ALBANY INTERNATIONAL CORP /DE/
Form 10-Q
October 31, 2017
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:September 30, 2017

OR

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

For the transition period from __________ to __________

Commission file number: 1-10026

ALBANY INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

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

216 Airport Drive, Rochester, New Hampshire	03867
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code518-445-2200

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 has submitted electronically and posted on its corporate Web site, 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). Yes [√] No [ ]

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

Large accelerated filer [√] Accelerated filer [ ]

Non-accelerated filer	[ ]	Smaller reporting company	[ ]
		Emerging growth company	[ ]

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

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

The registrant had 29.0 million shares of Class A Common Stock and 3.2 million shares of Class B Common Stock outstanding as of October 24, 2017.

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ALBANY INTERNATIONAL CORP.

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ITEM 1. FINANCIAL STATEMENTS

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

Three Months Ended September 30, 2017	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
$222,141	$191,272	Net sales	$636,989	$566,793
142,706	118,852	Cost of goods sold	418,595	343,557
79,435	72,420	Gross profit	218,394	223,236
41,076	38,042	Selling, general, and administrative expenses	123,799	120,997
10,553	9,232	Technical and research expenses	30,788	29,640
5,503	326	Restructuring expenses, net	10,220	7,653
22,303	24,820	Operating income	53,587	64,946
4,429	3,681	Interest expense, net	13,042	9,610
(1,155)	242	Other expense/(income), net	980	(2,103)
19,029	20,897	Income before income taxes	39,565	57,439
3,809	7,488	Income tax expense	12,138	20,613
15,220	13,409	Net income	27,427	36,826
(49)	340	Net income/(loss) attributable to the noncontrolling interest	202	(111)
$15,269	$13,069	Net income attributable to the Company	$27,225	$36,937
$0.47	$0.41		$0.85	$1.15

		Earnings per share attributable to Company shareholders - Basic		
$0.47	$0.41	Earnings per share attributable to Company shareholders - Diluted	$0.85	$1.15
		Shares of the Company used in computing earnings per share:		
32,187	32,104	Basic	32,160	32,079
32,214	32,141	Diluted	32,193	32,118
$0.17	$0.17	Dividends declared per share, Class A and Class B	$0.51	$0.51

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

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

Three Months Ended September 30, 2017	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
$15,220	$13,409	Net income	$27,427	$36,826
		Other comprehensive income/(loss), before tax:		
11,974	36	Foreign currency translation adjustments	39,348	2,651
-	-	Pension/postretirement plan remeasurement	-	(170)
		Amortization of pension liability adjustments:		
(1,113)	(1,113)	Prior service credit	(3,339)	(3,338)
1,350	1,296	Net actuarial loss	4,050	3,870
295	1,100	Expense related to interest rate swaps included in earnings	1,238	1,686
(96)	497	Derivative valuation adjustment	(1,094)	(6,936)
		Income taxes related to items of other comprehensive income/(loss):		
-	-	Pension/postretirement plan remeasurement	-	65
(71)	(55)	Amortization of pension liability adjustment	(213)	(160)
(112)	(418)	Expense related to interest rate swaps included in earnings	(470)	(641)
36	(189)	Derivative valuation adjustment	415	2,636
27,483	14,563	Comprehensive income	67,362	36,489
(43)	340	Comprehensive income/(loss) attributable to the noncontrolling interest	221	(112)
$27,526	$14,223	Comprehensive income attributable to the Company	$67,141	$36,601

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

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

	September 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$153,465	$181,742
Accounts receivable, net	199,938	171,193
Inventories	157,143	133,906
Income taxes prepaid and receivable	8,133	5,213
Prepaid expenses and other current assets	12,690	9,251
Total current assets	531,369	501,305
Property, plant and equipment, net	451,966	422,564
Intangibles, net	56,997	66,454
Goodwill	166,010	160,375
Income taxes receivable and deferred	81,244	68,865
Contract receivables	29,688	14,045
Other assets	32,343	29,825
Total assets	$1,349,617	$1,263,433
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and loans payable	$186	$312
Accounts payable	45,121	43,305
Accrued liabilities	103,498	95,195
Current maturities of long-term debt	51,765	51,666
Income taxes payable	12,493	9,531
Total current liabilities	213,063	200,009
Long-term debt	453,578	432,918
Other noncurrent liabilities	105,318	106,827
Deferred taxes and other liabilities	13,002	12,389
Total liabilities	784,961	752,143
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 37,392,353 in 2017 and 37,319,266 in 2016	37	37

Class B Common Stock, par value $.001 per share; authorized 25,000,000 shares; issued and outstanding 3,233,998 in 2017 and 2016	3	3
Additional paid in capital	428,088	425,953
Retained earnings	533,670	522,855
Accumulated items of other comprehensive income:		
Translation adjustments	(92,523)	(133,298)
Pension and postretirement liability adjustments	(52,648)	(51,719)
Derivative valuation adjustment	917	828
Treasury stock (Class A), at cost 8,431,335 shares in 2017 and 8,443,444 shares in 2016	(256,876)	(257,136)
Total Company shareholders' equity	560,668	507,523
Noncontrolling interest	3,988	3,767
Total equity	564,656	511,290
Total liabilities and shareholders' equity	$1,349,617	$1,263,433

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

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

Three Months Ended September 30, 2017	Three Months Ended September 30, 2016		Nine Months ended September 30, 2017	Nine Months ended September 30, 2016
		OPERATING ACTIVITIES		
$15,220	$13,409	Net income	$27,427	$36,826
		Adjustments to reconcile net income to net cash provided by operating activities:		
15,522	16,470	Depreciation	45,367	44,736
2,608	1,975	Amortization	7,889	6,488
(168)	(275)	Change in other noncurrent liabilities	(2,522)	(5,010)
(3,263)	(1,712)	Change in deferred taxes and other liabilities	(10,620)	(640)
1,086	333	Provision for write-off of property, plant and equipment	1,916	1,409
211	-	Non-cash interest expense	634	-
195	350	Compensation and benefits paid or payable in Class A Common Stock	1,865	1,882
4,149	-	Write-off of intangible assets in a discontinued product line	4,149	-

		Changes in operating assets and liabilities that provided/(used) cash, net of impact of business acquisition:		
(4,645)	4,794	Accounts receivable	(19,781)	(6,492)
(3,944)	(5,511)	Inventories	(17,210)	(12,886)
(599)	(481)	Prepaid expenses and other current assets	(3,167)	(3,302)
-	(100)	Income taxes prepaid and receivable	(2,817)	1,737
(4,769)	(4,443)	Accounts payable	(2,704)	(1,544)
5,425	4,418	Accrued liabilities	4,525	(3,736)
3,472	4,932	Income taxes payable	2,964	3,999
(8,107)	-	Contract receivables	(15,643)	-
(4,495)	(4,974)	Other, net	(557)	(10,252)
17,898	29,185	Net cash provided by operating activities	21,715	53,215
		INVESTING ACTIVITIES		
-	-	Purchase of business, net of cash acquired	-	(187,000)
(15,319)	(21,924)	Purchases of property, plant and equipment	(61,724)	(50,029)
(147)	(591)	Purchased software	(538)	(1,262)
-	4,686	Proceeds from sale or involuntary conversion of assets	-	6,422
(15,466)	(17,829)	Net cash used in investing activities	(62,262)	(231,869)
		FINANCING ACTIVITIES		
13,076	13,265	Proceeds from borrowings	45,335	232,795
(3,569)	(871)	Principal payments on debt	(24,711)	(23,695)
-	-	Debt acquisition costs	-	(1,771)

-	-	Swap termination payment	-	(5,175)
-	-	Taxes paid in lieu of share issuance	(1,364)	(1,272)
356	64	Proceeds from options exercised	531	454
(5,470)	(5,457)	Dividends paid	(16,396)	(16,354)
4,393	7,001	Net cash provided by financing activities	3,395	184,982
7,848	1,788	Effect of exchange rate changes on cash and cash equivalents	8,875	4,729
14,673	20,145	(Decrease)/increase in cash and cash equivalents	(28,277)	11,057
138,792	176,025	Cash and cash equivalents at beginning of period	181,742	185,113
$153,465	$196,170	Cash and cash equivalents at end of period	$153,465	$196,170

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

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ALBANY INTERNATIONAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

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

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operation," "Quantitative and Qualitative Disclosures about Market Risk" and the Consolidated Financial Statements and Notes thereto included in Items 1A, 3, 7, 7A and 8, respectively, of the Albany International Corp. Annual Report on Form 10-K for the year ended December 31, 2016.

2.**Business Acquisition**

On April 8, 2016, the Company acquired the outstanding shares of Harris Corporation's composite aerostructures business for cash of $187 million, plus the assumption of certain liabilities. The Company funded the cash payable at closing by utilizing proceeds from a $550 million, unsecured credit facility agreement that was completed April 8, 2016. The acquired entity is located in Salt Lake City, Utah ("SLC") and is part of the Albany Engineered Composites ("AEC") segment.

The Consolidated Statement of Income for 2016 includes operational activity of the acquired business for only the period subsequent to the closing, which affects comparability of year to date results. The following table shows total Company pro forma results for the nine month period ended September 30, 2016 as if the acquisition had occurred on January 1, 2015.

(in thousands, except per share amounts)	**Unaudited - Pro forma Nine months ended September 30, 2016**
Combined Net sales	$588,978
Combined Income before income taxes	$59,812
Pro forma increase/(decrease) to income before income taxes:	
Acquisition expenses	5,367
Interest expense related to purchase price	(1,133)
Acquisition accounting adjustments:	
Depreciation and amortization on property, plant and equipment, and intangible assets	(1,696)
Valuation of contract inventories	2,036
Interest expense on capital lease obligation	323
Interest expense on other obligations	(143)
Pro forma Income before income taxes	$64,566
Pro forma Net Income	$41,286

3. Reportable Segments

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

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands)	**2017**	**2016**	**2017**	**2016**
Net sales				
Machine Clothing	**$150,694**	$143,248	**$440,093**	$437,445
Albany Engineered Composites (AEC)	**71,447**	48,024	**196,896**	129,348
Consolidated total	**$222,141**	$191,272	**$636,989**	$566,793
Operating income/(loss)				
Machine Clothing	**42,674**	40,039	**119,352**	112,583
Albany Engineered Composites	**(9,301)**	(4,529)	**(32,242)**	(14,083)
Corporate expenses	**(11,070)**	(10,690)	**(33,523)**	(33,554)
Operating income	**$22,303**	$24,820	**$53,587**	$64,946
Reconciling items:				
Interest income	**(355)**	(675)	**(801)**	(1,347)
Interest expense	**4,784**	4,356	**13,843**	10,957
Other expense/(income), net	**(1,155)**	242	**980**	(2,103)
Income before income taxes	**$19,029**	$20,897	**$39,565**	$57,439

There were no material changes in the total assets of the reportable segments in the first nine months of 2017.

In the third quarter of 2017, the Company decided to discontinue the Bear Claw® line of hydraulic fracturing components used in the oil and gas industry, which was part of the Harris aerostructures business acquired by AEC in 2016. This decision resulted in a non-cash restructuring charge of $4.5 million for the write-off of intangible assets and equipment, and a $3.2 million charge to Cost of goods sold for the write-off of inventory.

In the second quarter of 2017, the Company recorded a charge to Cost of goods sold of approximately $15.8 million associated with revisions in the estimated profitability of two AEC contracts. The charge was principally due to second-quarter 2017 downward revisions of estimated customer demand for the components manufactured by AEC related to the BR 725 and A380 programs. The charge included a $4.0 million write-off of program inventory costs, and a reserve for future losses of $11.8 million, which is included in Accrued liabilities in the Consolidated Balance Sheets. Total reserves for future contract losses were $11.1 million as of September 30, 2017, and $0.1 million as of December 31, 2016.

The Albany Engineered Composites (AEC) segment, including Albany Safran Composites, LLC (ASC), in which our customer SAFRAN Group (Safran) owns a 10 percent noncontrolling interest, provides highly engineered, advanced composite structures to customers in the aerospace and defense industries. AEC's largest program relates to CFM International's LEAP engine. Under this program, AEC through ASC, is the exclusive supplier of advanced composite fan blades and cases under a long-term supply contract. The manufacturing spaces used for the production of parts under the long-term supply agreement are owned by Safran, and leased to the Company at a minimal cost. All lease expense is reimbursable by Safran to the Company due to the cost-plus nature of the supply agreement. AEC net sales to Safran in 2017 were $25.6 million in the first quarter, $30.1 million in the second quarter, and $28.3 million in the third quarter. AEC net sales to Safran in 2016 were $17.1 million in the first quarter, $18.5 million in the second quarter, and $17.4 million in the third quarter. The total of invoiced receivables, unbilled receivables and contract receivables due from Safran amounted to $57.0 million and $37.1 million as of September 30, 2017 and December 31, 2016, respectively.

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

(in thousands)	**Three months ended September 30, 2017**	**2016**	**Nine months ended September 30, 2017**	**2016**
Restructuring expenses, net				
Machine Clothing	**$96**	($212)	**$1,012**	$5,921
Albany Engineered Composites	**5,407**	640	**9,208**	1,787
Corporate expenses	**-**	(102)	**-**	(55)
Consolidated total	**$5,503**	$326	**$10,220**	$7,653

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

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

The composition of the net periodic benefit plan cost for the nine months ended September 30, 2017 and 2016, was as follows:

	Pension plans		Other postretirement benefits	
(in thousands)	**2017**	**2016**	**2017**	**2016**
Components of net periodic benefit cost:				
Service cost	**$1,960**	$1,991	**$183**	$190
Interest cost	**5,507**	6,110	**1,660**	1,832
Expected return on assets	**(6,004)**	(6,763)	**-**	-
Curtailment gain	**-**	(130)	**-**	-
Amortization of prior service cost/(credit)	**27**	28	**(3,366)**	(3,366)
Amortization of net actuarial loss	**1,943**	1,756	**2,107**	2,114
Net periodic benefit cost	**$3,433**	$2,992	**$584**	$770

5. Restructuring

Machine Clothing restructuring costs for the first nine months of 2017 were principally related to additional costs for restructuring actions taken in 2016. Machine Clothing restructuring costs in 2016 were principally related to plant closure costs in Göppingen, Germany and the cessation of research and development activities at the production facility in Sélestat, France.

In October 2017, the Company announced the initiation of discussions with the local works council regarding a proposal to discontinue operations at its Machine Clothing production facility in Sélestat, France. The consultations are subject to applicable law and are ongoing. At this time, the Company has not recorded any restructuring charge related to this proposal.

AEC incurred restructuring charges of $9.2 million in the first nine months of 2017. In the third quarter of 2017, the Company decided to discontinue the Bear Claw® line of hydraulic fracturing components used in the oil and gas industry, which led to non-cash restructuring charges totaling $4.5 million relating to the impairment of long-lived assets. Other restructuring charges in 2017 principally related to work force reductions in Salt Lake City, Utah and Rochester, New Hampshire.

AEC restructuring expenses in 2016 were principally related to the consolidation of legacy programs into Boerne, Texas.

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

	Three months ended	Nine months ended

	September 30,		**September 30,**	
(in thousands)	**2017**	**2016**	**2017**	**2016**
Machine Clothing	**$96**	($212)	**$1,012**	$5,921
Albany Engineered Composites	**5,407**	640	**9,208**	1,787
Corporate Expenses	**-**	(102)	**-**	(55)
Total	**$5,503**	$326	**$10,220**	$7,653

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Nine months ended September 30, 2017	Total restructuring costs incurred	Termination and other costs	Impairment of plant and equipment	Impairment of intangible asset
(in thousands)				
Machine Clothing	$1,012	$1,012	$-	$-
Albany Engineered Composites	9,208	4,173	886	4,149
Corporate Expenses	-	-	-	-
Total	$10,220	$5,185	$886	$4,149

Nine months ended September 30, 2016	Total restructuring costs incurred	Termination and other costs	Impairment of plant and equipment	Benefit plan curtailment/ settlement
(in thousands)				
Machine Clothing	$5,921	$5,751	$300	($130)
Albany Engineered Composites	1,787	1,498	289	-
Corporate Expenses	(55)	(55)	-	-
Total	$7,653	$7,194	$589	($130)

We expect that approximately $4.0 million of Accrued liabilities for restructuring at September 30, 2017 will be paid within one year and approximately $0.4 million will be paid in the following year. The table below presents the year-to-date changes in restructuring liabilities for 2017 and 2016, all of which related to termination costs:

(in thousands)	December 31, 2016	Restructuring charges accrued	Payments	Currency translation /other	September 30, 2017
Total termination and other costs	$5,559	$5,185	($6,370)	$24	$4,398

(in thousands)	December 31, 2015	Restructuring charges accrued	Payments	Currency translation /other	September 30, 2016
Total termination and other costs	$10,177	$7,194	($9,862)	$2	$7,511

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6. Other Expense/(Income), net

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

(in thousands)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Currency transaction losses/(gains)	**$261**	($312)	**$2,310**	($2,361)
Bank fees and amortization of debt issuance costs	**116**	106	**375**	652
Gain on insurance recovery	**(2,000)**	-	**(2,000)**	-
Other	**468**	448	**295**	(394)
Total	**($1,155)**	$242	**$980**	($2,103)

In the third quarter of 2017, the Company recorded an insurance recovery gain of $2.0 million related to the theft in Japan that was reported in the fourth quarter of 2016.

7. Income Taxes

The following table presents components of income tax expense for the three and nine months ended September 30, 2017 and 2016:

(in thousands)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Income tax based on income from continuing operations, at estimated tax rates of 36.4% and 37.5%, respectively	**$6,935**	$7,838	**$14,420**	$21,545
Provision for change in estimated tax rates	**741**	(424)	**-**	-
Income tax before discrete items	**7,676**	7,414	**14,420**	21,545
Discrete tax expense:				
Provision for/resolution of tax audits and contingencies, net	**-**	-	**961**	(825)
Adjustments to prior period tax liabilities	**(73)**	(11)	**606**	(254)
Other discrete tax adjustments, net	**(7)**	85	**(62)**	113
Provision for/adjustment to beginning of year valuation allowance	**(3,787)**	-	**(3,787)**	-
Enacted tax legislation	**-**	-		34
Total income tax expense	**$3,809**	$7,488	**$12,138**	$20,613

The third quarter estimated effective tax rate on continuing operations was 36.4 percent in 2017, compared to 37.5 percent for the same period in 2016.

The Company records the residual U.S. and foreign taxes on certain amounts of foreign earnings that have been targeted for repatriation to the U.S. These amounts are not considered to be permanently reinvested, and the Company accrued for the tax cost on these earnings to the extent they cannot be repatriated in a tax-free manner. At September 30, 2017 the Company calculated a deferred tax liability of $3.7 million on $62.8 million of non-U.S. earnings that have been targeted for future repatriation to the U.S.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including major jurisdictions such as the United States, Brazil, Canada, France, Germany, Italy, Mexico, and Switzerland. The open tax years in these jurisdictions range from 2007 to 2016. The Company is currently under audit in non-U.S. tax jurisdictions, including but not limited to Canada and Italy.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may decrease up to $0.2 million, from the reevaluation of uncertain tax positions arising in examinations, in appeals, or in the courts, or from the closure of tax statutes of limitations.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. As of September 2017, primarily as the Company achieved three years of cumulative pretax income in Canada and Japan, management determined that there was sufficient positive evidence to conclude that it is more likely than not that additional deferred tax assets of $3.4 million in Canada and $0.4 million in Japan are realizable. Therefore, in the third quarter of 2017, we reversed previously recorded valuation allowances which resulted in a discrete tax benefit of $3.8 million.

In March 2016, an accounting update was issued which simplifies several aspects related to accounting for share-based payment transactions, including the income tax consequences. The income tax consequences which relate to accounting for excess tax benefits have been adopted prospectively, resulting in recognition of excess tax benefits against income tax expense, rather than additional paid-in capital, of $0.1 million for the nine months ended September 30, 2017. No adjustment was necessary related to the deferred tax balances. The Company adopted this update on January 1, 2017.

8. Earnings Per Share

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

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands, except market price and earnings per share)	**2017**	**2016**	**2017**	**2016**
Net income attributable to the Company	**$15,269**	$13,069	**$27,225**	$36,937
Weighted average number of shares:				
Weighted average number of shares used in calculating basic net income per share	**32,187**	32,104	**32,160**	32,079
Effect of dilutive stock-based compensation plans:				
Stock options	**27**	37	**33**	39