ALBANY INTERNATIONAL CORP /DE/
Form S-3ASR
June 05, 2006
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As filed with the Securities and Exchange Commission on June 5, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ALBANY INTERNATIONAL CORP.

(Exact name of Registrant as specified in its charter)

Delaware	**14-0462060**
(State of incorporation)	**(I.R.S. Employer Identification Number)**

1373 Broadway

Albany, New York 12204

(518) 445-2200

(Address, including zip code, and telephone number,

including area code, of registrant s principal executive offices)

Charles J. Silva, Jr., Esq.

Vice President, Secretary and General Counsel

Albany International Corp.

1373 Broadway

Albany, New York 12204

(518) 445-2277

(Name, address, including zip code, and telephone number, including

area code, of agent for service)

Copies to:

David I. Gottlieb, Esq.

Cleary Gottlieb Steen & Hamilton LLP

One Liberty Plaza

New York, New York 10006

(212) 225-2000

Approximate date of commencement of proposed sale to the public:

From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act of 1933, check the following box. x

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities pursuant to Rule 413(b) under the Securities Act of 1933, check the following box. ¨

Calculation of Registration Fee

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Security (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
2.25% Convertible Senior Notes Due 2026	$ 180,000,000	100%	$ 180,000,000	$ 19,260
Class A Common Stock, $.01 par value per share	4,043,124(2)			(3)

(1) This estimate is made pursuant to Rule 457(a) under the Securities Act of 1933, as amended (the Securities Act), solely for the purpose of determining the registration fee. The above calculation is based on a bona fide estimate of the maximum offering price.

(2) The number of shares of Class A common stock registered hereunder is based upon the number of shares of Class A common stock issuable upon conversion of the notes at the initial conversion rate, subject to adjustment, of 22.4618 shares of Class A common stock for each $1,000 principal amount of the notes. Pursuant to Rule 416 under the Securities Act, the number of shares of Class A common stock registered hereby shall include an indeterminate number of additional shares of Class A common stock that may be issuable as a result of antidilution adjustments. Any shares of Class A common stock issued upon conversion of the notes will be issued for no additional consideration.

(3) Pursuant to Rule 457(i), under the Securities Act there is no additional filing fee with respect to the shares of Class A common stock issuable upon conversion of the notes because no additional consideration will be received in connection with the exercise of the conversion privilege.

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PROSPECTUS

$180,000,000

2.25% Convertible Senior Notes due 2026 and Class A Common Stock Issuable Upon Conversion of the Notes Interest payable March 15 and September 15

We issued the notes offered by this prospectus in a private placement in March 2006. This prospectus will be used by selling securityholders to resell their notes and the Class A common stock issuable upon conversion of their notes. We will not receive any proceeds from the sale of the notes or the shares of Class A common stock offered by the selling securityholders pursuant to this prospectus. The selling securityholders, and the maximum amount of securities that they may offer, are identified beginning on page 63 of this prospectus.

The notes bear interest at a rate of 2.25% per year until March 15, 2013 and at a rate of 3.25% per year thereafter. Interest is payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2006.

Holders may convert their notes at their option prior to the close of business on the business day immediately preceding February 15, 2013 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of that measurement period was less than 103% of the product of the last reported sale price of our Class A common stock and the conversion rate on each such day; or (2) upon the occurrence of specified corporate events. On or after February 15, 2013 until the close of business on the business day immediately preceding the maturity date, holders may convert their notes at any time, irrespective of the foregoing circumstances. Upon conversion, we will pay cash and shares of our Class A common stock, if any, based on a daily conversion value (as described herein) calculated on a proportionate basis for each day of the relevant twenty-five trading day cash settlement averaging period.

The initial conversion rate was 22.4618 shares of our Class A common stock per $1,000 principal amount of notes, equivalent to a conversion price of approximately $44.52 per share of Class A common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for accrued interest, including any additional interest. In addition, following certain corporate transactions that occur on or prior to March 15, 2013, we will increase the conversion rate for a holder that elects to convert its notes in connection with such a corporate transaction.

Prior to March 15, 2013, the notes will not be redeemable. On or after March 15, 2013, we may redeem for cash all or part of the notes at any time for a price equal to 100% of the principal amount of the notes to be redeemed plus any accrued and unpaid interest, including any additional interest, to but excluding the redemption date. No sinking fund is provided for the notes.

On each of March 15, 2013 and March 15, 2021, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest, including any additional interest, to but excluding the purchase date. If we undergo a fundamental change, as defined in this prospectus, holders may require us to purchase the notes at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest, including any additional interest, to but excluding the purchase date. We will pay cash for all notes so purchased.

The notes rank equally with all our existing and future senior debt and senior to all our future subordinated debt, if any. In addition, the notes are structurally subordinated to the debt of our subsidiaries.

The notes are not listed on any securities exchange. Our Class A common stock is quoted on The New York Stock Exchange, Inc. under the symbol AIN. The last reported sale price of our Class A common stock on The New York Stock Exchange, Inc. on June 2, 2006 was $41.03 per share.

See Risk factors beginning on page 6 for a discussion of certain risks that you should consider in connection with an investment in the notes.

Neither the Securities and Exchange Commission, any state securities commission nor any other United States regulatory authority has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 5, 2006.

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We have not authorized anyone to give any information or make any representation about the offering that is different from, or in addition to, that contained in this prospectus, the related registration statement or in any of the materials that we have incorporated by reference into this prospectus. Therefore, if anyone does give you information of this type, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you.

You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus. You should not assume that the information contained in the documents incorporated by reference in this prospectus is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

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When we refer to our company and use words such as we, our and us, we are referring to Albany International Corp. and its subsidiaries as a whole, except where it is clear from the context that any of these terms refers only to Albany International Corp.

Market and industry data used to prepare information regarding our company included in, or incorporated by reference into, this prospectus was obtained from internal surveys, trade association reports, publicly available information and industry publications. While we believe these sources to be reliable, the accuracy and completeness of such information is not guaranteed and has not been independently verified, and neither we nor the initial purchasers make any representation as to the accuracy of such information.

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Forward-looking statements

This prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus 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 of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The words believe, expect, anticipate, intend, plan, project, may, will and var words or similar expressions are intended, but are not the exclusive means, to identify forward-looking statements. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements.

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

• failure to remain competitive in the industry in which our Paper Machine Clothing segment competes;

• failure to receive the benefits from our capital expenditures and investments;

• conditions in the industry in which our Paper Machine Clothing segment competes or in the papermaking industry in general, along with general risks associated with economic downturns; and

• other risks and uncertainties detailed from time to time in our filings with the SEC.

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 the Risk factors section of this prospectus. 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 our future performance. The forward-looking statements included or incorporated by reference in this prospectus are made on the basis of management s 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 prospectus 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.

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Prospectus summary

This summary highlights the information contained elsewhere or incorporated by reference in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. For a more complete understanding of this offering, we encourage you to read the entire prospectus and the documents incorporated by reference in this prospectus, including the section describing the risks of investing in the notes entitled Risk factors and our consolidated financial statements, including the accompanying notes, included elsewhere or incorporated by reference in this prospectus, before deciding to invest in the notes.

Our Company

We supply the worldwide pulp and paper industry, as well as other industries, with technologically sophisticated structured materials and related services. Founded in 1895, we are headquartered in Albany, New York and as of March 31, 2006, we had manufacturing operations in 14 countries worldwide and more than 6,000 employees.

We produce custom-designed engineered fabrics called paper machine clothing. These consumable fabrics are used on all paper machines to produce every grade of paper from lightweight tissue to heavyweight containerboard. Paper machine clothing fabrics, essential to the papermaking process, are manufactured from monofilament and synthetic fiber materials.

We have three operating segments:

• Paper Machine Clothing,

• Applied Technologies, and

• Albany Door Systems.

Our Paper Machine Clothing (formerly, Engineered Fabrics) segment consists of our paper machine clothing and process belt business and accounted for 74.9% and 73.2% of our consolidated net sales in 2005 and the first three months of 2006, respectively. Our Applied Technologies and Albany Door Systems segments provide strategic diversification and growth opportunities based on technologies complementary to our core competencies in our Paper Machine Clothing segment. Our Applied Technologies segment is comprised of a wide variety of products, including fabrics, wires and belting products for the nonwovens and pulp industries (Engineered Fabrics), specialty filtration products for wet and dry applications (Industrial Process Technologies), industrial insulation products (High Performance Materials), PrimaLoft® patented synthetic down for the home furnishings and outerwear markets, and engineered composites and structures for the aerospace industry. Our Albany Door Systems segment produces and services high-performance doors, which are primarily marketed to industrial and commercial enterprises requiring interior or external doors that involve either frequent openings or environmental contrasts between the two areas separated by the doors. In 2005, we generated $978.7 million in consolidated net sales, and $116.0 million in operating income. For the three months ended March 31, 2006, we generated $251.2 million in consolidated net sales, and $29.4 million in operating income.

Our headquarters are located at 1373 Broadway, Albany, New York 12204 and our general telephone number is (518) 445-2200. We maintain an Internet site at http://www.albint.com. Our website and the information contained on that site, or connected to that site, are not incorporated by reference into this prospectus.

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The offering

The following summary contains basic information about the notes and is not a complete description of the offering. Thus, it does not contain all the information that is important to you. For a more detailed description of the notes you, should read the section titled Description of notes. For purposes of this summary and the Description of notes, references to our company, we, us, and our refer only to Albany International Corp. and do not include its subsidiaries.

Issuer	Albany International Corp., a Delaware corporation.
Securities	$180,000,000 principal amount of 2.25% Convertible Senior Notes due 2026.
Maturity	March 15, 2026, unless earlier converted, redeemed or repurchased.
Interest	The notes bear interest at a rate of 2.25% per year commencing March 13, 2006 until March 15, 2013 and 3.25% per year thereafter. Interest is payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2006.
Conversion rights	Holders may convert their notes prior to the close of business on the business day immediately preceding February 15, 2013, in multiples of $1,000 principal amount, at the option of the holder under the following circumstances:

- during the five business-day period immediately after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of such measurement period was less than 103% of the product of the last reported sale price of our Class A common stock and the conversion rate on each such day; or

- upon the occurrence of specified corporate transactions described under Description of notes Conversion rights.

On or after February 15, 2013, holders may convert the notes, in multiples of $1,000 principal amount, at the option of the holder at any time on or prior to the close of business on the business day immediately preceding the maturity date, irrespective of the foregoing circumstances.

The initial conversion rate for the notes was 22.4618 shares per $1,000 principal amount of notes (equal to an initial conversion price of approximately $44.52 per share), subject to adjustment.

Upon conversion, we will, for all notes validly tendered for conversion, pay, on the third business day following the last day of the related cash settlement averaging period, cash and shares of our Class A common stock, if any, based on a daily conversion value (as described herein) calculated on a proportionate basis for each day of the relevant twenty-

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	five trading day cash settlement averaging period. See Description of notes Conversion rights Payment upon conversion.
	In addition, following certain corporate transactions that occur on or prior to March 15, 2013, we will increase the conversion rate for a holder who elects to convert its notes in connection with such a corporate transaction in certain circumstances, as described under Description of notes Conversion rights Conversion rate adjustments Adjustment to shares delivered upon conversion upon certain fundamental changes. However, in lieu of delivering additional shares of our Class A common stock in respect of such conversion obligation, we may in certain circumstances adjust the conversion rate and the related conversion obligation so that the notes are convertible into cash and shares of the acquiring or surviving company. See Description of notes Conversion rights Conversion rate adjustments Conversion after a public acquiror change of control.
	Upon conversion of a note, you will not receive any additional cash payment or additional shares representing accrued and unpaid interest, including additional interest, if any. Instead, interest will be deemed paid by the cash and shares of Class A common stock, if any, issued to you upon conversion.
Redemption at our option	Prior to March 15, 2013, the notes will not be redeemable. On or after March 15, 2013, we may redeem for cash all or part of the notes at any time for a price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest, including any additional interest, to but excluding the redemption date. See Description of notes Optional redemption.
Purchase of notes by us at the option of the holder	On each of March 15, 2013 and March 15, 2021 you may require us to purchase all or a portion of your notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest, including any additional interest, to but excluding the purchase date. See Description of notes Purchase of notes by us at the option of the holder.
Sinking fund	No sinking fund is provided for the notes.
Fundamental change	If we undergo a fundamental change (as defined under Description of notes Fundamental change permits holders to require us to purchase notes), you will have the option to require us to purchase all or any portion of your notes. The fundamental change purchase price will be 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest, including any additional interest, to but excluding the fundamental change purchase date. We will pay cash for all notes so purchased.

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Ranking	The notes rank equally in right of payment with all our existing and future unsecured senior debt and are senior in right of payment to all our future subordinated debt, if any. The indenture does not limit the amount of debt that we or our subsidiaries may incur. The notes effectively rank junior to any of our secured indebtedness, to the extent of the value of the assets securing such indebtedness. The notes are structurally junior to all liabilities of our subsidiaries.
Use of proceeds	We will not receive any of the proceeds from the sale by any selling securityholder of the notes or the shares of Class A common stock issuable upon conversion of the notes.
Book-entry form	The notes were issued in book-entry form and are represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the notes are shown on, and transfers will be effected only through, records maintained by DTC or its nominee, and any such interest may not be exchanged for certificated notes, except in limited circumstances.
Public market for the notes	The initial purchasers of the notes in the March 2006 private placement advised us that they intended to make a market in the notes. However, they were not and are not obligated to do so, and they may discontinue any market making with respect to the notes without notice.
Trading	The notes are not listed on any securities exchange or included in any automated quotation system. The notes issued in the private placement are eligible for trading in The PORTAL Market of the National Association of Securities Dealers, Inc. The notes sold using this prospectus, however, will no longer be eligible for trading in The PORTAL Market. We do not intend to list the notes on any other national securities exchange or automated quotation system. No assurance can be given as to the liquidity of or trading market for the notes. Our Class A common stock is quoted on The New York Stock Exchange under the symbol AIN.
Tax Consequences	For a discussion of the U.S. federal income tax treatment of the conversion as well as the purchase, ownership and disposition of the notes and our Class A common stock, see Certain United States federal income tax considerations.

Risk factors

Investment in the notes involves risk. You should carefully consider the information under the section titled Risk factors and all other information included in this prospectus and the documents incorporated by reference before investing in the notes.

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Summary consolidated financial and operating data

The following summary historical financial information for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 was derived from, and should be read in conjunction with, the audited financial statements and selected financial information contained in our annual report on Form 10-K for the year ended December 31, 2005 and our Current Report on Form 8-K filed on May 31, 2006. The following summary historical financial information for the three months ended March 31, 2006 and 2005 was derived from, and should be read in conjunction with, the unaudited financial information contained in our quarterly report on Form 10-Q for the quarter ended March 31, 2006. See Incorporation of certain documents by reference.

	Three months ended March 31, (unaudited)		Year ended December 31,				
(In thousands, except per share data)	2006	2005	2005	2004	2003	2002	2001
Summary of Operations							
Net sales	$ 251,223	$ 241,064	$ 978,710	$ 919,802	$ 887,943	$ 832,499	$ 853,493
Cost of goods sold	147,247	142,729	586,700	557,742	526,757	492,217	514,098
Restructuring charges, net[(a)]				54,058	21,751		21,892
Operating income	29,414	29,794	115,999	40,504	85,614	102,088	84,112
Interest expense, net	1,879	3,689	10,583	14,636	15,074	17,536	28,916
Income before income taxes	26,626	24,787	100,763	12,329	69,878	79,549	52,363
Income taxes	7,988	6,048	29,420	2,450	15,720	25,041	19,374
Income before cumulative effect changes in accounting principles	18,815	18,909	71,852	10,385	54,055	54,778	33,331
Cumulative effect of changes in accounting principles, net of tax(b)(c)						(5,837)	(1,129)
Net income	18,815	18,909	71,852	10,385	54,055	48,941	32,202
Basic earnings per share	0.60	0.60	2.25	0.32	1.64	1.52	1.04
Diluted earnings per share	0.59	0.59	2.22	0.31	1.61	1.50	1.03
Dividends declared per share	0.09	0.08	0.34	0.30	0.25	0.205	0.05
Weighted average number of shares outstanding basic	31,419	31,534	31,921	32,575	32,889	32,126	31,089
Capital expenditures	$ 19,764	$ 9,508	$ 43,293	$ 57,129	$ 51,849	$ 31,678	$ 25,831
Financial position							
Cash and cash equivalents	$ 129,764	$ 65,883	$ 72,771	$ 58,982	$ 78,822	$ 18,799	$ 6,153
Cash surrender value of life insurance, net	38,632	35,383	37,778	34,583	32,399	29,282	1,862
Property, plant and equipment, net	352,287	361,767	335,446	378,170	370,280	346,073	339,102
Total assets	1,214,857	1,135,566	1,087,047	1,155,760	1,138,923	1,011,521	931,929
Current liabilities	206,416	181,477	175,123	209,218	178,511	186,494	186,072
Long-term debt	341,865	212,813	162,597	213,615	214,894	221,703	248,146
Total noncurrent liabilities	521,874	156,691	337,006	395,765	405,757	424,429	429,213
Total liabilities	728,290	585,341	512,129	604,983	584,268	610,923	615,285
Shareholders equity	486,567	550,225	574,918	550,777	554,655	400,598	316,644

(a) In 2001, 2003 and 2004, we recorded restructuring charges related to cost reduction initiatives.

(b) In 2002, as a result of adopting the provisions of Financial Accounting Standard, or FAS, No. 142, *Goodwill and Other Intangible Assets,* we recorded a charge of $5,837,000 for the write-off of goodwill in our Applied Technologies segment, representing the cumulative effect of this change in accounting principle.

(c) In 2001, as a result of adopting the provisions of FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* we recorded a charge of $1,129,000 related to a lease with an embedded derivative, representing the cumulative effect of this change in accounting principle.

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Risk factors

Our business, operations and financial condition are subject to various risks. Some of these risks are described below and in the documents incorporated by reference in this prospectus, and you should take these risks into account in evaluating us or any investment decision involving us or in deciding whether to participate in the purchase of the notes proposed in this prospectus. This section does not describe all risks applicable to us, our industry or our business, and it is intended only as a summary of certain material factors.

Risks relating to our business and industry

Failure to remain competitive in the industry in which our Paper Machine Clothing segment does business could adversely affect our business, financial condition and results of operations

The industry in which our Paper Machine Clothing segment does business is very competitive. Our Paper Machine Clothing segment, which accounted for 74.9%, 74.8% and 77.2% of our consolidated net sales in 2005, 2004 and 2003, respectively, and 73.2% of our consolidated net sales in the first three months of 2006, includes our paper machine clothing and process belts products. While some competitors in this industry tend to compete more on the basis of price, and others attempt to compete more on the basis of technology, both are significant competitive factors in this industry. Our strategy for addressing competition in this industry is to focus on continuous improvement in the technical performance of our products and services in order to deliver greater value to customers than our competitors. During the past three years, we have spent an average of 3% of our consolidated net sales on research and development, and we expect to spend similar amounts in future periods. Failure to maintain or increase the technical performance of our products in future periods, or to maintain or increase the overall product and service value delivered to customers, could have a material adverse effect on our business, financial condition and results of operations.

Consolidation in the industry in which our Paper Machine Clothing segment does business has changed the nature of competition in that segment, which could have a negative effect on our net sales and cash flows from operations

One of our competitors in the Paper Machine Clothing segment has the capability to make and sell paper machines and papermaking equipment as well as other engineered fabrics. While customers historically have viewed the purchase of paper machine clothing and the purchase of paper machines as separate purchasing decisions, the ability to coordinate research and development efforts, and to market machines and fabrics together could be perceived as providing a competitive advantage. This underscores the importance of our ability to maintain the technical competitiveness and value of our products, and a real or perceived failure to do so could have a material adverse effect on our business, financial condition and results of operations. Moreover, we cannot predict how the nature of competition in this segment may continue to evolve as a result of further consolidation among our competitors, or consolidation involving our competitors and other suppliers to our customers.

We may significantly increase capital expenditures and other expenses in future periods to support growth, and may not receive the benefit of any return on our investments

The past several years have seen the closure of paper mills in North America and elsewhere, while new papermaking capacity has been added in Asia and parts of Europe. During this same period,

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we closed and consolidated manufacturing facilities in North America and Europe. We expect to continue to make investments in regions of the world, including Asia, where we anticipate growth. We had capital expenditures of $43.3 million, $57.1 million and $51.8 million in 2005, 2004 and 2003, respectively, and capital expenditures of $19.8 million in the first three months of 2006.

In January 2006, we announced a major strategic investment program for paper machine clothing growth. Approximately $150 million will be invested over the next four years in the construction of a new paper machine clothing manufacturing facility in China, in additional forming fabric capacity in Korea and Brazil, and in additional dryer fabric capacity in our existing plant in Panyu, China. The new facility in China will serve as the headquarters of our Pacific Business Corridor and will initially house world-class manufacturing operations for forming and press fabrics.

We currently expect that capital expenditures for ongoing operations will be approximately $50 million per year in 2006, 2007, and 2008. Additionally, we expect that approximately $40 million of the $150 million paper machine clothing investment program will be incurred in 2006. The balance of that investment will occur over the following three years, with the largest impact in 2007. We may also incur additional costs to support new hiring in key areas.

We may not be successful in achieving any of the benefits we hope to gain from these investments in our business. If we are not successful, it could have a negative impact on our growth strategy and our business, financial condition and results of operations.

We may conduct a greater part of our operations in emerging markets in the future, which could involve many uncertainties for our company in addition to the general risks we face doing business in those markets

As part of our growth strategy, we plan to continue to expand our operations, particularly in Asia. We also currently have manufacturing facilities in 14 countries; in 2005, 64.4% of our consolidated net sales were generated by our non-U.S. subsidiaries, and in the first three months of 2006, 63.8% of our consolidated net sales were generated by our non-U.S. subsidiaries. Operations outside of the U.S. are subject to a number of risks and uncertainties, including risks that:

•