EUROSEAS LTD.
Form 20-F
April 27, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended

OR

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

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number 001-33283

EUROSEAS LTD.
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

Marshall Islands
(Jurisdiction of incorporation or organization)

4 Messogiou & Evropis Street, 151 25 Maroussi Greece

(Address of principal executive offices)

Tasos Aslidis, Tel: (908) 301-9091, Euroseas Ltd. c/o Tasos Aslidis,
11 Canterbury Lane, Watchung, NJ 07069

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Common shares, $0.03 par value	NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report

31,167,211 common shares, $0.03 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.

o Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer	Accelerated filer	Non-accelerated filer
o	x	o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

x U.S. GAAP

o International Financial Reporting Standards as issued by the International Accounting Standards Board.

o Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

o Yes o No

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FORWARD-LOOKING STATEMENTS

Euroseas Ltd., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This annual report contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of our operations or our performance. Words such as "expects," "intends," "plans," "believes," "anticipates," "estimates," and variations of such words and similar expressions are intended to identify the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding:

- our future operating or financial results;
- future, pending or recent acquisitions, joint ventures, business strategy, areas of possible expansion, and expected capital spending or operating expenses;
- drybulk and container shipping industry trends, including charter rates and factors affecting vessel supply and demand;
- our financial condition and liquidity, including our ability to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities;
- availability of crew, number of off-hire days, drydocking requirements and insurance costs;
- our expectations about the availability of vessels to purchase or the useful lives of our vessels;
- our expectations relating to dividend payments and our ability to make such payments;
- our ability to leverage to our advantage our manager's relationships and reputations in the drybulk and container shipping industry;
- changes in seaborne and other transportation patterns;
- changes in governmental rules and regulations or actions taken by regulatory authorities;
- potential liability from future litigation;
- global and regional political conditions;
- acts of terrorism and other hostilities, including piracy; and
- other factors discussed in the section titled "Risk Factors."

WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS CONTAINED IN THIS ANNUAL REPORT, EXCEPT AS REQUIRED BY LAW, OR THE DOCUMENTS TO WHICH WE REFER YOU IN THIS ANNUAL REPORT, TO REFLECT ANY CHANGE IN

OUR EXPECTATIONS WITH RESPECT TO SUCH STATEMENTS OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY STATEMENT IS BASED.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

Please note: Throughout this report, all references to "we," "our," "us" and the "Company" refer to Euroseas Ltd. and its subsidiaries. We use the term deadweight ton, or dwt, in describing the size of vessels. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. We use the term twenty-foot equivalent unit, or teu, in describing the size of our containerships and multipurpose vessel in addition to dwt. Teu, expressed in number of containers, refers to the maximum number of twenty-foot long containers that can be placed on board. Unless otherwise indicated, all references to "dollars" and "$" in this report are to, and amounts are presented in, U.S. dollars.

A. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The following information sets forth selected historical financial data for Euroseas. We derived this information from our audited financial statements for the years ended December 31, 2009, 2010 and 2011 included in this annual report. The information is only a summary and should be read in conjunction with our historical financial statements and related notes, and our Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere herein. The historical financial and other fleet data presented for the years ended December 31, 2007 and 2008, as well as balance sheet data as of December 31, 2007, 2008 and 2009, have been derived from audited financial statements not included in this Annual Report and are provided for comparison purposes. The historical results included below and elsewhere in this annual report are not indicative of our future performance.

See next page for table of Euroseas Ltd. – Summary of Selected Historical Financials.

	Euroseas Ltd. – Summary of Selected Historical Financials				
	Year Ended December 31,				
	2007	2008	2009	2010	2011
Income Statement Data					
Voyage revenues	86,104,365	132,243,918	66,215,669	54,422,489	64,129,511
Related party revenue					240,000
Commissions	(4,024,032)	(5,940,460)	(2.433.776)	(1,944,473)	(2,972,967)
Net revenue	82,080,333	126,303,458	63,781,893	52,478,016	61,396,544
Voyage expenses	(897,463)	(3,092,323)	(1,510,551)	(1,596,569)	(777,902)
Vessel operating expenses	(17,240,132)	(27,521,194)	(23,763,480)	(21,507,192)	(26,249,339)
Drydocking expenses (4)	(5,770,007)	(6,129,257)	(1,912,474)	(6,537,733)	(3,148,111)
Vessel depreciation (1)	(16,423,092)	(28,284,752)	(19,092,384)	(17,979,750)	(18,348,556)
Management fees	(3,669,137)	(5,387,415)	(5,074,297)	(4,892,006)	(5,810,095)
Other general and administration expenses	(2,656,176)	(4,057,736)	(3,640,534)	(3,026,941)	(2,986,507)
Impairment loss	-	(25,113,364)	$17,759	($10,101)	

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

	Three months ended March 31,	
(in thousands)	2013	2012
Pension settlement		
Unallocated expenses	$ -	$9,175
Restructuring expense		
Machine Clothing	$193	$673
Engineered Composites	443	-
Unallocated expenses	-	(415)
Consolidated total	$636	$258

The 2013 restructuring expense was principally related to a strategic realignment within Engineered Composites operations. The 2012 restructuring expense was principally due to curtailment of manufacturing in New York and Wisconsin.

There were no material changes in the total assets of the reportable segments during this period.

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, as of February 2009, benefits accrued under this plan were frozen. 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

In addition to providing pension benefits, the Company provides various medical, dental, and life insurance benefits for certain retired United States employees. U.S. employees hired prior to 2005 may become eligible for these benefits if they reach normal retirement age while working for the Company. Benefits provided under this plan are subject to change. Retirees share in the cost of these benefits. Effective January 2005, any new employees who wish to be covered under this plan will be responsible for the full cost of such benefits, except for life insurance benefits, which continue to be provided. In September 2008, we changed the cost sharing arrangement under this program such that increases in health care costs are the responsibility of plan participants.

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

The composition of the net periodic benefit plan cost for the three months ended March 31, 2013 and 2012 was as follows:

	Pension plans		Other postretirement benefits	
(in thousands)	2013	2012	2013	2012
Components of net periodic benefit cost:				
Service cost	$842	$849	$285	$268
Interest cost	2,000	4,602	802	922
Expected return on assets	(2,034)	(4,168)	-	-
Amortization of prior service cost/(credit)	9	9	(917)	(917)
Amortization of transition obligation	17	19	-	-
Amortization of net actuarial loss	785	1,773	879	804
Settlement	-	9,175	-	-
Net periodic benefit cost	$1,619	$12,259	$1,049	$1,077

In the first quarter of 2012, the Company announced a plan to significantly reduce its pension plan liabilities by settling certain pension obligations, which led to settlement charges totaling $9.2 million for the first three months of 2012 related to the extinguishment of our pension plan liability in Sweden.

5. Restructuring

Restructuring expenses in 2013 were principally related to a strategic realignment within Engineered Composites operations. The 2012 restructuring expense was principally due to curtailment of manufacturing in New York and Wisconsin which was related to the lower demand for paper machine clothing. Those costs were partially offset by a reduction in accruals related to the Company's headquarters.

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The following table summarizes charges reported in the Statements of Income under "Restructuring and other":

	Three months ended March 31,	
(in thousands)	2013	2012
Machine Clothing	$193	$673
Engineered Composites	443	-
Unallocated expenses	-	(415)
Total	$636	$258

Three months ended March 31, 2013

(in thousands)	**Total restructuring costs incurred**	**Termination and other costs**	Impairment of plant and equipment
Machine Clothing	$193	$193	$ -
Engineered Composites	443	353	90
Unallocated expenses	-	-	-
Total	$636	$546	$90

Three months ended March 31, 2012

(in thousands)	**Total restructuring costs incurred**	**Termination and other costs**	Impairment of plant and equipment
Machine Clothing	$673	$673	$ -
Engineered Composites	-	-	-
Unallocated expenses	(415)	131	(546)
Total	$258	$804	($546)

We expect that substantially all accruals for restructuring liabilities will be paid within one year. The table below presents year-to-date changes in restructuring liabilities for 2013 and 2012:

(in thousands)	December 31, 2012	Restructuring charges accrued	Payments	Currency translation/other	March 31, 2013
Termination costs	$4,947	$636	($1,716)	$71	$3,938
Total	$4,947	$636	($1,716)	$71	$3,938

(in thousands)	December 31, 2011	Restructuring charges accrued	Payments	Currency translation/other	March 31, 2012
Termination costs	$6,979	$803	($1,536)	$59	$6,305
Total	$6,979	$803	($1,536)	$59	$6,305

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6. Other Expense/(Income), net

The components of Other expense/(income), net, are:

(in thousands)	Three months ended March 31, 2013	2012
Currency transactions	$9	$3,832
Bank fees and amortization of debt issuance costs	621	676
Letter of credit fees	-	419
Other	104	(379)
Total	$734	$4,548

7. Income Taxes

The following table presents components of income tax expense/(benefit) for the three month period ended March 31, 2013 and 2012:

(in thousands)	Three months ended March 31, 2013	2012
Income tax based on income from continuing operations, at estimated tax rates of 34.0% and (6.5%), respectively	$6,038	$ 60
Pension plan settlement	-	(3,299)
Income tax before discrete items	6,038	(3,239)
Discrete tax expense/(benefit):		
Provision for/resolution of tax audits and contingencies, net	-	(6,733)
Adjustments to prior period tax liabilities	210	-
Total income tax expense/(benefit)	$6,248	$(9,972)

The first quarter estimated effective tax rate on continuing operations was 34.0 percent in 2013, as compared to (6.5) percent for the same period in 2012. The change in the estimated effective tax rate was primarily attributable to the amount and distribution of income and loss among the countries in which we operate. The 2012 first quarter tax rate was also impacted by operating losses generated in tax jurisdictions where no tax benefit was recognized.

The Company records the residual U.S. and foreign taxes on certain amounts of current foreign earnings that have been targeted for repatriation to the U.S. As a result, such amounts are not considered to be permanently reinvested, and the Company accrued for the residual taxes on these earnings to the extent they cannot be repatriated in a tax-free manner. At March 31, 2013 the Company reported a deferred tax liability of $1.5 million on $19.4 million of non-U.S. earnings that have been targeted for future repatriation to the U.S.

We conduct business globally and, as a result, the Company or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are

subject to examination by taxing authorities throughout the world, including major jurisdictions as the United States, Brazil, Canada, France, Germany, Italy, Mexico, and Switzerland. Open tax years in these jurisdictions range from 2000 to 2012. We are currently under audit in the U.S. and non-U.S. tax jurisdictions, including but not limited to Canada, Germany, and France.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may change within a range of a net increase of $0 million to a net decrease of $0.8 million, from the reevaluation of uncertain tax positions arising in examinations, in appeals, or in the courts, or from the closure of tax statutes. Not included in the range is $22.3 million of tax benefits in Germany related to a 1999 reorganization that have been challenged by the German tax authorities in the course of an audit, of which $11.4 million would have a direct impact on our statement of income if resolved unfavorably. In 2008 the German Federal Tax Court (FTC) denied tax benefits to other taxpayers in a case involving German tax laws relevant to our reorganization. One of these cases involved a non-German party, and in the ruling in that case, the FTC acknowledged that the German law in question may be violative of European Union (EU) principles and referred the issue to the European Court of Justice (ECJ) for its determination on this issue. In September 2009, the ECJ issued an opinion in this case that is generally favorable to the other taxpayer and referred the case back to the FTC for further consideration. In May 2010 the FTC released its decision, in which it resolved certain tax issues that may be relevant to our audit and remanded the case to a lower court for further development. In 2012, the lower court decided in favor of the taxpayer and the government appealed the findings to the FTC. Although we were required to pay tax and interest of approximately $12.8 million to the German tax authorities in order to continue to pursue the position; when taking into consideration the ECJ decision, the latest FTC decision and the lower court decision, we believe that it is more likely than not that the relevant German law is violative of EU principles and accordingly we have not accrued tax expense on this matter. As we continue to monitor developments, it may become necessary for us to accrue tax expense and related interest.

8. Earnings Per Share

Earnings per share are computed using the weighted average number of shares of Class A Common Stock and Class B Common Stock outstanding during the period. Diluted earnings per share include the effect of all potentially dilutive securities.

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

(in thousands, except market price data)	Three months ended March 31, 2013	2012
Net income available to common shareholders	$11,511	$47,041
Weighted average number of shares:		
Weighted average number of shares used in calculating basic net income/(loss) per share	31,496	31,309
Effect of dilutive stock-based compensation plans:		
Stock options	113	110
Long-term incentive plan	173	114
Weighted average number of shares used in calculating diluted net income per share	31,782	31,533
Effect of stock-based compensation plans that were not included in the computation of diluted earnings per share because to do so would have been antidilutive	-	-
Average market price of common stock used for calculation of dilutive shares	$26.41	$23.97
Net income per share:		
Basic	$0.37	$1.50
Diluted	$0.36	$1.49

The following table presents the number of shares issued and outstanding:

	Class A Shares	Class B Shares	Less: Treasury Shares	Net shares Outstanding
March 31, 2013	36,827,227	3,236,098	(8,467,873)	31,595,452
December 31, 2012	36,642,204	3,236,098	(8,467,873)	31,410,429
March 31, 2012	36,585,004	3,236,098	(8,479,487)	31,341,615

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9. Accumulated Other Comprehensive Income

The Company adopted the provisions of Accounting Standards Update 2013-02 for the first quarter of 2013, which requires enhanced disclosures of Accumulated Other Comprehensive Income.

The table below presents changes in the components of Accumulated Other Comprehensive Income for the period December 31, 2012 to March 31, 2013:

(in thousands)	Translation adjustments	Pension and postretirement liability adjustments	Derivative valuation adjustment	Total Other Comprehensive Income
Balance, December 31, 2012	($7,659)	($69,484)	($2,878)	($80,021)
Other comprehensive income before reclassifications	(11,288)	666	279	(10,343)
Transfers of pension and postretirement liability adjustments to income statement, net of tax		503	-	503
Net current period other comprehensive income	(11,288)	1,169	279	(9,840)
Balance, March 31, 2013	($18,947)	($68,315)	($2,599)	($89,861)

The only component of our Accumulated Other Comprehensive Income that is reclassified to the Statement of Income relates to our pension and postretirement plans. The table below presents the amounts reclassified, and the line items of the Statement of Income that were affected.

For the three months ended March 31, 2013 (in thousands)	Expense/(income) 2013
Pretax amounts reclassified from Accumulated Other Comprehensive Income:	
Amortization of prior service cost/(credit)	($908)
Amortization of transition obligation	17
Amortization of net actuarial loss	1,664
Total pretax amount reclassified	773
Income tax effect	(270)
Effect on net income due to items reclassified from Accumulated Other Comprehensive Income	$503

10. Accounts Receivable

Accounts receivable includes trade receivables and revenue in excess of progress billings on Engineered Composites contracts accounted for under the percentage of completion method. The Company maintains allowances for doubtful

accounts for estimated losses resulting from the inability of its customers to make required payments. The Company determines the allowance based on historical write-off experience, customer specific facts and economic conditions. If the financial condition of the Company’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The components of Accounts receivable are summarized below:

(in thousands)	March 31, 2013	December 31, 2012
Trade accounts receivable	$151,141	$149,737
Revenue in excess of progress billings	15,365	17,105
Receivables related to the sale of discontinued businesses	16,675	16,555
Less: allowance for doubtful accounts	(11,698)	(11,862)
Total Accounts Receivable	$171,483	$171,535

11. Inventories

The components of Inventories are summarized below:

(in thousands)	March 31, 2013	December 31, 2012
Finished goods	$49,067	$49,235
Work in process	45,945	44,866
Raw material and supplies	26,020	25,082
Total inventories	$121,032	$119,183

Inventories are stated at the lower of cost or market and are valued at average cost, net of reserves. We record a provision for obsolete inventory based on the age and category of the inventories.

12. Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually. 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. Our reporting units 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 two 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.

The entire balance of goodwill on our books is attributable to the Machine Clothing business. In the second quarter of 2012 the Company applied the qualitative assessment approach in performing its annual evaluation of goodwill and concluded that no impairment provision was required. In addition, there were no amounts at risk due to the large spread between the fair and carrying values.

We are continuing to amortize certain patents, trade names, customer contracts and technology assets that have finite lives. The changes in intangible assets and goodwill from December 31, 2012 to March 31, 2013, were as follows:

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(in thousands)	Balance at December 31, 2012	Amortization	Currency Translation	Balance at March 31, 2013
Amortized intangible assets:				
AEC trade names	$38	($1)	$ -	$37
AEC customer contracts	606	(51)	-	555
AEC technology	204	(6)	-	198
Total amortized intangible assets	$848	($58)	$ -	$790
Unamortized intangible assets:				
Goodwill	$76,522	$ -	($1,646)	$74,876

As of March 31, 2013, the balance of goodwill was $74.9 million and was completely attributable to our Machine Clothing reportable segment.

Estimated amortization expense of intangibles for the years ending December 31, 2013 through 2017, is as follows:

Year	Annual amortization (in thousands)
2013	$231
2014	231
2015	231
2016	29
2017	29

13. Financial Instruments

Long-term debt consists of:

(in thousands, except interest rates)	March 31, 2013	December 31, 2012
Convertible notes, par value $28,437, issued in March 2006 with fixed contractual interest rates of 2.25%, due in 2026, redeemed March 2013	$ -	$28,261
Private placement with a fixed interest rate of 6.84%, due in 2013 through 2017	150,000	150,000
Credit agreement with borrowings outstanding at an end of period interest rate of 2.68% in 2013 and 3.92% in 2012, due in 2018	176,000	132,000
Various notes and mortgages relative to operations principally outside the United States, at an average end of period rate of 3.06% in 2013 and 2012, due in varying amounts through 2021	7,636	8,892

Long-term debt	333,636	319,153
Less: current portion	(55,014)	(83,276)
Long-term debt, net of current portion	$278,622	$235,877

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The note agreement and guaranty (“the Prudential agreement”) was entered into in October 2005 and was amended and restated September 17, 2010 and on March 26, 2013, with the Prudential Insurance Company of America, and certain other purchasers, in an aggregate principal amount of $150 million, with interest at 6.84% and a maturity date of October 25, 2017. There are mandatory payments of $50 million on October 25, 2013 and October 25, 2015. At the noteholders’ election, certain prepayments may also be required in connection with certain asset dispositions or financings. The notes may not otherwise be prepaid without a premium, under certain market conditions. The note agreement contains customary terms, as well as affirmative covenants, negative covenants, and events of default comparable to those in our current principal credit facility. For disclosure purposes, we are required to measure the fair value of outstanding debt on a recurring basis. As of March 31, 2013, the fair value of the note agreement was approximately $170.6 million, which was measured using active market interest rates.

On March 26, 2013, we entered into a $330 million, unsecured Five-Year Revolving Credit Facility Agreement (the "New Agreement"), under which $176 million of borrowings were outstanding as of March 31, 2013. The New Agreement replaces the previous $390 million five-year facility agreement made in 2010. The applicable interest rate for borrowings under the 2013 agreement, as well as under the former agreement, is LIBOR plus a spread, based on our leverage ratio at the time of borrowing.

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. Based on our maximum leverage ratio and our consolidated EBITDA (as defined in the credit agreement), and without modification to any other credit agreements, as of March 31, 2013 we would have been able to borrow an additional $154 million under the credit agreement.

On July 16, 2010, we entered into interest rate hedging transactions that have the effect of fixing the LIBOR portion of the effective interest rate (before addition of the spread) on $105 million of the indebtedness drawn under the New Agreement at the rate of 2.04% for five years. Under the terms of these transactions, we pay the fixed rate of 2.04% and the counterparties pay a floating rate based on the three-month LIBOR rate at each quarterly calculation date, which on January 16, 2013 was 0.31%. The net effect is to fix the effective interest rate on $105 million of indebtedness at 2.04%, plus the applicable spread, until these swap agreements expire on July 16, 2015. As of March 31, 2013, the all-in rate on this $105 million of debt was 3.415%. This interest rate swap is accounted for as a hedge of future cash flows, as further described in Note 14 of the Notes to Consolidated Financial Statements.

We are currently required to maintain a leverage ratio of not greater than 3.50 to 1.00 and a minimum interest coverage of 3.00 to 1.00 under the credit agreement and Prudential agreement.

As of March 31, 2013, our leverage ratio was 1.36 to 1.00 and our interest coverage ratio was 11.16 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 would not exceed 3.00 to 1.00 after giving pro forma effect to the acquisition.

On March 15, 2013, the Company redeemed, at 100 percent of par, all remaining 2.25% Convertible Senior Notes due 2026 (the “Notes”). The cash payments of $28.4 million were funded by increased borrowings under the Revolving Credit Facility.

In connection with the sale of the Notes, we entered into hedge and warrant transactions with respect to our Class A common stock. These transactions were intended to reduce the potential dilution upon conversion of the Notes by providing us with the option, subject to certain exceptions, to acquire shares in an amount equal to the number of shares that we would be required to deliver upon conversion of the Notes. These transactions had the economic effect to the Company of increasing the conversion price of the Notes to $52.25 per share. The Notes hedge and warrant transactions had a net cost of $14.7 million. The hedge transactions expired on March 15, 2013.

Pursuant to the warrant transactions, we sold a total of 4.1 million warrants, each exercisable to buy a single share of Class A common stock at an initial strike price of $52.25 per share. The warrants are American-style warrants (exercisable at any time), and expire over a period of sixty trading days beginning on June 15, 2013. If the warrants are exercised when they expire, we may choose either net cash or net share settlement. If the warrants are exercised before they expire, they must be net share settled. If we elect to net cash settle the warrants, we will pay cash in an amount equal to, for each exercise of warrants, (i) the number of warrants exercised multiplied by (ii) the

excess of the volume weighted average price of our Class A common stock on the expiration date of such warrants (the "settlement price") over the strike price. Under net share settlement, we will deliver to the warrant holders a number of shares of our Class A common stock equal to, for each exercise of warrants, the amount payable upon net cash settlement divided by the settlement price.

Indebtedness under the Prudential note and guaranty agreement and 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 March 31, 2013.

14. 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. The hierarchy is broken down into three general levels: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs include data points that are observable, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; 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.

The following table presents the fair-value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis:

(in thousands)	Total fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
Fair Value at March 31, 2013			
Assets:			
Cash equivalents	$26,095	$26,095	$ -
Common stock of foreign public company	543	543	-
Liabilities:			
Interest rate swap	(4,261)	-	(4,261)
Fair Value at December 31, 2012			
Assets:			
Cash equivalents	$33,171	$33,171	$ -
Common stock of foreign public company	562	562	-
Liabilities:			
Interest rate swap	(4,718)	-	(4,718)

During the three-months ended March 31, 2013, there were no transfers between levels 1, 2, and 3.

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 a 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. The securities are classified as available for sale, and as a result any gain or loss is recorded in the Shareholders' Equity section of the Consolidated Balance Sheets rather than in the Consolidated Statements of Income. When the security is sold or impaired, gains and losses are reported on the Consolidated Statements of Income. Investments are considered to be impaired when a decline in fair value is judged to be other than temporary.

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, there were no open contracts and no gains/(losses) for the three months ended March 31, 2013. Gains for the three months ended March 31, 2012 were negligible.

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 control 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.

We operate our business in many regions of the world, and currency rate movements can have a significant effect on operating results.

Changes in exchange rates can result in revaluation gains and losses that are recorded in Selling, General, Technical, Product Engineering, and Research expenses or Other income/expense, net. Revaluation gains and losses occur when our business units have intercompany or third-party trade 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 income statement 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.

In order to mitigate foreign exchange volatility in the financial statements, we periodically enter into foreign currency financial instruments from time to time. There were no foreign currency financial instruments designated as hedging instruments at March 31, 2013.

As described in Note 13 of the Notes to Consolidated Financial Statements, on March 26, 2013, we entered into a $330 million unsecured five-year revolving credit facility agreement, which replaces the previous $390 million five-year facility agreement made in 2010. The applicable interest rate for borrowings under the agreement is LIBOR plus a spread, based on our leverage ratio at the time of borrowing. Interest rate changes on this variable rate debt cause changes in cash flows, and in order to mitigate this cash flow risk we have fixed a portion of the effective interest rate on part of the indebtedness drawn under the agreement by entering into interest rate hedging transactions

on July 16, 2010. This interest rate swap locked in our interest rate on the forecasted outstanding borrowings of $105 million at 2.04% plus the credit spread on the debt for a five year period. The credit spread is based on the pricing grid, which can go as low as 2.0% or as high as 2.75%, based on our leverage ratio.

The interest rate swap is accounted for as a hedge of future cash flows. The fair value of our interest rate swap is derived from a discounted cash flow analysis based on the terms of the contract and the interest rate curve, and is included in Other noncurrent liabilities in the Consolidated Balance Sheet. As of March 31, 2013, we reported a liability of $4.3 million, which is comprised of a liability of $5.4 million for the fixed rate leg, and a receivable of $1.1

million for the floating rate leg. Unrealized gains and losses on the swap will flow through the caption Derivative valuation adjustment in the Shareholders' equity section of the Consolidated Balance Sheets, to the extent that the hedge is highly effective. Gains and losses related to the ineffective portion of the hedge will be recognized in the current period in earnings. Amounts accumulated in Other comprehensive income are reclassified as Interest expense, net when the related interest payments (that is, the hedged forecasted transactions) affect earnings. Interest expense related to the swap totaled $0.5 million and $0.4 million for the three months ended March 31, 2013 and 2012, respectively.

Fair value amounts of derivative instruments were as follows:

(in thousands)	Balance sheet caption	**March 31, 2013**	December 31, 2012
Liability Derivatives			
Derivatives designated as hedging instruments:			
Interest rate swap	Other noncurrent liabilities	**($4,261)**	($4,718)
Total liability derivatives		**($4,261)**	($4,718)
Total derivatives		**($4,261)**	($4,718)

Gains/(losses) on changes in fair value of derivative instruments were as follows:

(in thousands)	Three months ended March 31, **2013**	2012
Derivatives designated as hedging instruments		
Interest rate swap [1]	**$279**	($211)
Derivatives not designated as hedging instruments		
Forward exchange options [2]	**-**	(1)

1 Unrealized losses are recognized in Other comprehensive income, net of tax. This derivative was a 100% effective hedge of interest rate cash flow risk for the quarter ended March 31, 2013.

2 Gains/(losses) are recognized in Other expense, net.

15. 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 products that we previously manufactured. We produced asbestos-containing paper machine clothing synthetic dryer fabrics marketed during the period from 1967 to 1976 and used in certain paper mills. Such fabrics generally had a useful life of three to twelve months.

We were defending 4,296 claims as of April 19, 2013.

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

Year ended December 31,	*Opening Number of Claims*	*Claims Dismissed, Settled, or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve*
2005	*29,411*	*6,257*	*1,297*	*24,451*	*$ 504*
2006	*24,451*	*6,841*	*1,806*	*19,416*	*3,879*
2007	*19,416*	*808*	*190*	*18,798*	*15*
2008	*18,798*	*523*	*110*	*18,385*	*52*
2009	*18,385*	*9,482*	*42*	*8,945*	*88*
2010	*8,945*	*3,963*	*188*	*5,170*	*159*
2011	*5,170*	*789*	*65*	*4,446*	*1,111*
2012	*4,446*	*90*	*107*	*4,463*	*530*
2013	***4,463***	***197***	***30***	***4,296***	***0***

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.

Exposure and disease information sufficient to meaningfully estimate a range of possible loss of a particular claim is typically not available until late in the discovery process, and often not until a trial date is imminent and a settlement demand has been received. For these reasons, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to 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 insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of April 19, 2013, we had resolved, by means of settlement or dismissal, 36,567 claims. The total cost of resolving all claims was $8.6 million. Of this amount, almost 100% was paid by our insurance carrier. The Company has over $125 million in confirmed insurance coverage that should be available with respect to current and future asbestos claims, as well as additional insurance coverage that we should be able to access.

Brandon Drying Fabrics, Inc. (“Brandon”), a subsidiary of Geschmay Corp., which is a subsidiary of the Company, is also a separate defendant in many of the asbestos cases in which Albany is named as a defendant. Brandon was defending against 7,866 claims as of April 19, 2013.

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

Year ended December 31,	*Opening Number of Claims*	*Claims Dismissed, Settled, or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve*
2005	*9,985*	*642*	*223*	*9,566*	*$ 0*
2006	*9,566*	*1,182*	*730*	*9,114*	*0*
2007	*9,114*	*462*	*88*	*8,740*	*0*
2008	*8,740*	*86*	*10*	*8,664*	*0*
2009	*8,664*	*760*	*3*	*7,907*	*0*
2010	*7,907*	*47*	*9*	*7,869*	*0*
2011	*7,869*	*3*	*11*	*7,877*	*0*
2012	*7,877*	*12*	*2*	*7,867*	*0*
2013	***7,867***	***2***	***1***	***7,866***	***0***

We acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999. Brandon is a wholly owned subsidiary of Geschmay Corp. In 1978, Brandon acquired certain assets from Abney Mills (“Abney”), a South Carolina textile manufacturer. Among the assets acquired by Brandon from Abney were assets of Abney’s wholly owned subsidiary, Brandon Sales, Inc. which had sold, among other things, dryer fabrics containing asbestos made by its parent, Abney. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. Because Brandon did not manufacture asbestos-containing products, and because it does not believe that it was the legal successor to, or otherwise responsible for obligations of Abney with respect to products manufactured by Abney, it believes it has strong defenses to the claims that have been asserted against it. As of January 30, 2013, Brandon has resolved, by means of settlement or dismissal, 9,733 claims for a total of $0.2 million. Brandon’s insurance carriers initially agreed to pay 88.2% of the total indemnification and defense costs related to these proceedings, subject to the standard reservation of rights. The remaining 11.8% of the costs had been borne directly by Brandon. During 2004, Brandon’s insurance carriers agreed to cover 100% of indemnification and defense costs, subject to policy limits and the standard reservation of rights, and to reimburse Brandon for all indemnity and defense costs paid directly by Brandon related to these proceedings.

For the same reasons set forth above with respect to Albany’s claims, as well as the fact that no amounts have been paid to resolve any Brandon claims since 2001, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

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.

Although we do not believe, based on currently available information and for the reasons stated above, that a meaningful estimate of a range of possible loss can be made with respect to such claims, based on our understanding of the insurance policies available, how settlement amounts have been allocated to various policies, our settlement experience, the absence of any judgments against the Company or Brandon, the ratio of paper mill claims to total claims filed, and the defenses available, we currently do not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, 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 and the trends in claims against us to date, we do not anticipate that additional claims likely to be filed against us in the future will have a material adverse effect on our financial position, results of operations, or cash flows. We are aware that litigation is inherently uncertain, especially when the outcome is dependent primarily on determinations of factual matters to be made by juries.

NAFTA Audits

The Company's affiliate in Mexico was notified in November 2010 that Mexican customs authorities expected to issue demands for duties on certain imports of PMC from the Company and the Company's affiliate in Canada for which the Company has claimed duty-free treatment under the North American Free Trade Agreement ("NAFTA").

The notices result from a decision by the Mexican Servicio de Administración Tributaria ("SAT") to invalidate NAFTA certificates provided by the Company on products shipped to its Mexican affiliate during the years 2006 through 2008. The Demand Notices arose from an SAT audit during 2010, at the conclusion of which the SAT determined that the Company had failed to provide documentation sufficient to show that the certificates were validly issued, and declared the certificates issued during this period to be invalid. The Company believes that the certificates of origin were valid and properly issued and therefore commenced administrative appeals with SAT disputing its resolutions.

As a result of the aforementioned appeals, SAT ultimately revoked its earlier declarations of invalidation with respect to the certificates of origin at issue in all 36 open audit files, and ordered a further review of such certificates. The Company has been informed that review of 28 of the 36 audit files has been completed, and that a small number of shipments have been determined to be ineligible for duty-free NAFTA treatment, primarily due to some alternative raw material that was sourced from Europe during a brief period when sufficient U.S.-sourced material was temporarily unavailable. SAT is continuing its review of the certificates of origin in the remaining 8 open audits, for which the Company has submitted evidence that it believes will be sufficient to establish NAFTA qualification.

Based on discussions with SAT, the Company currently expects to incur an immaterial amount of tariff charges and penalties with respect to the shipments determined to be ineligible. The Company does not believe that it faces any material risk of certificates being invalidated with respect to any period other than the 2006 through 2008 audit period. For this reason, the Company does not feel that this matter is likely to have a material adverse effect on the Company's financial position, results of operations and cash flows.

16. Changes in Shareholders' Equity

The following table summarizes changes in Stockholders' Equity:

(in thousands)	Class A Common Stock	Class B Common Stock	Additional paid in capital	Retained earnings	Accumulated items of other comprehensive income	Treasury stock	Total Shareholders' Equity
December 31, 2012	$37	$3	$395,381	$435,775	($80,021)	($257,664)	$493,511
Net income	-	-	-	11,511	-	-	11,511
Dividends declared	-	-	-	(4,421)	-	-	(4,421)
Compensation and benefits paid or payable in Class A Common Stock	-	-	(698)	-	-	-	(698)
Options exercised	-	-	2,315	-	-	-	2,315
Cumulative translation adjustment	-	-	-	-	(11,288)	-	(11,288)
Change in pension liability adjustment	-	-	-	-	1,169	-	1,169
Change in derivative valuation adjustment	-	-	-	-	279	-	279
March 31, 2013	$37	$3	$396,998	$442,865	($89,861)	($257,664)	$492,378

17. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02 which requires enhanced disclosures about changes in Accumulated Other Comprehensive Income. We adopted these provisions in the first quarter of 2013 by adding a Note to the Consolidated Financial Statements that provides the additional disclosures.

In the first quarter of 2013, the Company adopted the provisions of ASU 2013-01 which requires enhanced disclosures of the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this Update. The Company has an interest rate swap agreement that is within the scope of Update and we have added additional disclosure in the Notes to Consolidated Financial Statements about the offsetting asset and liability components of that agreement.

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," "intend," "estimate," "anticipate," "project," "will," " and similar expressions identify forward-looking statements, which generally are not historical in nature. 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) that could cause actual results to differ materially from the Company's historical experience and our present expectations or projections.

Forward-looking statements in this quarterly report include, without limitation, statements about economic and paper industry trends and conditions during 2013 and in future years; sales, EBITDA, Adjusted EBITDA and operating income expectations in 2013 and in future periods in each of the Company's businesses and for the Company as a whole, the timing and impact of production and development programs in the Company's AEC business segment; the

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amount and timing of capital expenditures, future tax rates and cash paid for taxes, depreciation and amortization, future debt levels and debt covenant ratios, future revaluation gains and losses, and the Company's ability to reduce costs. Furthermore, a change in any one or more of the foregoing factors could have a material effect on the Company's financial results in any period. Such statements are based on current expectations, and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Statements expressing management's assessments of the growth potential of its businesses, or referring to earlier assessments of such potential, are not intended as forecasts of actual future growth, and should not be relied on as such. While management believes such assessments to have a reasonable basis, such assessments are, by their nature, inherently uncertain. This release and earlier releases set forth a number of assumptions regarding these assessments, including historical results, independent forecasts regarding the markets in which these businesses operate, and the timing and magnitude of orders for our customers' products. Historical growth rates are no guarantee of future growth, and such independent forecasts and assumptions could prove materially incorrect, in some cases.

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 "Trends," "Liquidity," "Outlook," and "Legal Proceedings" sections of this quarterly report, as well as in the "Risk Factors", section of our most recent Annual Report on Form 10-K. Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, it is not possible to foresee or identify all factors that could have a material and negative impact on future performance. The forward-looking statements included or incorporated by reference in this quarterly report are made on the basis of our assumptions and analyses, as of the time the statements are made, in light of their experience and perception of historical conditions, expected future developments and other factors believed to be appropriate under the circumstances.

Except as otherwise required by the federal securities laws, 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.

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.

Overview

Our reportable segments, Machine Clothing (MC) and Engineered Composites (AEC), draw on many of the same advanced textiles and materials processing capabilities, and compete on the basis of proprietary, product-based advantage that is grounded in those core capabilities. As a result, technology and manufacturing advances in one tend to benefit the other.

Machine Clothing is the Company's long-established core business and primary generator of cash. While the paper and paperboard industry in our traditional geographic markets has suffered from well-documented overcapacity in publication grades, especially newsprint, the industry is still expected to grow 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. Although we do not consider the market for Machine Clothing as having significant growth potential, we do believe it provides the Company with significant prospects for long-term cash generation. We feel we are now 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, field services, and manufacturing technology. We seek to maintain the cash-generating potential of this business by maintaining the low costs that we achieved through restructuring, and competing vigorously by using our differentiated products and services to reduce our customers' total cost of operation and improve their paper quality.

We believe that AEC provides the greatest growth potential, both near and long term, for our Company. Our strategy is to grow organically by focusing our proprietary technology on high-value aerospace and defense applications that cannot be served effectively by conventional composites. AEC supplies a number of customers in the aerospace industry. AEC's largest aerospace customer is the Safran Group, and the most significant program is the production of fan blades and other components for the LEAP engine. AEC is also developing other new and potentially significant composite products for aerospace (engine and airframe) applications.

Consolidated Results of Operations

Net sales

The following table summarizes our net sales by business segment:

	Three months ended March 31,		
(in thousands, except percentages)	2013	2012	% Change
Machine Clothing	$167,409	$164,288	1.90%
Engineered Composites	19,245	15,789	21.89%
Total	$186,654	$180,077	3.65%

Net sales were affected by the following:

- Changes in currency translation rates had the effect of decreasing net sales by $0.4 million during the first quarter of 2013 as compared to 2012.
- Excluding the effect of changes in currency translation rates, net sales increased 3.9% compared to the same period in 2012.
- Excluding the effect of changes in currency translation rates:
- Net sales in MC increased 2.1 %.
- Net sales in Engineered Composites increased 21.9%

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Gross Profit

The following table summarizes gross profit by business segment:

	Three months ended March 31,	
(in thousands, except percentages)	2013	2012
Machine Clothing	$73,988	$67,998
Engineered Composites	(186)	1,393
Unallocated expenses	(1,033)	(1,105)
Total	$72,769	$68,286
% of Net Sales	39.0%	37.9%

The increase in gross profit, compared to the same period in 2012, was principally due to the net effect of the following:

- Gross profit margins in MC increased from 41.4 percent to 44.2 percent reflecting continued strong performance in the Americas and the cumulative effect of productivity improvements and restructuring.
- AEC gross margin for the first quarter of 2013 was negatively affected by inventory write-offs and other losses associated with a legacy program at the Company’s Boerne, Texas, facility.

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

The following table summarizes STG&R by business segment:

	Three months ended March 31,	
(in thousands)	2013	2012
Machine Clothing	$30,888	$36,480
Engineered Composites	1,433	1,364
Research	6,991	6,065
Unallocated	10,303	15,853
Total	$49,615	$59,762
% of Net Sales	26.6%	33.2%

STG&R expenses decreased $10.0 million, compared to the same period in 2012, principally due to the net effect of the following:

- Currency translation decreased STG&R expense by $0.3 million.
- Revaluation of nonfunctional currency assets and liabilities resulted in gains of $0.7 million during the first quarter of 2013 and losses of $1.8 million in the comparable quarter of 2012.
- U.S. Pension expense decreased by $1.2 million principally due to the settlement in 2012 of certain pension plan liabilities.
- A gain on the sale of former manufacturing facility in Australia reduced 2013 expenses by $3.8 million.

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Operating Income

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

(in thousands)	Three months ended March 31, 2013	2012
Machine Clothing	$42,908	$30,845
Engineered Composites	(2,063)	29
Research expense	(6,991)	(6,065)
Unallocated expenses - pension settlement	-	(9,175)
Unallocated expenses - other	(11,336)	(16,543)
Total	$22,518	($909)

Pension Settlement Expense

In the first quarter of 2012, we took actions to settle our pension plan liability in Sweden leading to a charge totaling $9.2 million, which was included in Unallocated Expenses.

Restructuring Expense

In addition to the items discussed above affecting gross profit, STG&R, and pension settlement charges, operating income was affected by restructuring costs of $0.6 million in the first quarter of 2013 and $0.3 million in the first quarter of 2012. The following table summarizes restructuring expense by business segment:

(in thousands)	Three months ended March 31, 2013	2012
Machine Clothing	$193	$673
Engineered Composites	443	-
Unallocated expenses	-	(415)
Total	$636	$258

Restructuring expenses in 2013 were principally related to a strategic realignment within Engineered Composites operations. Restructuring expenses in the first quarter of 2012 were partially offset by a reduction in accruals related to the Company’s headquarters.

Other Earnings Items

(in thousands)	Three months ended March 31, 2013	2012

Interest expense, net	$4,025	$4,644
Other expense/(income), net	734	4,548
Income tax expense/(benefit)	6,248	(9,972)
Income from discontinued operations, net of tax	-	47,170
Net income	11,511	47,041

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Interest Expense, net

Interest expense, net, decreased $0.6 million principally due to a decline in net debt. The average balance outstanding under the revolving credit agreement during the first three-month periods of 2013 and 2012 was $142.9 million and $157.7 million, respectively.

In March 2013, the Company amended and extended its revolving credit agreement and also amended its note agreement with Prudential to conform it to the new revolving credit agreement. The total cost for the amendments was $1.6 million. At March 2013 debt levels, the annual savings in interest and associated fees resulting from improved terms of the new agreement would be approximately $1.9 million. See the Capital Resources section below for further discussion of borrowings and interest rates.

Other Expense/(Income), net

Other expense/(income), net included the following:

- Foreign currency revaluations of intercompany balances had virtually no effect on first-quarter 2013 income, but resulted in loss of $3.8 million in the same quarter in 2012. The revaluation effects were principally due to the euro's relative strength against the U.S. dollar, Canadian dollar, Australian dollar, and Japanese yen.
- Bank fees and amortization of debt issuance costs were $0.6 million in the first quarter of 2013 and $0.7 million in the first quarter of 2012.
- Fees for a letter-of-credit (LOC) were $0.4 million in the first quarter of 2012. The fees were associated with an LOC required by the Canadian government for tax contingencies that were resolved in 2012.

Income Tax

The Company has operations which constitute a taxable presence in 16 countries outside of the United States. All of these countries except one had income tax rates that were lower than the United States federal tax rate of 35% during the periods reported. The jurisdictional location of earnings is a significant component of our effective tax rate each year and therefore on our overall income tax expense.

The Company's effective tax rates for the first quarters of 2013 and 2012 were 35.2% and 98.7%, 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 that have been or will be repatriated to the U.S., and by discrete items that may occur in any given year but are not consistent from year to year.

Significant items that impacted the tax rate in the first quarter of 2013 included the following (percentages reflect the effect of each item as a percentage of Income before income taxes):

- A $0.2 million (1.2%) net tax expense related to other discrete items.
- The income tax rate on continuing operations, excluding discrete items, was 34.0%.

Significant items that impacted the first-quarter 2012 tax rate included the following:

- A $3.3 million (32.7%) discrete income tax benefit related to pension settlements in Sweden.
- A net discrete tax benefit of $6.7 million (66.7%) primarily related to the settlement of a tax audit in Canada.
- The income tax rate on continuing operations, excluding discrete items, was -6.5%. The tax rate was primarily affected by the distribution of earnings among the countries in which we operate and the operating losses generated in tax jurisdictions where no tax benefit was recognized.

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Income from Discontinued Operations

In the first quarter of 2012, the Company completed the sale of its Albany Door Systems business resulting in a pre-tax gain of $58.0 million. Including operations of the discontinued business and related income taxes, first quarter income from discontinued operations was $0.0 million in 2013 and $47.2 million in 2012.

Segment Results of Operations

Machine Clothing Segment

Business Environment and Trends

Machine Clothing is our primary business segment and accounted for nearly 90% of our consolidated revenues during 2013. Machine clothing is purchased primarily by manufacturers of paper and paperboard.

According to RISI, Inc., global production of paper and paperboard is expected to grow at an annual rate of 2-3% over the next five years, driven primarily by secular demand increases in the Asia and South America, with stabilization in the mature markets of Europe and North America.

Shifting demand for paper, across different paper grades as well as across geographical regions, continues to drive the elimination of papermaking capacity in areas with significant established capacity, primarily in the mature markets of Europe and North America. At the same time, the newest, most efficient machines were being installed in areas of growing demand, including Asia and South America generally, as well as tissue and towel paper grades in all regions. 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. These factors help to explain why Paper Machine Clothing revenue growth grows at a lesser rate than growth in paper production.

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 Paper Machine Clothing manufacturing capacity in the United States, Canada, Germany, Finland, France, the Netherlands, Sweden, and Australia.

Review of Operations

	Three months ended March 31,	
(in thousands, except percentages)	2013	2012
Net sales	$167,409	$164,288
Gross profit	73,998	67,998
% of net sales	44.2%	41.4%
Operating income	42,908	30,845

Net Sales

Net sales were affected by the following:

- Changes in currency translation rates had the effect of decreasing 2013 sales by $0.4 million.
- Excluding the effect of changes in currency translation rates, sales increased 2.1% compared to the same period in 2012.
- The increase in sales was principally due to strong performance in the Americas.
- Sales remained stable in Europe while softness in paper markets in China and Japan contributed to lower sales.

Gross Profit

The increase in gross profit was principally due to the net effect of the following:

- A $4.6 million increase due to higher gross profit margin in MC. The improved gross profit margin reflects strong performance in the Americas and the cumulative effect of productivity improvements and restructuring.
- A $1.3 million increase due to higher sales in MC.

Operating Income

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

- Higher gross profit, as described above.
- Revaluation of nonfunctional currency assets and liabilities resulted in first-quarter gains of $0.7 million in 2013 compared to losses of $1.8 million in the comparable period in 2012.

Engineered Composites Segment

Business Environment and Trends

The Engineered Composites segment (AEC) provides custom-designed advanced composite structures based on proprietary technology to customers in the aerospace and defense industries. AEC's largest current development program relates to the LEAP engine being developed by CFM International. Under this program, AEC is developing a family of composite parts, including fan blades, to be incorporated into the LEAP engine. In 2012, approximately 25% of this segment's sales were related to U.S. government contracts or programs.

Review of Operations

	Three months ended March 31,	
(in thousands, except percentages)	2013	2012
Net sales	$19,245	$15,789
Gross profit	(186)	1,393
% of net sales	-1.0%	8.8%
Operating income	(2,063)	29

Net Sales

- The increase in sales was principally due to LEAP program activities.

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Gross Profit

The decrease in gross profit included the following:

- AEC gross margin was negatively affected by inventory write-offs and other losses associated with a legacy program at the Company's Boerne, Texas, facility.

Operating Income

First-quarter 2013 operating income decreased principally due to the decrease in gross profit as described above.

Liquidity and Capital Resources

Cash Flow Summary

	Three months ended March 31,	
(in thousands)	2013	2012
Net income	$11,511	$47,041
Depreciation and amortization	15,874	16,131
Changes in working capital	(22,328)	10,332
Gain on disposition of assets	(3,763)	(57,968)
Changes in long-term liabilities, deferred taxes and other credits	3,873	(67,119)
Write-off of pension liability adjustment	-	-
Other operating items	(1,006)	8,915
Net cash provided by/(used in) operating activities	4,161	(42,668)
Net cash provided by/(used in) investing activities	(7,013)	108,234
Net cash (used in) financing activities	15,438	(52,119)
Effect of exchange rate changes on cash flows	(3,471)	8,569
Increase in cash and cash equivalents	9,115	22,016
Change in cash balances of discontinued operations	-	-
Cash and cash equivalents at beginning of year	190,718	118,909
Cash and cash equivalents at end of year	$199,833	$140,925

Operating activities

Cash provided by operating activities was $4.2 million for the first quarter of 2013, compared to a use of $42.7 million in the same period last year. Cash flow was heavily influenced by contributions to pension plans, which is included in Changes in long-term liabilities, deferred taxes and other credits in the above table. As part of the Company's plan to fund or settle part of our pension liabilities in the U.S., Canada, and Sweden, in the first quarter of 2012, $30 million of cash was used to settle Swedish pension liabilities and we contributed $30 million to the U.S. pension plan.

Changes in working capital resulted in a use of $22.3 million in 2013, principally resulting from the payment of year-end accruals, compared to a favorable cash flow of $10.3 million in the first quarter of 2012 that resulted primarily from favorable timing of certain cash payments.

At March 31, 2013, we had $199.8 million of cash and cash equivalents, of which $173.6 million was held by subsidiaries outside of the United States. As disclosed in the Notes to Consolidated Financial Statements, we determined that all but $19.4 million of this amount (which represents the amount of 2012 earnings expected to be repatriated to the United States at some point in the future) is intended to be utilized by these non-U.S. operations for an indefinite period of time. Our current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations or satisfy debt obligations in the United States. In the event that such

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funds were to be needed to fund operations in the U.S., and if associated accruals for U.S. tax have not already been provided, we would be required to accrue and pay additional U.S. taxes to repatriate these funds.

Investing Activities

Capital spending for equipment and software was $13.3 million for the first quarter of 2013, including $9.2 million for the Engineered Composites segment and its expansion associated with the LEAP program. Depreciation and amortization was $15.9 million for the first quarter of 2013, compared to $16.0 million for the same period last year. As we previously stated, we continue to expect that average capital spending, for the entire Company, during the five-year period 2012 to 2016 will be approximately $70 million per year. During the quarter, the Company completed the sale of its production facility in Gosford, Australia, resulting in net proceeds of about $6.3 million.

In January 2012, the Company completed the sale of Albany Door Systems, and in March 2012, we finalized certain postclosing adjustments that increased the sale price by $5 million. As of December 31, 2012, $122 million of the total $135 million sale price had been received, with the remainder expected to be received in July 2013. During Q2 2012, the Company completed the sale of PrimaLoft® Products. Of the $38 million sale price, $34 million was received in June, with the remainder expected to be received in December 2013.

Financing Activities

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. The dividend declared in the fourth quarter of 2012 was also paid during that quarter which resulted in two dividend payments during the fourth quarter of 2012, and no cash payments for dividends during the first quarter of 2013. To the extent the Board declares cash dividends in the future, we expect to pay such dividends out of operating cash flows. 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. Substantially all of our cash balance at March 31, 2013 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 March 31, 2013.

On March 26, 2013, we entered into a $330 million, unsecured Five-Year Revolving Credit Facility Agreement (the "New Agreement"), under which $176 million of borrowings were outstanding as of March 31, 2013. The New Agreement replaces the previous $390 million five-year facility agreement entered into in 2010. The applicable interest rate for borrowings under the New Agreement, as well as under the former agreement, is LIBOR plus a spread, based on our leverage ratio at the time of borrowing.

In March 2013, the Company amended and extended its revolving credit agreement and also amended its note agreement with Prudential to conform it to the new revolving credit agreement. The total cost for the amendments was $1.6 million. At March 2013 debt levels, the annual savings in interest and associated fees resulting from improved terms of the new agreement would be approximately $1.9 million.

Our ability to borrow additional amounts under the New Agreement is conditional upon the absence of any defaults, as well as the absence of any material adverse change. Based on our maximum leverage ratio and our consolidated

EBITDA (as defined in the credit agreement), and without modification to any other credit agreements, as of March 31, 2013 we would have been able to borrow an additional $154 million under the New Agreement.

On July 16, 2010, we entered into interest rate hedging transactions that have the effect of fixing the LIBOR portion of the effective interest rate (before addition of the spread) on $105 million of the indebtedness drawn under the 2010 agreement at the rate of 2.04% for the next five years. Under the terms of these transactions, we pay the fixed rate of 2.04% and the counterparties pay a floating rate based on the three-month LIBOR rate at each quarterly

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calculation date, which on January 16, 2013 was 0.31%. The net effect is to fix the effective interest rate on $105 million of indebtedness at 2.04%, plus the applicable spread, until these swap agreements expire on July 16, 2015. As of March 31, 2013, the all-in rate on this $105 million of debt was 3.415%. This interest rate swap is accounted for as a hedge of future cash flows, as further described in Note 14 of the Notes to Consolidated Financial Statements.

We have a $150.0 million borrowing from the Prudential Insurance Company of America, for which the agreement was amended and restated during 2013. The principal is due in three installments of $50.0 million each in 2013, 2015, and 2017, and the interest rate is fixed at 6.84%.

We are currently required to maintain a leverage ratio of not greater than 3.50 to 1.00 and a minimum interest coverage of 3.00 to 1.00 under the credit agreement and Prudential agreement.

As of March 31, 2013, our leverage ratio was 1.36 to 1.00 and our interest coverage ratio was 11.16 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 would not exceed 3.00 to 1.00 after giving pro forma effect to the acquisition.

On March 15, 2013, the Company redeemed, at 100 percent of par, all remaining 2.25% Convertible Senior Notes due 2026 (the "Notes"). The cash payments of $28.4 million were funded by increased borrowings under the Revolving Credit Facility.

In connection with the sale of the Notes, we entered into hedge and warrant transactions with respect to our Class A common stock. These transactions were intended to reduce the potential dilution upon conversion of the Notes by providing us with the option, subject to certain exceptions, to acquire shares in an amount equal to the number of shares that we would be required to deliver upon conversion of the Notes. These transactions had the economic effect to the Company of increasing the conversion price of the Notes to $52.25 per share. The Notes hedge and warrant transactions had a net cost of $14.7 million. The hedge transactions expired on March 15, 2013.

Pursuant to the warrant transactions, we sold a total of 4.1 million warrants, each exercisable to buy a single share of Class A common stock at an initial strike price of $52.25 per share. The warrants are American-style warrants (exercisable at any time), and expire over a period of sixty trading days beginning on June 15, 2013. If the warrants are exercised when they expire, we may choose either net cash or net share settlement. If the warrants are exercised before they expire, they must be net share settled. If we elect to net cash settle the warrants, we will pay cash in an amount equal to, for each exercise of warrants, (i) the number of warrants exercised multiplied by (ii) the excess of the volume weighted average price of our Class A common stock on the expiration date of such warrants (the "settlement price") over the strike price. Under net share settlement, we will deliver to the warrant holders a number of shares of our Class A common stock equal to, for each exercise of warrants, the amount payable upon net cash settlement divided by the settlement price.

Off-Balance Sheet Arrangements

As of March 31, 2013, we have no off-balance sheet arrangements required to be disclosed pursuant to Item 303(a)(4) of Regulation S-K.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02 which requires enhanced disclosures about changes in Accumulated Other Comprehensive Income. We adopted these provisions in the first quarter of 2013 by adding a Note to the Consolidated Financial Statements that provides the additional disclosures.

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In the first quarter of 2013, the Company adopted the provisions of ASU 2013-01 which requires enhanced disclosures of the effect or potential effect of netting arrangements on an entity's financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities within the scope of this Update. The Company has an interest rate swap agreement that is within the scope of Update and we have added additional disclosure in the Notes to Consolidated Financial Statements about the offsetting asset and liability components of that agreement.

Non-GAAP Measures

This Form 10-Q contains certain items, such as earnings before interest, taxes, depreciation and amortization (EBITDA), Adjusted EBITDA, sales excluding currency effects, effective income tax rate exclusive of income tax adjustments, net debt, and certain income and expense items on a per share basis, that could be considered non-GAAP financial measures. Such items are provided because management believes that, when presented together with the GAAP items to which they relate, they provide additional useful information to investors regarding the Company's operational performance. Presenting increases or decreases in sales, after currency effects are excluded, can give management and investors insight into underlying sales trends. An understanding of the impact in a particular period of specific restructuring costs, or other gains and losses, on operating income or EBITDA can give management and investors additional insight into performance, especially when compared to periods in which such items had a greater or lesser effect, or no effect. All non-GAAP financial measures in this report relate to the Company's continuing operations.

The effect of changes in currency translation rates is calculated by converting amounts reported in local currencies into U.S. dollars at the exchange rate of a prior period. That amount is then compared to the U.S. dollar amount reported in the current period. The Company calculates its effective Income tax rate, exclusive of Income tax adjustments, by removing discrete Income tax adjustments from total Income tax expense, then dividing that result by Income before tax. The Company calculates EBITDA by adding Interest expense net, Income taxes, Depreciation and Amortization to Net income. Adjusted EBITDA is calculated by adding EBITDA, costs associated with restructuring and pension settlement charges, and then adding or subtracting revaluation losses or gains and subtracting building sale gains. The Company believes that EBITDA and Adjusted EBITDA provide useful information to investors because they provide an indication of the strength and performance of the Company's ongoing business operations, including its ability to fund discretionary spending such as capital expenditures and strategic investments, as well as its ability to incur and service debt. While depreciation and amortization are operating costs under GAAP, they are non-cash expenses equal to current period allocation of costs associated with capital and other long-lived investments made in prior periods. While restructuring expenses, foreign currency revaluation losses or gains, pension settlement charges, and building sale gains have an impact on the Company's net income, removing them from EBITDA can provide, in the opinion of the Company, a better measure of operating performance. EBITDA is also a calculation commonly used by investors and analysts to evaluate and compare the periodic and future operating performance and value of companies. EBITDA, as defined by the Company, may not be similar to EBITDA measures of other companies. Such EBITDA measures may not be 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, Adjusted EBITDA excluding restructuring charges, currency revaluation effects, and gains from the sale of buildings and pension settlement charges:

Three months ended March 31, 2013				
(in thousands)	Machine Clothing	AEC	Research and Unallocated	Total Company
Income/(loss) from continuing operations	$42,908	($2,063)	($29,334)	$11,511
Interest expense, net	-	-	4,025	4,025
Income tax expense/(benefit)	-	-	6,248	6,248
Depreciation and amortization	11,561	1,701	2,612	15,874
EBITDA	54,469	(362)	(16,449)	37,658
Restructuring and other, net	193	443	-	636
Foreign currency revaluation losses/(gains)	(743)	-	11	(732)
(Gain) on sale of former manufacturing facilities	-	-	(3,763)	(3,763)
Adjusted EBITDA	$53,919	$81	($20,201)	$33,799

Three months ended March 31, 2012				
(in thousands)	Machine Clothing	AEC	Research and Unallocated	Total Company
Income/(loss) from continuing operations	$30,845	$29	($31,003)	($129)
Interest expense, net	-	-	4,644	4,644
Income tax expense/(benefit)	-	-	(9,972)	(9,972)
Depreciation and amortization	12,053	1,405	2,569	16,027
EBITDA	42,898	1,434	(33,762)	10,570
Restructuring and other, net	673	0	(415)	258
Foreign currency revaluation (gains)/losses	1,766	0	3,834	5,600
(Gain) on sale of former manufacturing facilities	-	-	9,175	9,175
Adjusted EBITDA	$45,337	$1,434	($21,168)	$25,603

We disclose certain income and expense items on a per share basis. We believe that such disclosures provide important insight into the underlying quarterly earnings and are financial performance metrics commonly used by investors. We calculate the per share amount for items included in continuing operations by using the effective tax rate for the most recent quarterly period, the full year tax rate for the comparable quarter of the prior year, and the weighted average number of shares outstanding for each period.

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

Three months ended March 31, 2013	Pre tax	Tax	After tax	Shares	Per Share
(in thousands, except per share amounts)	Amounts	Effect	Effect	Outstanding	Effect
Restructuring and other, net	$636	$216	$420	31,496	$0.01
Foreign currency revaluation gains	732	249	483	31,496	0.02

Gain on sale of former manufacturing facility	3,763	1,279	2,484	31,496	0.08
Net favorable discrete tax adjustments	-	210	210	31,496	0.01

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Three months ended March 31, 2012	Pre tax	Tax	After tax	Shares	Per Share
(in thousands, except per share amounts)	Amounts	Effect	Effect	Outstanding	Effect
Restructuring and other, net	$258	$99	$159	31,309	$0.01
Foreign currency revaluation gains	5,600	2,156	3,444	31,309	0.11
Gain on sale of buildings	9,175	3,299	5,876	31,309	0.19
Net unfavorable discrete tax adjustments	-	6,733	6,733	31,309	0.22

The following table contains the calculation of net debt:

(in thousands)	March 31, 2013	December 31, 2012
Notes and loans payable	$780	$586
Current maturities of long-term debt	55,014	83,276
Long-term debt	278,622	235,877
Total debt	334,416	319,739
Cash	199,833	190,718
Net debt	$134,583	$129,021

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 officers 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 were no changes in the Company’s internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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 products that we previously manufactured. We produced asbestos-containing paper machine clothing synthetic dryer fabrics marketed during the period from 1967 to 1976 and used in certain paper mills. Such fabrics generally had a useful life of three to twelve months.

We were defending 4,296 claims as of April 19, 2013.

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

Year ended December 31,	*Opening Number of Claims*	*Claims Dismissed, Settled, or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve*
2005	*29,411*	*6,257*	*1,297*	*24,451*	*$ 504*
2006	*24,451*	*6,841*	*1,806*	*19,416*	*3,879*
2007	*19,416*	*808*	*190*	*18,798*	*15*
2008	*18,798*	*523*	*110*	*18,385*	*52*
2009	*18,385*	*9,482*	*42*	*8,945*	*88*
2010	*8,945*	*3,963*	*188*	*5,170*	*159*
2011	*5,170*	*789*	*65*	*4,446*	*1,111*
2012	*4,446*	*90*	*107*	*4,463*	*530*
2013	***4,463***	***197***	***30***	***4,296***	***0***

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.

Exposure and disease information sufficient to meaningfully estimate a range of possible loss of a particular claim is typically not available until late in the discovery process, and often not until a trial date is imminent and a settlement demand has been received. For these reasons, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to 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 insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of April 19, 2013, we had resolved, by means of settlement or dismissal, 36,567 claims. The total cost of resolving all claims was $8.6 million. Of this

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amount, almost 100% was paid by our insurance carrier. The Company has over $125 million in confirmed insurance coverage that should be available with respect to current and future asbestos claims, as well as additional insurance coverage that we should be able to access.

Brandon Drying Fabrics, Inc. (“Brandon”), a subsidiary of Geschmay Corp., which is a subsidiary of the Company, is also a separate defendant in many of the asbestos cases in which Albany is named as a defendant. Brandon was defending against 7,866 claims as of April 19, 2013.

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

Year ended December 31,	*Opening Number of Claims*	*Claims Dismissed, Settled, or Resolved*	*New Claims*	*Closing Number of Claims*	*Amounts Paid (thousands) to Settle or Resolve*
2005	*9,985*	*642*	*223*	*9,566*	*$ 0*
2006	*9,566*	*1,182*	*730*	*9,114*	*0*
2007	*9,114*	*462*	*88*	*8,740*	*0*
2008	*8,740*	*86*	*10*	*8,664*	*0*
2009	*8,664*	*760*	*3*	*7,907*	*0*
2010	*7,907*	*47*	*9*	*7,869*	*0*
2011	*7,869*	*3*	*11*	*7,877*	*0*
2012	*7,877*	*12*	*2*	*7,867*	*0*
2013	***7,867***	***2***	***1***	***7,866***	***0***

We acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999. Brandon is a wholly owned subsidiary of Geschmay Corp. In 1978, Brandon acquired certain assets from Abney Mills (“Abney”), a South Carolina textile manufacturer. Among the assets acquired by Brandon from Abney were assets of Abney’s wholly owned subsidiary, Brandon Sales, Inc. which had sold, among other things, dryer fabrics containing asbestos made by its parent, Abney. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. Because Brandon did not manufacture asbestos-containing products, and because it does not believe that it was the legal successor to, or otherwise responsible for obligations of Abney with respect to products manufactured by Abney, it believes it has strong defenses to the claims that have been asserted against it. As of January 30, 2013, Brandon has resolved, by means of settlement or dismissal, 9,733 claims for a total of $0.2 million. Brandon’s insurance carriers initially agreed to pay 88.2% of the total indemnification and defense costs related to these proceedings, subject to the standard reservation of rights. The remaining 11.8% of the costs had been borne directly by Brandon. During 2004, Brandon’s insurance carriers agreed to cover 100% of indemnification and defense costs, subject to policy limits and the standard reservation of rights, and to reimburse Brandon for all indemnity and defense costs paid directly by Brandon related to these proceedings.

For the same reasons set forth above with respect to Albany's claims, as well as the fact that no amounts have been paid to resolve any Brandon claims since 2001, we do not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

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.

Although we do not believe, based on currently available information and for the reasons stated above, that a meaningful estimate of a range of possible loss can be made with respect to such claims, based on our understanding of the insurance policies available, how settlement amounts have been allocated to various policies, our settlement experience, the absence of any judgments against the Company or Brandon, the ratio of paper mill claims to total claims filed, and the defenses available, we currently do not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, 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 and the trends in claims against us to date, we do not anticipate that additional claims likely to be filed against us in the future will have a material adverse effect on our financial position, results of operations, or cash flows. We are aware that litigation is inherently uncertain, especially when the outcome is dependent primarily on determinations of factual matters to be made by juries.

NAFTA Audits

The Company's affiliate in Mexico was notified in November 2010 that Mexican customs authorities expected to issue demands for duties on certain imports of PMC from the Company and the Company's affiliate in Canada for which the Company has claimed duty-free treatment under the North American Free Trade Agreement ("NAFTA").

The notices result from a decision by the Mexican Servicio de Administración Tributaria ("SAT") to invalidate NAFTA certificates provided by the Company on products shipped to its Mexican affiliate during the years 2006 through 2008. The Demand Notices arose from an SAT audit during 2010, at the conclusion of which the SAT determined that the Company had failed to provide documentation sufficient to show that the certificates were validly issued, and declared the certificates issued during this period to be invalid. The Company believes that the certificates of origin were valid and properly issued and therefore commenced administrative appeals with SAT disputing its resolutions.

As a result of the aforementioned appeals, SAT ultimately revoked its earlier declarations of invalidation with respect to the certificates of origin at issue in all 36 open audit files, and ordered a further review of such certificates. The Company has been informed that review of 28 of the 36 audit files has been completed, and that a small number of shipments have been determined to be ineligible for duty-free NAFTA treatment, primarily due to some alternative raw material that was sourced from Europe during a brief period when sufficient U.S.-sourced material was temporarily unavailable. SAT is continuing its review of the certificates of origin in the remaining 8 open audits, for which the Company has submitted evidence that it believes will be sufficient to establish NAFTA qualification.

Based on discussions with SAT, the Company currently expects to incur an immaterial amount of tariff charges and penalties with respect to the shipments determined to be ineligible. The Company does not believe that it faces any material risk of certificates being invalidated with respect to any period other than the 2006 through 2008 audit period. For this reason, the Company does not feel that this matter is likely to have a material adverse effect on the Company's financial position, results of operations and cash flows.

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Item 1A. Risk Factors .

There have been no material changes in risks since December 31, 2012. For discussion of risk factors, refer to Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012.

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

We made no share purchases during the first quarter of 2013. 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.

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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 March 31, 2013.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in eXtensible Business Reporting Language (XBRL), filed herewith:

(i) Consolidated Statements of Income for the three months ended March 31, 2013 and 2012.
(ii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012.
(iii) Consolidated Balance Sheets at March 31, 2013 and December 31, 2012.
(iv) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012.
(v) Notes to Consolidated Financial Statements.

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: May 3, 2013

By /s/ John B. Cozzolino
John B. Cozzolino
Chief Financial Officer and Treasurer
(Principal Financial Officer)

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