi in the second quarter of 2020, compared to 2019.
- Excluding the effect of changes in currency translation rates, Net sales in MC were flat compared to the second quarter of 2019.

Six month comparison

- Net sales decreased by 3.1%.
- Changes in currency translation rates had the effect of decreasing sales for the first six months of 2020 by $3.1 million compared to the same period in 2019. That currency translation effect was principally due to the weaker euro and Chinese renminbi in the first six months of 2020, compared to 2019.
- Excluding the effect of changes in currency translation rates, Net sales in MC decreased 2.1% compared to the first six months of 2019. A decline in sales for the publication and pulp grades was partially offset by an increase in packaging grades.

Gross Profit

Three and Six month comparison

- The increase in second-quarter MC Gross profit was principally due to favorable foreign currency movements (a weaker Brazilian real and Mexican peso), efficiency gains, and reduced depreciation expense.
- The increase in year-to-date MC gross profit was principally due to lower depreciation expense. Gross profit was also favorably impacted by a weaker Brazilian real and Mexican peso in 2020.

Operating Income

Three month comparison

The increase in operating income was principally due to the net effect of the following individually significant items:

- The increase in second-quarter gross profit was principally due to higher gross profit and lower STG&R expenses, as described above.
- Restructuring activities resulted in expense of $0.4 million in the second quarter of 2020, compared to expense of $0.9 million in the same period in 2019.

Six month comparison

The increase in operating income was principally due to the net effect of the following individually significant items:

- The increase in year to date gross profit was principally due to higher gross profit and lower STG&R expenses, as described above.
- Restructuring activities resulted in expense of $1.0 million in the first six months of 2020, compared to expense of $1.3 million in the same period in 2019.

Albany Engineered Composites Segment

The Albany Engineered Composites (AEC) segment, including Albany Safran Composites, LLC (ASC), in which our customer SAFRAN Group owns a 10 percent noncontrolling interest, provides highly engineered advanced composite structures to customers primarily in the aerospace (both commercial and defense) industry. AEC's largest program relates to CFM International's LEAP engine. AEC, through ASC, is the exclusive supplier of advanced composite fan blades and cases for this program under a long-term supply contract. The LEAP engine is used on the Airbus A320neo and Boeing 737 MAX family of jets, the latter of which is currently under a grounding order, as described above. Other significant AEC programs include components for the F-35, fuselage frames for the Boeing 787, components for the CH53-K helicopter, and the fan case for the GE9X engine.

Review of Operations

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except percentages)	**2020**	**2019**	**2020**	**2019**
Net sales	**$ 72,557**	$ 118,933	**$ 171,719**	$ 225,972
Gross profit	**19,368**	24,895	**36,188**	42,138
% of Net sales	**26.7 %**	20.9 %	**21.1 %**	18.6 %
STG&R expenses	**8,821**	7,195	**18,018**	14,832
Operating income	**8,299**	17,732	**15,922**	27,254

Net Sales

Three and six month comparison

The decrease in Net sales was principally due to lower sales in the LEAP program, which is consistent with the outlook for this program provided by the Company in its last quarterly report.

Gross Profit

Three and six month comparison

The decrease in Gross profit was principally due to the decrease in Net sales, partially offset by an increase in gross profit percentage, which was partially due to a favorable shift in the mix of program revenue and an increase in favorable adjustments to the estimated profitability of long-term contracts.

Long-term contracts

AEC has contracts with certain customers, including its contract for the LEAP program, where revenue is determined by a cost-plus-fee agreement. Revenue earned under these arrangements accounted for approximately 31 percent of segment revenue for each of the first six months of 2020 and 49 percent in 2019. LEAP engines are currently used on the Boeing 737 MAX, Airbus A320neo and COMAC aircraft. A number of countries, including the United States, have issued orders grounding Boeing 737 MAX aircraft. If these groundings cause a continued reduction in production of this aircraft, this would have an adverse impact on demand for our LEAP engine parts. Such a decrease could, in turn, trigger an increase in demand for A320neo aircraft, which could somewhat offset this negative impact.

In addition, AEC has long-term contracts in which the selling price is fixed. In accounting for those contracts, we estimate the profit margin expected at the completion of the contract and recognize a pro-rata share of that profit during the course of the contract using a cost-to-cost approach. Changes in estimated contract profitability will affect revenue and gross profit when the change occurs, which could have a significant favorable or unfavorable effect on revenue and gross profit in any reporting period. For contracts with anticipated losses, a provision for the entire amount of the estimated remaining loss is charged against income in the period in which the loss becomes known. Contract losses are determined considering all direct and indirect contract costs, exclusive of any selling, general or administrative cost allocations, which are treated as period expenses. Expected losses on projects include losses on contract options that are probable of exercise, excluding profitable options that often follow.

The sum of net adjustments to the estimated profitability of long-term contracts increased AEC operating income by $6.4 million in the first six months of 2020, compared to an increase of $5.6 million for the first six months of 2019.

Operating Income

Three month comparison

The decrease in operating income of $9.4 million in the second quarter of 2020 was principally due to the net effect of the following individually significant items:

- A $46.4 million decrease in Net sales, as described above.

Six month comparison

The decrease in operating income of $11.3 million in the first six months of 2020 was principally due to the net effect of the following individually significant items:

- A $54.3 million decrease in Net sales, as described above.

Liquidity and Capital Resources

Cash Flow Summary

	Six months ended June 30,	
(in thousands)	2020	2019
Net income	**$ 40,043**	$ 63,667
Depreciation and amortization	**36,024**	35,710
Changes in working capital (a)	**(57,804)**	(17,809)
Changes in other noncurrent liabilities and deferred taxes	**8,836**	(2,906)
Other operating items	**16,935**	4,434
Net cash provided by operating activities	**44,034**	83,096
Net cash used in investing activities	**(22,017)**	(35,453)
Net cash used in financing activities	**(8,224)**	(30,106)
Effect of exchange rate changes on cash and cash equivalents	**(5,296)**	(59)
Increase/(decrease) in cash and cash equivalents	**8,497**	17,478
Cash and cash equivalents at beginning of period	**195,540**	197,755
Cash and cash equivalents at end of period	**$ 204,037**	$ 215,233

(a) Includes Accounts receivable, Contract assets, Inventories, Accounts payable and Accrued liabilities.

Operating activities

Cash flow provided by operating activities was $44.0 million and $83.1 million in the first six months of 2020 and 2019. The decrease of cash generated in 2020 was primarily due to the decrease of profitability in AEC in the LEAP program, which is consistent with the outlook for this program provided by the Company in its last quarterly report.

Cash paid for income taxes was $16.5 million and $17.4 million for the first six months of 2020 and 2019, respectively. The decrease is primarily due to a decrease in corporate income tax payments in Mexico due to decreased pre-tax income in that jurisdiction and decreased withholding payments in Switzerland due to decreased dividend income.

At June 30, 2020, we had $204 million of cash and cash equivalents, of which $160.2 million was held by subsidiaries outside of the United States.

Investing and Financing Activities

Capital expenditures for the first six months were $22.0 million in 2020 and $35.5 million in 2019.

In March 2020, the Company purchased, in cash, the primary CirComp GmbH operating facility in Germany for $5.8 million. This resulted in the recording of land and building assets, and the removal of the Right of use assets and associated lease liabilities that were included in the acquisition-date balance sheet, and is reflected as Principal payments on finance lease liabilities in Financing activities in the Consolidated Statements of Cash Flow.

Dividends have been declared each quarter since the fourth quarter of 2001. Decisions with respect to whether a dividend will be paid, and the amount of the dividend, are made by the Board of Directors each quarter. Future cash dividends will also depend on debt covenants and on the Board’s assessment of our ability to generate sufficient cash flows.

Capital Resources

We finance our business activities primarily with cash generated from operations and borrowings, largely through our revolving credit agreement as discussed below. Our subsidiaries outside of the United States may also maintain working capital lines with local banks, but borrowings under such local facilities tend not to be significant. The majority of our cash balance at June 30, 2020 was held by non-U.S. subsidiaries. Based on cash on hand and credit facilities, we anticipate that the Company has sufficient capital resources to operate for the foreseeable future. We were in compliance with all debt covenants as of June 30, 2020.

On November 7, 2017, we entered into a $685 million unsecured Five-Year Revolving Credit Facility Agreement (the "Credit Agreement") which amended and restated the prior $550 million Agreement, entered into on April 8, 2016 (the "Prior Agreement"). Under the Credit Agreement, $435 million of borrowings were outstanding as of June 30, 2020. The applicable interest rate for borrowings was LIBOR plus a spread, based on our leverage ratio at the time of borrowing. At the time of the last borrowing on March 30, 2020, the spread was 1.375%. The spread was based on a pricing grid, which ranged from 1.250% to 1.750%, based on our leverage ratio. Based on our maximum leverage ratio and our Consolidated EBITDA, and without modification to any other credit agreements, as of June 30, 2020, we would have been able to borrow an additional $250 million under the Agreement.

For more information, see Note 15 to the Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

Off-Balance Sheet Arrangements

As of June 30, 2020, we have no off-balance sheet arrangements required to be disclosed pursuant to Item 303(a)(4) of Regulation S-K.

Recent Accounting Pronouncements

The information set forth under Note 19 contained in Item 1, "Notes to Consolidated Financial Statements", which is incorporated herein by reference.

Non-GAAP Measures

This Form 10-Q contains certain non-GAAP measures, including: net sales, and percent change in net sales, excluding the impact of currency translation effects (for each segment and on a consolidated basis); EBITDA and Adjusted EBITDA (for each segment and on a consolidated basis, represented in dollars or as a percentage of net sales); Net debt; and Adjusted earnings per share (or Adjusted EPS). Such items are provided because management believes that they provide additional useful information to investors regarding the Company's operational performance.

Presenting sales and increases or decreases in Net sales, after currency effects are excluded, can give management and investors insight into underlying sales trends. EBITDA, Adjusted EBITDA and Adjusted EPS are performance measures that relate to the Company's continuing operations. EBITDA, or net income with interest, taxes, depreciation, and amortization added back, is a common indicator of financial performance used, among other things, to analyze and compare core profitability between companies and industries because it eliminates effects due to differences in financing, asset bases and taxes. An understanding of the impact in a particular quarter of specific restructuring costs, acquisition and related retention agreement expenses, former CEO severance costs, integration expenses, currency revaluation, pension settlement/curtailment charges, inventory write-offs associated with discontinued businesses, or other gains and losses, on net income (absolute as well as on a per-share basis), operating income or EBITDA can give management and investors additional insight into core financial performance, especially when compared to quarters in which such items had a greater or lesser effect, or no effect. Restructuring expenses in the MC segment, while frequent in recent years, are reflective of significant reductions in manufacturing capacity and associated headcount in response to shifting markets, and not of the profitability of the business going forward as restructured.

Net sales, or percent changes in net sales, excluding currency rate effects, are calculated by converting amounts reported in local currencies into U.S. dollars at the exchange rate of a prior period. These amounts are then compared to the U.S. dollar amount as reported in the current period. The Company calculates EBITDA by removing the following from Net income: Interest expense net, Income tax expense, and Depreciation and amortization expense. Adjusted EBITDA is calculated by: adding to EBITDA costs associated with restructuring, former CEO severance costs, inventory write-offs associated with discontinued businesses; adding charges and credits related to pension plan settlements and curtailments; adding (or subtracting) revaluation losses (or gains); subtracting (or adding) gains (or losses) from the sale of buildings or investments; subtracting insurance recovery gains in excess of previously recorded losses; adding acquisition and related retention agreement expenses; adding integration expenses and subtracting (or adding) Income (or loss) attributable to the non-controlling interest in Albany Safran Composites (ASC). Adjusted earnings per share is calculated by adding to (or subtracting from) net income attributable to the Company per share, on an after-tax basis: restructuring charges; inventory write-offs associated with discontinued businesses; pension settlement/curtailments; the effect of changes in the income tax rate; foreign currency revaluation losses (or gains); acquisition-related expenses; and losses (or gains) from the sale of investments.

EBITDA, Adjusted EBITDA, and Adjusted earnings per share as defined by the Company may not be similar to similarly named measures of other companies. Such measures are not considered measurements under GAAP, and should be considered in addition to, but not as substitutes for, the information contained in the Company's statements of income.

The following tables show the calculation of EBITDA and Adjusted EBITDA:

Three months ended June 30, 2020				
(in thousands)	**Machine Clothing**	**Albany Engineered Composites**	**Corporate expenses and other**	**Total Company**
Operating income/(loss) (GAAP)	**$ 56,543**	**$ 8,299**	**$ (12,115)**	**$ 52,727**
Interest, taxes, other income/(expense)	**—**	**—**	(20,278)	(20,278)
Net income/(loss) (GAAP)	**56,543**	**8,299**	**(32,393)**	**32,449**
Interest expense, net	—	—	3,823	3,823
Income tax expense	—	—	15,364	15,364
Depreciation and amortization expense	4,981	11,971	1,002	17,954
EBITDA (non-GAAP)	**61,524**	**20,270**	**(12,204)**	**69,590**
Restructuring expenses	388	2,248	201	2,837
Foreign currency revaluation (gains)/losses	973	30	20	1,023
Acquisition/integration costs	—	278	—	278
Pre-tax (income) attributable to noncontrolling interest	—	(58)	—	(58)
Adjusted EBITDA (non-GAAP)	**$ 62,885**	**$ 22,768**	**$ (11,983)**	**$ 73,670**

Three months ended June 30, 2019				
(in thousands)	**Machine Clothing**	**Albany Engineered Composites**	**Corporate expenses and other**	**Total Company**
Operating income/(loss) (GAAP)	**$ 49,538**	**$ 17,732**	**$ (13,045)**	**$ 54,225**
Interest, taxes, other income/(expense)	**—**	**—**	(19,966)	(19,966)
Net income/(loss) (GAAP)	**49,538**	**17,732**	**(33,011)**	**34,259**
Interest expense, net	—	—	4,631	4,631
Income tax expense	—	—	14,405	14,405
Depreciation and amortization expense	5,606	11,071	1,077	17,754
EBITDA (non-GAAP)	**55,144**	**28,803**	**(12,898)**	**71,049**
Restructuring expenses	935	(32)	(4)	899
Foreign currency revaluation (gains)/losses	317	79	345	741
Pre-tax (income) attributable to noncontrolling	—	(272)	—	(272)
Adjusted EBITDA (non-GAAP)	**$ 56,396**	**$ 28,578**	**$ (12,557)**	**$ 72,417**

Six months ended June 30, 2020				
(in thousands)	Machine Clothing	Albany Engineered Composites	Corporate expenses and other	Total Company
Operating income/(loss) (GAAP)	**$ 103,718**	**$ 15,922**	**$ (27,319)**	**$ 92,321**
Interest, taxes, other income/(expense)	—	—	(52,278)	(52,278)
Net income/(loss) (GAAP)	**103,718**	**15,922**	**(79,597)**	**40,043**
Interest expense, net	—	—	7,800	7,800
Income tax expense	—	—	27,818	27,818
Depreciation and amortization expense	10,068	23,956	2,000	36,024
EBITDA (non-GAAP)	**113,786**	**39,878**	**(41,979)**	**111,685**
Restructuring expenses	1,030	2,248	201	3,479
Foreign currency revaluation (gains)/losses	(2,688)	727	14,850	12,889
Former CEO termination costs	—	—	2,742	2,742
Acquisition/integration costs	—	576	—	576
Pre-tax loss attributable to noncontrolling interest	—	1,434	—	1,434
Adjusted EBITDA (non-GAAP)	**$ 112,128**	**$ 44,863**	**$ (24,186)**	**$ 132,805**

Six months ended June 30, 2019				
(in thousands)	Machine Clothing	Albany Engineered Composites	Corporate expenses and other	Total Company
Operating income/(loss) (GAAP)	**$ 93,781**	**$ 27,254**	**$ (26,717)**	**$ 94,318**
Interest, taxes, other income/(expense)	—	—	(30,651)	(30,651)
Net income/(loss) (GAAP)	**93,781**	**27,254**	**(57,368)**	**63,667**
Interest expense, net	—	—	9,048	9,048
Income tax expense	—	—	21,881	21,881
Depreciation and amortization expense	11,525	21,973	2,212	35,710
EBITDA (non-GAAP)	**105,306**	**49,227**	**(24,227)**	**130,306**
Restructuring expenses	1,336	51	(4)	1,383
Foreign currency revaluation (gains)/losses	286	314	(1,691)	(1,091)
Pre-tax (income) attributable to noncontrolling interest	—	(561)	—	(561)
Adjusted EBITDA (non-GAAP)	**$ 106,928**	**$ 49,031**	**$ (25,922)**	**$ 130,037**

The Company discloses certain income and expense items on a per-share basis. The Company believes that such disclosures provide important insight into underlying quarterly earnings and are financial performance metrics commonly used by investors. The Company calculates the quarterly per-share amount for items included in continuing operations by using an income tax rate based on either the tax rates in specific countries or the estimated tax rate applied to total company results. The after-tax amount is then divided by the weighted-average number of shares outstanding for each period. Year-to-date earnings per-share effects are determined by adding the amounts calculated at each reporting period.

The following tables show the earnings per share effect of certain income and expense items:

Three months ended June 30, 2020 (in thousands, except per share amounts)	Pre tax Amounts	Tax Effect	After tax Effect	Per share Effect
Restructuring expenses	$ 2,837	$ 953	$ 1,884	$ 0.06
Foreign currency revaluation (gains)/losses	1,023	536	487	0.02
Acquisition/integration costs	278	83	195	0.01

Three months ended June 30, 2019 (in thousands, except per share amounts)	Pre tax Amounts	Tax Effect	After tax Effect	Per share Effect
Restructuring expenses	$ 899	$ 255	$ 644	$ 0.02
Foreign currency revaluation (gains)/losses	741	210	531	0.02

Six months ended June 30, 2020 (in thousands, except per share amounts)	Pre tax Amounts	Tax Effect	After tax Effect	Per share Effect
Restructuring expenses	$ 3,479	$ 1,145	$ 2,334	$ 0.07
Foreign currency revaluation (gains)/losses(a)	12,889	(1,009)	13,898	0.44
Former CEO termination costs	2,742	713	2,029	0.06
Acquisition/integration costs	576	172	404	0.02

Six months ended June 30, 2019 (in thousands, except per share amounts)	Pre tax Amounts	Tax Effect	After tax Effect	Per share Effect
Restructuring expenses	$ 1,383	$ 397	$ 986	$ 0.03
Foreign currency revaluation (gains)/losses	(1,091)	(329)	(762)	(0.02)

(a) In Q1 2020, the company recorded losses of approximately $17 million in jurisdictions where it cannot record a tax benefit from the losses, which results in an unusual relationship between the pre-tax and after-tax amounts.

The following table contains the calculation of Adjusted Earnings per share:

	Three months ended June 30,		Six months ended June 30,	
Per share amounts (Basic)	**2020**	**2019**	**2020**	**2019**
Earnings per share (GAAP)	**$ 1.00**	$ 1.05	**$ 1.28**	$ 1.96
Adjustments, after tax:				
Restructuring expenses	**0.06**	0.02	**0.07**	0.03
Foreign currency revaluation (gains)/losses	**0.02**	0.02	**0.44**	(0.02)
Former CEO termination costs	**—**	—	**0.06**	—
Acquisition/integration costs	**0.01**	—	**0.02**	—
Adjusted Earnings per share	**$ 1.09**	$ 1.09	**$ 1.87**	$ 1.97

Net debt is, in the opinion of the Company, helpful to investors wishing to understand what the Company's debt position would be if all available cash were applied to pay down indebtedness. The Company calculates Net debt by subtracting Cash and cash equivalents from Total debt. Total debt is calculated by adding Long-term debt, Current maturities of long-term debt, and Notes and loans payable, if any.

The following table contains the calculation of net debt:

(in thousands)		June 30, 2020		March 31, 2020		December 31, 2019
Current maturities of long-term debt	$	17	$	20	$	20
Long-term debt		435,000		491,002		424,009
Total debt		**435,017**		**491,022**		**424,029**
Cash and cash equivalents		204,037		222,680		195,540
Net debt	**$**	**230,980**	**$**	**268,342**	**$**	**228,489**

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For discussion of our exposure to market risk, refer to “Quantitative and Qualitative Disclosures about Market Risk”, which is included as an exhibit to this Form 10-Q.

Item 4. Controls and Procedures

a) Disclosure controls and procedures.

The principal executive officer and principal financial officer, based on their evaluation of disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that the Company’s disclosure controls and procedures are effective for ensuring that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in filed or submitted reports is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There was no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting. We continue the process of implementing our internal control over financial reporting structure over the CirComp acquisition and expect that this effort will be completed in 2020.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information set forth above under Note 17 in Item 1, “Notes to Consolidated Financial Statements” is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the items below, for discussion of risk factors, refer to Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019.

The COVID-19 pandemic has had, and we expect will continue to have, certain negative impacts on our business, and such impacts may have a material adverse effect on our results of operations, financial condition and cash flows

The public health crisis caused by the COVID-19 pandemic and the measures being taken by governments, businesses, and the public at large to limit COVID-19's spread has had, and are expected to continue to have, certain negative effects on the markets we serve. These effects include deteriorating general economic conditions in many regions of the world, increased unemployment, decreases in disposable income, decline in consumer confidence, and changes in consumer spending habits. Certain adverse impacts specific to the Company include, without limitation:

- We have experienced larger-than-anticipated declines in demand for MC fabrics used to make certain paper grades, specifically publication paper grades, that could be COVID-19 related. The above effects are likely to continue to have an adverse impact on demand for publication paper grades, and perhaps other grades of paper, including without limitation packaging paper grades, as well as on demand for non-woven fabrics and fiber cement products used in the construction industry; such impacts would in turn adversely impact demand for the MC products used to manufacture such paper grades or building products. A decline in revenues would lead to lower gross profit on those products and the possibility of unabsorbed fixed manufacturing costs.

- The Albany Engineered Composites segment generates a significant portion of its revenue from commercial aerospace programs and contracts for the U.S. Department of Defense (DOD). The COVID-19 pandemic has significantly impacted passenger air travel which, in turn, has impacted and is likely to continue to impact the commercial aerospace programs that provide a source of revenue for the Company. Such programs could be delayed or canceled which, in addition to a loss of revenue and gross profit, could lead to write-offs for Company investments for those programs. The pandemic has resulted in significant costs for the U.S. government, which could lead to program delays or cancellations, and a corresponding decrease in our revenues. The U.S. Presidential election later in 2020 could increase the uncertainties associated with DOD programs.
- Disruptions in supply chains may place constraints on our ability to source key raw materials and services which could impact our ability to deliver products to customers as scheduled, or could increase manufacturing or delivery costs.
- We have experienced, and may continue to experience, adverse fluctuations in foreign currency exchange rates, particularly an increase in the value of the U.S. dollar against certain key foreign currencies, which negatively affected results in the first quarter of 2020, and could continue to negatively affect, our results of operations and financial condition.
- During periods of economic weakness, the Company may be exposed to greater risk for credit risk. Additionally, we could be required to record significant impairment charges with respect to noncurrent assets, including goodwill and other intangible assets, whose fair values may be negatively affected by the effects of the COVID-19 pandemic on our operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We made no share purchases during the second quarter of 2020. We remain authorized by the Board of Directors to purchase up to 2 million shares of our Class A Common Stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act.
32.1	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).
99.1	Quantitative and qualitative disclosures about market risks as reported at June 30, 2020.
101.INS	XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover page formatted as Inline XBRL and contained in Exhibit 101

As provided in Rule 406T of Regulation S-T, this information shall not be deemed "filed" for purposes of Sections 11 and 12 of the Securities Act and Section 18 of the Securities Exchange Act or otherwise subject to liability under those sections.

SIGNATURES

Pursuant to the requirements 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.

ALBANY INTERNATIONAL CORP.
(Registrant)

Date: July 30, 2020	By	/s/ Stephen M. Nolan
		Stephen M. Nolan Chief Financial Officer and Treasurer (Principal Financial Officer)

EXHIBIT (31.1)
CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, A. William Higgins, certify that:

1. I have reviewed this report on Form 10-Q of Albany International Corp.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

By /s/ A. William Higgins

A. William Higgins
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT (31.2)
CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen M. Nolan, certify that:

1. I have reviewed this report on Form 10-Q of Albany International Corp.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2020

By /s/ Stephen M. Nolan

Stephen M. Nolan
Chief Financial Officer and Treasurer
(Principal Financial Officer)

EXHIBIT (32.1)
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Albany International Corp. (the Company) on Form 10-Q for the period ending June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), A. William Higgins, President and Chief Executive Officer, and Stephen M. Nolan, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 30, 2020

/s/ A. William Higgins

A. William Higgins
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Stephen M. Nolan

Stephen M. Nolan
Chief Financial Officer and Treasurer
(Principal Financial Officer)

EXHIBIT (99.1)
MARKET RISK SENSITIVITY – As of June 30, 2020

We have 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.

Foreign Currency Exchange Rate Risk

We have manufacturing plants and sales transactions worldwide and therefore are 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, we periodically enter into forward exchange contracts either to 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 nonfunctional currencies subject to potential loss amount to approximately $561.9 million. The potential loss in fair value resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates amounts to $56.2 million. Furthermore, related to foreign currency transactions, we have exposure to various nonfunctional currency balances totaling $0.6 million. This amount includes, on an absolute basis, exposures to assets and liabilities held in currencies other than our local entity's functional currency. On a net basis, we had $43.6 million of foreign currency liabilities as of June 30, 2020. As currency rates change, these nonfunctional currency balances are revalued, and the corresponding adjustment is recorded in the income statement. A hypothetical change of 10% in currency rates could result in an adjustment to the income statement of approximately $4.4 million. Actual results may differ.

Interest Rate Risk

We are exposed to interest rate fluctuations with respect to our variable rate debt, depending on general economic conditions.

On June 30, 2020, we had the following variable rate debt:

(in thousands, except interest rates)	
Long-term debt	
Credit agreement with borrowings outstanding, net of fixed rate portion, at an end of period interest rate of 1.555% in 2020, due in 2022	$85,000
Total	$85,000

Assuming borrowings were outstanding for an entire year, an increase of one percentage point in weighted average interest rates would increase interest expense by $0.8 million. To manage interest rate risk, we may periodically enter into interest rate swap agreements to effectively fix the interest rates on variable debt to a specific rate for a period of time. (See Note 15 to the Consolidated Financial Statements in Item 1, which is incorporated herein by reference).