ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
May 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended: March 31, 2007

OR

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

For the transition period from __________ to __________

Commission file number: 0-16214

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	14-0462060
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1373 Broadway, Albany, New York
(Address of principal executive offices)

12204
(Zip Code)

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

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

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

Large accelerated filer [√] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [√]

The registrant had 26,092,660 shares of Class A Common Stock and 3,236,098 shares of Class B Common Stock outstanding as of March 31, 2007.

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

	Three Months Ended March 31,	
	2007	2006
Net sales	$257,738	$251,223
Cost of goods sold	159,352	147,247
Gross profit	98,386	103,976
Selling, technical, general and research expenses	82,327	74,562
Operating income	16,059	29,414
Interest expense, net	3,302	1,879
Other (income)/expense, net	(30)	909
Income before income taxes	12,787	26,626
Income tax expense	3,197	7,988
Income before associated companies	9,590	18,638
Equity in (losses)/earnings of associated companies	(285)	177
Net income	9,305	18,815
Earnings per share:		
Basic	$0.32	$0.60
Diluted	$0.31	$0.59
Shares used in computing earnings per share:		

Basic	29,265	31,419
Diluted	29,672	31,919
Dividends per share	$0.10	$0.09

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

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

	(unaudited) March 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$56,426	$68,237
Accounts receivable, net	205,616	209,907
Inventories	238,894	224,210
Deferred taxes	16,488	16,290
Prepaid expenses	13,122	10,552
Total current assets	530,546	529,196
Property, plant and equipment, net	407,588	397,521
Investments in associated companies	6,321	6,634
Intangibles	8,937	9,343
Goodwill	174,797	172,890
Deferred taxes	112,286	112,280
Cash surrender value of life insurance policies	42,099	41,197
Other assets	41,105	37,486
Total assets	$1,323,679	$1,306,547
LIABILITIES AND SHAREHOLDERS EQUITY		
Notes and loans payable	$21,488	$12,510
Accounts payable	44,414	50,214
Accrued liabilities	114,329	101,995
Current maturities of long-term debt	11,171	11,167
Income taxes payable and deferred	1,686	20,099
Total current liabilities	193,088	195,985
Long-term debt	345,859	354,587
Other noncurrent liabilities	220,088	219,774
Deferred taxes and other credits	53,771	37,076
Total liabilities	812,806	807,422
Commitments and Contingencies	-	-
SHAREHOLDERS EQUITY		
Preferred stock, par value $5.00 per share; authorized 2,000,000 shares; none issued	-	-
Class A Common Stock, par value $.001 per share; authorized 100,000,000 shares; issued 34,633,542 in 2007 and 34,518,870 in 2006.	35	35
Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,236,098 in 2007 and 2006	3	3
Additional paid in capital	320,010	316,164
Retained earnings	545,484	541,602

Accumulated items of other comprehensive income:		
Translation adjustments	(13,831)	(18,348)
Pension liability adjustment	(81,568)	(81,071)
	770,133	758,385
Less treasury stock (Class A), at cost (8,540,882 shares in 2007 and 2006)	259,260	259,260
Total shareholders equity	510,873	499,125
Total liabilities and shareholders equity	$1,323,679	$1,306,547

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

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

	Three Months Ended March 31,	
	2007	2006
OPERATING ACTIVITIES		
Net income	$9,305	$18,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of associated companies	285	(177)
Depreciation	14,187	13,174
Amortization	1,131	778
Provision for deferred income taxes, other credits and long-term liabilities	915	893
Provision for write-off of equipment	66	95
Increase in cash surrender value of life insurance	(902)	(854)
Unrealized currency transaction gains and losses	169	1,721
Shares contributed to ESOP	1,961	3,145
Stock option expense	200	386
Tax benefit of options exercised	(145)	(226)
Issuance of shares under long-term incentive plan	937	-
Changes in operating assets and liabilities, net of business acquisition:		
Accounts receivable	5,185	(3,312)
Note receivable	-	(336)
Inventories	(13,641)	(14,711)
Prepaid expenses	(2,446)	(1,786)
Accounts payable	(6,041)	4,895
Accrued liabilities	11,809	5,331
Income taxes payable	(4,727)	(290)
Other, net	(899)	(849)
Net cash provided by operating activities	17,349	26,692
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(23,206)	(19,764)
Purchased software	(2,683)	(85)
Acquisitions, net of cash acquired	-	(6,232)
Net cash (used in) investing activities	(25,889)	(26,081)
FINANCING ACTIVITIES		
Proceeds from borrowings	10,532	186,875
Principal payments on debt	(10,437)	(9,105)
Purchase of treasury shares	-	(101,104)

Purchase of call options on common stock	-	(47,688)
Sale of common stock warrants	-	32,961
Proceeds from options exercised	603	869
Tax benefit of options exercised	145	226
Debt issuance costs	-	(4,704)
Dividends paid	(2,919)	(2,910)
Net cash (used in)/provided by financing activities	(2,076)	55,420
Effect of exchange rate changes on cash flows	(1,195)	962
(Decrease)/increase in cash and cash equivalents	(11,811)	56,993
Cash and cash equivalents at beginning of year	68,237	72,771
Cash and cash equivalents at end of period	$56,426	$129,764

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

ALBANY INTERNATIONAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of only normal, recurring adjustments, necessary for a fair presentation of results for such periods. The results for any interim period are not necessarily indicative of results for the full year. The preparation of financial statements for interim periods does not require all of the disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with financial statements and notes thereto for the year ended December 31, 2006.

Effective January 1, 2007, the Company adopted FASB Interpretation Number 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB statement No. 109 . As permitted by the Interpretation, 2006 financial statements were not restated.

2. Inventories

Inventories consist of the following:

	March 31	December 31,

(in thousands)	2007	2006
Finished goods	$125,042	$120,158
Work in process	62,323	59,738
Raw material and supplies	51,529	44,314
Total inventories	$238,894	$224,210

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

3. Goodwill and other Intangible Assets

The Company accounts for goodwill and other intangible assets under the provisions of Statement of Financial Accounting Standards No. 142 (FAS No. 142), Goodwill and Other Intangible Assets . FAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually.

The Company performs the test for goodwill impairment during the second quarter of each year. As a result of the test performed in the second quarter of 2006, no impairment provision was required. Goodwill and other long-lived assets are reviewed for impairment whenever events, such as significant changes in the business climate, plant closures, changes in product offerings, or other circumstances indicate that the carrying amount may not be recoverable.

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

The changes in intangible assets and goodwill from December 31, 2006 to March 31, 2007, were as follows:

(in thousands)	Balance at December 31, 2006	Amortization	Currency translation	Other Changes	Balance at March 31, 2007
Amortized intangible assets:					
Trade names	$2,339	($145)	$3	-	$2,197
Patents	2,450	(114)	2	-	2,338
Customer contracts	4,202	(145)	-	-	4,057
Technology	352	(7)	-	-	345
Total amortized intangible assets	$9,343	($411)	$5	-	$8,937
Unamortized intangible assets:					
Goodwill	$172,890	-	$2,045	($138)	$174,797

The $138,000 change in goodwill relates to an adjustment made to deferred tax liabilities that were recorded in 2006 in connection with the acquisition of Texas Composite Inc. (TCI).

As of March 31, 2007, goodwill included $121,933,000 in the Paper Machine Clothing segment, $22,871,000 in the Applied Technologies segment, and $29,993,000 in the Albany Door Systems segment.

Estimated amortization expense of intangibles for the years ending December 31, 2007 through 2011, is as follows:

Year	Annual amortization (in thousands)
2007	$1,876
2008	1,876
2009	1,716
2010	1,399
2011	447
	$7,314

4. Other (Income)/Expense, Net

Other (income)/expense, net consists of the following:

	Three Months Ended March 31,	
(in thousands)	2007	2006
Currency transactions	($493)	($763)
Debt costs	387	481
Securitization program	-	792
Other miscellaneous expense	76	399
Total	($30)	$909

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5. 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, including the effect on income 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 2007	2006
Net income available to common shareholders	$9,305	$18,815
Weighted average number of shares:		
Weighted average number of shares used in calculating basic earnings per share	29,265	31,419
Effect of dilutive stock-based compensation plans:		
Stock options	369	451
Long-term incentive plan	38	49
Weighted average number of shares used in calculating diluted earnings per share	29,672	31,919
Average market price of common stock used for calculation of dilutive shares	$33.88	$37.05
Earnings per share:		
Basic	$0.32	$0.60
Diluted	$0.31	$0.59

There were no option shares that were excluded from the computation of diluted earnings per share in any of the periods presented. As of March 31, 2007, there was no dilution resulting from the convertible debt instrument, purchased call option, and warrant that are described in Note 12.

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

	Class A Shares	Class B Shares	Less: Treasury Shares	Net shares Outstanding
December 31, 2006	34,518,870	3,236,098	(8,540,882)	29,214,086

March 31, 2007	34,633,542	3,236,098	(8,540,882)	29,328,758

6. Comprehensive Income

Comprehensive income consists of the following:

(in thousands)	Three Months Ended March 31, 2007	2006
Net income	$9,305	$18,815
Other comprehensive income, before tax:		
Foreign currency translation adjustments	4,517	6,717
Amortization of pension liability adjustment	(497)	-
Other comprehensive income, net of tax	4,020	6,717
Comprehensive income	$13,325	$25,532

7. Changes in Stockholders 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, 2006	$35	$3	$316,164	$541,602	($99,419)	($259,260)	$499,125
Net income				9,305			9,305
Shares contributed to ESOP			1,961				1,961
Proceeds from options exercised			603				603
Dividends declared				(2,932)			(2,932)

Stock option expense			200				200
Tax benefit of options exercised			145				145
Issuance of shares under long-term incentive plan			937				937
Cumulative change in liability for unrecognized tax benefits				(2,491)			(2,491)
Amortization of pension liability adjustment					(497)		(497)
Cumulative translation adjustment/other					4,517		4,517
March 31, 2007	$35	$3	$320,010	$545,484	($95,399)	($259,260)	$510,873

8. Reportable Segment Data

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

(in thousands)	Three Months Ended March 31, 2007	2006
Net Sales		
Paper Machine Clothing	$182,306	$183,896
Applied Technologies	40,938	37,842
Albany Door Systems	34,494	29,485
Consolidated total	$257,738	$251,223
Operating Income		
Paper Machine Clothing	$27,077	$39,335
Applied Technologies	4,321	5,575
Albany Door Systems	1,733	1,774
Research expense	(5,011)	(6,003)
Unallocated expenses	(12,061)	(11,267)
Operating income before reconciling items	16,059	29,414
Reconciling items:		
Interest expense, net	(3,302)	(1,879)
Other income/(expense), net	30	(909)
Consolidated income before income taxes	$12,787	$26,626

Beginning in the first quarter of 2007, segment operating income includes expenses associated with product engineering activities, which is consistent with a change in the Company s internal reporting structure. These expenses were previously included in Research expense. Operating income for 2006 has been reclassified to conform to the current year presentation and, accordingly, operating income in the PMC, Applied Technologies, and Albany Door Systems segments was reduced by $1,452,000, $573,000, and $511,000, respectively, while Research expense was reduced by $2,536,000.

For the three months ended March 31, 2007, the Company had expenses of $7,609,000 associated with cost reduction and $1,596,000 associated with performance improvement initiatives. In the operating income table above, $6,845,000 of that total is included in the PMC segment, and $2,360,000 is included in Unallocated expenses. Expenses for cost reduction initiatives principally relate to the Company s initiative to centralize administrative functions in the Europe Paper Machine Clothing business and include $5,938,000 of termination benefits and $1,671,000 for professional fees.

There were no material changes in the total assets of the reportable segments during the three months ended March 31, 2007.

9. Income Taxes

The effective tax rate was 25 percent for the first quarter of 2007, as compared to 30 percent for the same period of 2006. The reduction in the effective tax rate was primarily due to a reduction in the amount of profit before tax compared to 2006 and a change in the distribution of income (loss) amongst countries. The company currently expects that the consolidated effective tax rate for 2007 will remain at approximately 25.0%, before discrete items. However, there is no assurance that this will not change in future periods.

The company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. The cumulative effect of adopting FIN 48 was an increase in tax reserves and a decrease in the beginning of the year retained earnings of $2,491,000. Upon adoption, the liability for unrecognized tax benefits, including applicable interest and penalties, was $16,918,000 of which $13,780,000, if recognized, would favorably impact the effective tax rate. Consistent with the provisions of FIN 48, the company has classified $1,002,000 of the liability as current and $15,916,000 as non-current in the consolidated balance sheet.

During the first quarter of 2007, the Company recognized additional tax liabilities related to uncertain tax positions in the consolidated balance sheet of $838,000 of which $306,000, if recognized, would favorably impact the effective tax rate. Additionally, the company recorded $289,000 in potential interest and penalties on existing tax reserves in the consolidated statements of income.

The Company recognizes interest and penalties related to unrecognized tax benefits within its global operations as a component of income tax expense. This accounting policy did not change as a result of the adoption of FIN 48. Accrued interest and penalties recognized in the consolidated balance sheet were $3,545,000 and $3,865,000 as of January 1, 2007 and March 31, 2007, respectively.

The company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United Kingdom, Brazil, Finland and Italy. Open tax years in these major jurisdictions range from 2001-2006.

The Company is currently under audit in U.S. and non-U.S. taxing jurisdictions. It is reasonably possible that a reduction in the unrecognized tax benefits may occur related to one of these audits in 2007. The possible reduction could range from $600,000 to $1,000,000. No other significant changes are anticipated within the next twelve months.

10. Contingencies

Albany International Corp. (Albany) 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 previously manufactured by Albany. Albany 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.

Albany was defending against 19,120 claims as of April 27, 2007. This compares with 19,388 such claims as of February 16, 2007, 19,416 claims as of December 31, 2006, 19,283 claims as of October 27, 2006, 24,451 claims as of December 31, 2005, 29,411 claims as of December 31, 2004, 28,838 claims as of December 31, 2003, 22,593 claims as of December 31, 2002, 7,347 claims as of December 31, 2001, 1,997 claims as of December 31, 2000, and 2,276 claims as of December 31, 1999. These suits allege a variety of lung and other diseases based on alleged exposure to products previously manufactured by Albany.

Albany anticipates that additional claims will be filed against it and related companies in the future, but is unable to predict the number and timing of such future claims. These suits typically involve claims against from twenty to more than two hundred defendants, and the complaints usually fail to identify the plaintiffs work history or the nature of the plaintiffs alleged exposure to Albany s products. Pleadings and discovery responses in those cases in which work histories have been provided indicate claimants with paper mill exposure in less than 10% of total claims reported, and only a portion of those claimants have alleged time spent in a paper mill to which Albany is believed to have supplied asbestos-containing products.

As of April 27, 2007, approximately 12,709 of the claims pending against Albany are pending in Mississippi. Of these, approximately 12,042 are in federal court, at the multidistrict litigation panel (MDL), either through removal or original jurisdiction. (In addition to the 12,042 Mississippi claims pending against the Company at the MDL, there are approximately 850 claims pending against the Company at the MDL removed from various United States District Courts in other states.)

The MDL s current practice is to place all nonmalignant claims on an inactive docket until such time as the plaintiff develops a malignant disease; in addition, the MDL has administratively dismissed, without prejudice, the claims of plaintiffs resulting from mass-screenings who had not otherwise demonstrated that they suffer from an asbestos-related disease. Because the court continues to exercise jurisdiction over these claims, and will allow the claims to be reinstated following the diagnosis of an asbestos-related disease, we do not reflect them as reducing the total number of pending claims. The MDL is currently evaluating proposed orders that would require each plaintiff to provide detailed information regarding alleged asbestos exposure and medical diagnoses. While new procedures have not yet been adopted by the court, if they were, the Company could expect to be dismissed from the claims of all plaintiffs who can not establish both an asbestos-related disease and exposure to one of the Company s asbestos-containing products. Alternatively, in cases where a plaintiff does establish an asbestos-related disease and work history in a paper mill, the Company will be expected to engage in good faith settlement negotiations or to defend that claim at trial when remanded back to Mississippi. The Company does not expect the MDL to complete its evaluation of the current procedures for many weeks, and further expects that the effect of such changes, if adopted, would not be fully realized for an additional 12 months.

Based on past experience, communications from certain plaintiffs counsel, and the advice of the Company s Mississippi counsel, the Company expects the percentage of Mississippi claimants able to demonstrate time spent in a paper mill to which Albany supplied asbestos-containing products during a period in which Albany s asbestos-containing products were in use to be considerably lower than the total number of pending claims.

However, due to the large number of inactive claims pending in the MDL, the Company does not believe a meaningful estimate can be made regarding the range of possible loss with respect to these remaining claims.

It is the position of Albany and the other paper machine clothing defendants that there was insufficient exposure to asbestos from any paper machine clothing products to cause asbestos-related injury to any plaintiff. Furthermore, asbestos contained in Albany s synthetic products was encapsulated in a resin-coated yarn woven into the interior of the fabric, further reducing the likelihood of fiber release. While the Company believes it has meritorious defenses to these claims, it has settled certain of these cases for amounts it considers reasonable given the facts and circumstances of each case. The Company s insurer, Liberty Mutual, has defended each case and funded settlements under a standard reservation of rights. As of April 27, 2007, the Company had resolved, by means of settlement or dismissal, 21,231 claims. The total cost of resolving all claims was $6,691,000. Of this amount, $6,656,000, or 99%, was paid by the Company s insurance carrier. The Company has approximately $130 million in confirmed insurance coverage that should be available with respect to current and future asbestos claims, as well as additional insurance coverage that it should be able to access.

Brandon Drying Fabrics, Inc.

Brandon Drying Fabrics, Inc. (Brandon), a subsidiary of Geschmay Corp., 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 9,089 claims as of April 27, 2007. This compares with 9,189 claims as of February 16, 2007, 9,114 such claims as of December 31, 2006, 8,992 claims as of October 27, 2006, 9,566 claims as of December 31, 2005, 9,985 claims as of December 31, 2004, 10,242 claims as of December 31, 2003, 11,802 claims as of December 31, 2002, 8,759 claims as of December 31, 2001, 3,598 claims as of December 31, 2000, and 1,887 claims as of December 31, 1999. The Company acquired Geschmay Corp., formerly known as Wangner Systems Corporation, in 1999. Brandon is a wholly-owned subsidiary of Geschmay Corp. 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. It is believed that Abney ceased production of asbestos-containing fabrics prior to the 1978 transaction. Although Brandon manufactured and sold dryer fabrics under its own name subsequent to the asset purchase, none of such fabrics contained asbestos. Under the terms of the Assets Purchase Agreement between Brandon and Abney, Abney agreed to indemnify, defend, and hold Brandon harmless from any actions or claims on account of products manufactured by Abney and its related corporations prior to the date of the sale, whether or not the product was sold subsequent to the date of the sale. It appears that Abney has since been dissolved. Nevertheless, a representative of Abney has been notified of the pendency of these actions and demand has been made that it assume the defense of these actions. Because Brandon did not manufacture asbestos-containing products, and because it does not believe that it was the legal successor to, or otherwise responsible for obligations of Abney with respect to products manufactured by Abney, it believes it has strong defenses to the claims that have been asserted against it. In some instances, plaintiffs have voluntarily dismissed claims against it, while in others it has entered into what it considers to be reasonable settlements. As of April 27, 2007, Brandon has resolved, by means of settlement or dismissal, 8,463 claims for a total of $152,499. 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.

Mount Vernon

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). The Company acquired certain assets from Mount Vernon in 1993. Certain plaintiffs allege injury caused by asbestos-containing products alleged to have been sold by Mount Vernon many years prior to this acquisition. Mount Vernon is contractually obligated to indemnify the Company against any liability arising out of such products. The Company denies any liability for products sold by Mount Vernon prior to the acquisition of the Mount Vernon assets. Pursuant to its contractual indemnification obligations, Mount Vernon has assumed the defense of these claims. On this basis, the Company has successfully moved for dismissal in a number of actions.

While the Company does 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 its understanding of the insurance policies available, how settlement amounts have been allocated to various policies, its recent settlement experience, the absence of any judgments against the Company or Brandon, the ratio of paper mill claims to total claims filed, and the defenses available, the Company currently does not anticipate any material liability relating to the resolution of the aforementioned pending proceedings in excess of existing insurance limits. Consequently, the Company currently does 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 the Company cannot predict the number and timing of future claims, based on the foregoing factors and the trends in claims against it to date, the Company does not anticipate that additional claims likely to be filed against it in the future will have a material adverse effect on its financial position, results of operations, or cash flows. The Company is aware that litigation is inherently uncertain, especially when the outcome is dependent primarily on determinations of factual matters to be made by juries. The Company is also aware that numerous other defendants in asbestos cases, as well as others who claim to have knowledge and expertise on the subject, have found it difficult to anticipate the outcome of asbestos litigation, the volume of future asbestos claims, and the anticipated settlement values of those claims. For these reasons, there can be no assurance that the foregoing conclusions will not change.

11. Pensions and Other Benefits

The Company sponsors defined benefit pension plans in various countries. The amount of contributions to the plans is based on several factors including the funding rules in each country. The Company expects to contribute approximately $18,600,000 to its pension plans in 2007. The Company also provides certain medical, dental and life insurance benefits (Other Benefits) for retired United States employees that meet program qualifications. The Company currently funds this plan as claims are paid.

The components of net periodic benefit cost for the three months ended March 31, 2007 and 2006 are, as follows:

	Pension Plans		Other Benefits	
(in thousands)	2007	2006	2007	2006
Service cost	$1,898	$1,761	$713	$752
Interest cost	5,269	4,471	1,592	1,553
Expected return on plan assets	(5,390)	(4,405)	-	-
Amortization:				
Transition obligation	8	27	-	-
Prior service cost/(credit)	226	237	(1,241)	(1,138)
Net actuarial loss	1,365	1,361	1,191	1,203
Net periodic benefit costs	$3,376	$3,452	$2,255	$2,370

In September 2006, the FASB issued FAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS No. 158). The initial impact of this Standard, adopted by the Company in the fourth quarter of 2006, was the recognition in the balance sheet of the funded status of each defined benefit and other postretirement benefit plan. Effective December 31, 2008, FAS No. 158 will require plan assets and benefit obligations to be measured at December 31. The Company currently performs this measurement at September 30. In addition, beginning in the fourth quarter of 2007, the Standard will eliminate the use of a three-month lag period when recognizing the impact of curtailments or settlements, and instead, recognize these amounts in the period in which they occur.

12. Long Term Debt

Long term debt consists of the following:

(in thousands)	March 31, 2007	December 31, 2006
Convertible notes issued in March 2006 with fixed interest rates of 2.25%, due in year 2026	$180,000	$180,000
Private placement with a fixed interest rate of 5.34%, due in years 2013 through 2017	150,000	150,000
April 2006 credit agreement with borrowings outstanding at an average interest rate of 5.84%	15,000	23,000
Various notes and mortgages relative to operations principally outside the United States, at an average rate of 5.57% in 2007 and 5.81% in 2006 due in varying amounts through 2021	1,189	1,822
Industrial revenue financings at an average interest rate of 7.09% in 2007 and 7.06% in 2006, due in varying amounts through 2009		