

LYDALL INC /DE/  
Form 10-K  
March 05, 2014

**UNITED STATES SECURITIES AND EXCHANGE  
COMMISSION  
WASHINGTON, D.C. 20549**

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2013

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: 1-7665

**Lydall, Inc.**

(Exact name of registrant as specified in its charter)

Delaware **06-0865505**  
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)  
Organization)  
One Colonial Road, Manchester, Connecticut **06042**  
(Address of principal executive offices) (Zip code)  
Registrant's telephone number, including area code: (860) 646-1233

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

Title of each class Name of each exchange on which registered  
Common Stock, \$.10 par value New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Exchange Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company) Accelerated filer  Smaller reporting company

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

On June 28, 2013, the aggregate market value of the Registrant's voting stock held by nonaffiliates was \$235,067,855 based on the New York Stock Exchange closing price on that date. For purposes of this calculation, the Registrant has assumed that its directors and executive officers are affiliates.

On February 18, 2014, there were 16,820,109 shares of Common Stock outstanding, exclusive of treasury shares.

## DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference to the definitive Proxy Statement to be distributed in connection with the Registrant's Annual Meeting of Stockholders to be held on April 25, 2014.

The exhibit index is located on pages 41 - 42.

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The information called for by Items 10, 11, 12, 13 and 14, to the extent not included in this document, is incorporated herein by reference to such information included in the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission and distributed in connection with Lydall, Inc.'s 2014 Annual Meeting of Stockholders to be held on April 25, 2014.	

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## **CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS**

Lydall, Inc. and its subsidiaries are hereafter collectively referred to as Lydall, the Company or the Registrant. Lydall and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Lydall and its subsidiaries.

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Any statements contained in Annual Report on Form 10-K that are not statements of historical fact may be deemed to be forward-looking statements within the meaning of the Exchange Act. All such forward-looking statements are intended to provide management's current expectations for the future operating and financial performance of the Company based on current expectations and assumptions relating to the Company's business, the economy and other future conditions. Forward-looking statements generally can be identified through the use of words such as believes, anticipates, may, should, will, plans, expects, expectations, estimates, forecasts, predicts, targets, prospects, strategy, signs and other words having similar meaning in connection with the discussion of future operating or financial performance. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, uses of cash and other measures of financial performance. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. Accordingly, the Company's actual results may differ materially from those contemplated by the forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Forward-looking statements in this Annual Report on Form 10-K include, among others, statements relating to:

- Overall economic and business conditions and the effects on the Company's markets;
  - Outlook for the fiscal year 2014;
  - Expected vehicle production in the North American or European markets;
  - Growth opportunities in markets served by the Company's Performance Materials segment;
  - Expected gross margin and working capital improvements from the application of Lean Six Sigma;
  - Expected future transaction related expenses, including the tax deductibility of such expenses;
  - Ability to integrate businesses acquired in the acquisition consummated in the first quarter of 2014;
  - Expected future financial and operating performance of the acquisition;
  - Product development and new business opportunities;
- Future strategic transactions, included but not limited to: acquisitions, joint ventures, alliances, licensing agreements and divestitures;
  - Pension plan funding requirements;
  - Future cash flow and uses of cash;
  - Future repurchases of the Company's Common Stock;
  - Future amounts of stock-based compensation expense;
  - Future earnings and other measurements of financial performance;
  - Future levels of indebtedness and capital spending;
  - Ability to meet cash operating requirements;
  - Ability to meet financial covenants in its senior secured domestic revolving credit facility;
  - The expected future impact of recently issued accounting pronouncements upon adoption;
  - Future effective income tax rates and realization of deferred tax assets;



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Estimates of fair values of reporting units and long-lived assets used in assessing goodwill and long-lived assets for possible impairment; and

The expected outcomes of legal proceedings and other contingencies.

All forward-looking statements are inherently subject to a number of risks and uncertainties that could cause the actual results of the Company to differ materially from those reflected in forward-looking statements made in this Annual Report on Form 10-K, in press releases and in other statements made by the Company's authorized officers. Such risks and uncertainties include, among others, worldwide economic cycles that affect the markets which the Company's businesses serve which could have an effect on demand for the Company's products and impact the Company's profitability, challenges encountered by the Lydall in the integration of acquired businesses, disruptions in the global credit and financial markets, including diminished liquidity and credit availability, swings in consumer confidence and spending, unstable economic growth, raw material pricing and supply issues, fluctuations in unemployment rates, and increases in fuel prices, as well as other risks and uncertainties identified in Part I, Item 1A Risk Factors of this Annual Report on Form 10-K. The Company does not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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## **PART I**

### **Item 1. BUSINESS**

Lydall, Inc. has been incorporated in Delaware since 1987 after originally being incorporated in Connecticut in 1969.

The principal executive offices are located in Manchester, Connecticut. The Company designs and manufactures specialty engineered filtration media, industrial thermal insulating solutions, automotive thermal and acoustical barriers, medical filtration media and devices and biopharmaceutical processing components for thermal/acoustical, filtration/separation and bio/medical applications.

Lydall serves a number of markets. The Company's products are primarily sold directly to customers through an internal sales force and external sales representatives and distributed via common carrier. The majority of products are sold to original equipment manufacturers and tier-one suppliers. The Company competes through high-quality, specialty engineered innovative products and exceptional customer service. Lydall has a number of domestic and foreign competitors for its products, most of whom are either privately owned or divisions of larger companies.

Foreign and export sales were 45.2% of net sales in 2013, 46.7% in 2012, and 49.9% in 2011. Foreign sales were \$128.0 million, \$127.2 million, and \$144.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. Export sales primarily to Europe, Asia, Mexico and Canada were \$52.1 million, \$49.7 million, and \$47.0 million in 2013, 2012 and 2011, respectively.

The increase in export sales dollars during 2013, compared to 2012, was primarily related to higher export sales to Mexico in the Thermal/Acoustical Metals and Thermal/Acoustical Fibers segments, due to strong overall demand in North America, partially offset by a decrease in export sales to South America in the Performance Materials segment as a result of the macro-economic slowdown in that region.

Foreign operations generated operating income of \$5.1 million, \$6.4 million, and \$11.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. The decrease in operating income generated by foreign operations from 2012 to 2013 was primarily due to lower sales from unfavorable macro-economic conditions in Europe as well as startup costs associated with the Thermal/Acoustical Metal's segment operation in China. Total foreign assets were \$103.0 million, \$95.1 million and \$88.9 million at December 31, 2013, 2012 and 2011, respectively. For further detail regarding revenue and financial information about the Company's geographic areas, see Note 10 to the Consolidated Financial Statements.

#### **Acquisition:**

On February 20, 2014 the Company completed an acquisition of certain industrial filtration businesses ( Industrial Filtration ) of Andrew Industries Limited, an Altham, United Kingdom based corporation pursuant to the terms of a Sale and Purchase Agreement (the Sale and Purchase Agreement ) for \$83.0 million in cash. The Industrial Filtration business has products sold under the brands Southern Felt™ in the United States, Andrew Webron™ in Europe, and China Felt Company™ in Asia and serves a global customer base in the manufacture of non-woven felt filtration media and filter bags used primarily in industrial air filtration applications including power, cement, asphalt, incineration, food and pharmaceutical. The final purchase price, subject to certain customary post-closing adjustments, was financed with a combination of cash on hand and \$60 million of borrowings from the Company's \$100 million amended and restated credit facility.



**Amended Credit Facility:**

On February 18, 2014 the Company amended and restated its \$35 million senior secured revolving domestic credit facility to increase the available borrowing under this agreement to \$100 million. The amended credit facility, secured by substantially all of the assets of the Company, has a maturity date of January 31, 2019 and was completed with the same financial institution as well as two additional financial institutions. The Company entered into this amended facility in part to fund \$60 million of the purchase price of the Industrial Filtration acquisition.

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Proxy Statements are made available free of charge through the Investor Relations section of the Company's Internet website at [www.lydall.com](http://www.lydall.com) after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the Commission) and are also available on the Commission's website at [www.sec.gov](http://www.sec.gov). Information found on these websites is not part of this Form 10-K. Additionally, the public may read

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and copy any materials the Company files with the Commission at the Commission's Public Reference room located at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330.

## **SEGMENTS**

The Company's reportable segments are Performance Materials, Thermal/Acoustical Metals and Thermal/Acoustical Fibers. The Performance Materials segment reports the results of the Filtration, Thermal Insulation and Life Sciences Filtration businesses. The Thermal/Acoustical Metals segment reports the results of Lydall's automotive business, which includes metal parts and related tooling. The Thermal/Acoustical Fibers segment reports the results of Lydall's automotive business, which includes fiber parts and related tooling. Other Products and Services ( OPS ) include Life Sciences Vital Fluids. As a result of the acquisition of the Industrial Filtration businesses on February 20, 2014, the Company expects to report the results of Industrial Filtration, subsequent to the acquisition date, in its own reportable segment. For additional information regarding the Company's reportable segments, please refer to Note 10 in the Consolidated Financial Statements included in this Annual Report on Form 10-K.

### **Performance Materials Segment**

The Performance Materials segment includes filtration media solutions for air, fluid power, and industrial applications ( Filtration ), air and liquid life science applications ( Life Sciences Filtration ), and thermal insulation solutions for building products, appliances, and energy and industrial markets ( Thermal Insulation ).

Filtration products include LydAir® MG (Micro-Glass) Air Filtration Media, LydAir® MB (Melt Blown) Air Filtration Media, LydAir® SC (Synthetic Composite) Air Filtration Media, and Arioso™ Membrane Composite Media. These products constitute the critical media component of clean-air systems for applications in clean-space, commercial, industrial and residential HVAC, power generation, and industrial processes. Lydall has leveraged its extensive technical expertise and applications knowledge into a suite of media products covering the vast liquid filtration landscape across the engine and industrial fields. The LyPore® Liquid Filtration Media series address a variety of application needs in fluid power including hydraulic filters, air-water and air-oil coalescing, industrial fluid processes and diesel fuel filtration.

Life Sciences Filtration products have been developed to meet the requirements of life science applications including biopharmaceutical pre-filtration and clarification, diagnostic and analytical testing, respiratory protection, life protection, medical air filtration, drinking water filtration and high purity process filtration such as that found in food and beverage and medical applications. Lydall also offers Solupor® Membrane specialty microporous membranes that are utilized in various markets and applications including air and liquid filtration and transdermal drug delivery. Solupor® membranes are made from ultra-high molecular weight polyethylene and incorporate a unique combination of mechanical strength, chemical inertness, and high porosity in a unique open structure.

Thermal Insulation products are high performance non-woven veils, papers, mats and specialty composites for the building products, appliance, and energy and industrial markets. The Manniglas® Thermal Insulation brand is diverse in its product application ranging from high temperature seals and gaskets in ovens and ranges to specialty veils for HVAC and cavity wall insulation. The applY® Mat Needled Glass Mats have been developed to expand Lydall's high temperature technology portfolio for broad application into the appliance market and supplements the Lytherm® Insulation Media product brand, traditionally utilized in the industrial market for kilns and furnaces used in metal processing. Lydall's Cryotherm® Super-Insulating Media, CRS-Wrap® Super-Insulating Media and Cryo-Lite™ Cryogenic Insulation products are industry standards for state-of-the-art cryogenic insulation designs used by

manufacturers of cryogenic equipment for liquid gas storage, piping, and transportation.

Net sales from the Performance Materials segment represented 28.1% of Lydall's net sales in 2013 compared with 31.2% in 2012 and 34.9% in 2011. Net sales generated by the international operations of the Performance Materials segment accounted for 30.1%, 30.6% and 29.8% of segment net sales in 2013, 2012, and 2011, respectively.

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## **Thermal/Acoustical Metals Segment**

The Thermal/Acoustical Metals segment offers a full range of innovative engineered products to assist in noise and heat abatement within the transportation sector. Lydall products are found in underbody (tunnel, fuel tank, exhaust, rear muffler and spare tire) and under hood (engine compartment, turbo charger, and manifolds) of cars, trucks, SUVs, heavy duty trucks and recreational vehicles.

Thermal/Acoustical Metals segment products are stamped metal combinations which provide thermal and acoustical shielding solutions for the global automotive and truck markets. Thermal/Acoustical Metals products include AMS®, which is an all metal shield designed to be used in various vehicle applications, and Direct Exhaust Mount Heat shields, which are mounted to high temperature surfaces like exhaust down-pipes or engine manifolds using aluminized and stainless steel with high performance heat absorbing materials. Additionally, a patented CLD (constraint layer damped) material is a lightweight material with characteristics to reduce vibration and parasitic noise on powertrain mounted heat shields.

Thermal/Acoustical Metals segment net sales represented 39.8% of the Company's net sales in 2013, 40.6% in 2012 and 40.7% in 2011. Net sales generated by international operations of the Thermal/Acoustical Metals segment accounted for 59.5%, 59.2% and 44.2% of segment net sales in 2013, 2012 and 2011, respectively.

## **Thermal/Acoustical Fibers Segment**

The Thermal/Acoustical Fibers segment offers a full line of innovative engineered products to assist in noise and heat abatement within the transportation sector. Lydall products are found in the interior (dash insulators), underbody (wheel well, fuel tank, exhaust) and under hood (engine compartment) of cars, trucks, SUVs, heavy duty trucks and recreational vehicles.

Thermal/Acoustical Fibers segment products offer thermal and acoustical insulating solutions comprised of organic and inorganic fiber composites for the automotive and truck markets primarily in North America. Lydall's dBCore® is a lightweight acoustical composite that emphasizes absorption principles over heavy-mass type systems. Lydall's dBlyte® is a high-performance acoustical barrier with sound absorption and blocking properties and can be used throughout a vehicle's interior to minimize intrusive noise from an engine compartment and road. Lydall's ZeroClearance® is an innovative thermal solution that utilizes an adhesive backing for attachment and is ideal for protecting floor sheet metal from excessive exhaust heat. Lydall's specially engineered wheel wells provide a solution with weight reduction and superior noise suppression capabilities over conventional designs.

Thermal/Acoustical Fibers segment net sales represented 28.7% of the Company's net sales in 2013, 24.9% in 2012 and 21.3% in 2011. There are no net sales generated by international operations, as the Thermal/Acoustical Fibers segment only produces domestically.

The Thermal/Acoustical Metals segment and Thermal/Acoustical Fibers segment operating results include allocations of certain costs shared between the segments.

## **Other Products and Services ( OPS )**

The Life Sciences Vital Fluids business offers specialty products for blood filtration devices, blood transfusion single-use containers and the design and manufacture of single-use solutions for cell growth, frozen storage and fluid handling, as well as equipment for bioprocessing applications.

OPS net sales were 4.3% of the Company's net sales in 2013 compared with 4.4% in 2012 and 3.8% in 2011.

For further detail regarding financial information about the Company's reporting segments, see Note 10 to the Consolidated Financial Statements.

## **GENERAL BUSINESS INFORMATION**

Lydall holds a number of patents, trademarks and licenses. While no single patent, trademark or license is critical to the success of Lydall, together these intangible assets are of considerable value to the Company.

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The Company's business is generally not seasonal; however, results of operations are impacted by shutdowns at its domestic operations and European operations as a result of customer shutdowns in North America and Europe that typically occur in the third and fourth quarters of each year. Lydall maintains levels of inventory and grants credit terms that are normal within the industries it serves. The Company uses a wide range of raw materials in the manufacturing of its products, including aluminum and other metals to manufacture most of its automotive heat shields and various fibers in its Performance Materials and Thermal/Acoustical Fibers segments. The majority of raw materials used are generally available from a variety of suppliers.

Sales to Ford Motor Company accounted for 20.0%, 18.8% and 16.2% of Lydall's net sales in the years ended December 31, 2013, 2012 and 2011, respectively. Sales to Chrysler Group LLC accounted for 10.9% and 10.0% of Lydall's net sales in the years ended December 31, 2013 and 2012. No other customers accounted for more than 10% of Lydall's net sales in such years.

The Company invested \$7.6 million in 2013, \$7.7 million in 2012, and \$8.1 million in 2011 or approximately 2% in 2013, 2012 and 2011 of net sales, in research and development to develop new products and to improve existing products. All amounts were expensed as incurred. Most of the investment in research and development is application specific. There were no significant customer-sponsored research and development activities during the past three years.

Backlog at January 31, 2014 was \$57.8 million. Lydall's backlog was \$53.4 million at December 31, 2013, \$48.8 million at December 31, 2012, and \$48.3 million at December 31, 2011. Thermal/Acoustical Metals and Thermal/Acoustical Fibers segment backlog, which comprises the majority of total backlog, may be impacted by various assumptions, including future automotive production volume estimates, changes in program launch timing and changes in customer development plans. The Company believes that global automotive orders for a two month period represent a reasonable timeframe to be deemed as firm orders and included as Thermal/Acoustical Metals and Thermal/Acoustical Fibers segment backlog. There are minimal seasonal aspects to Lydall's backlog.

No material portion of Lydall's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of any governmental body.

Lydall believes that its plants and equipment are in substantial compliance with applicable federal, state and local provisions that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment.

As of December 31, 2013, Lydall employed approximately 1,600 people. Three unions with contracts expiring on September 30, 2016 represent approximately 60 employees in the United States. All employees at the facilities in France and the Netherlands are covered under a National Collective Bargaining Agreement. Certain salaried and all hourly employees in Germany are also covered under a National Collective Bargaining Agreement. Lydall considers its employee relationships to be satisfactory and did not have any actual or threatened work stoppages due to union-related activities in 2013.

There are no significant anticipated operating risks related to foreign investment law, expropriation, or availability of material, labor or energy. The foreign and domestic operations limit foreign currency exchange transaction risk by completing transactions in functional currencies whenever practical or through the use of foreign currency forward exchange contracts when deemed appropriate.



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Item 1A.

RISK FACTORS

The reader should carefully review and consider the risk factors discussed below. Any and all of these risk factors could materially affect the Company's business, financial condition, future results of operations or cash flows and possibly lead to a decline in Lydall's stock price. The risks, uncertainties and other factors described below constitute all material risk factors known to management as of the date of this report.

*Uncertainty in the global economy has negatively impacted, and may continue to negatively impact, Lydall's business* Uncertainty in the global economy has affected, and could continue to adversely affect, demand for the Company's products and impact profitability. Among other factors, disruptions in the global credit and financial markets, including diminished liquidity and credit availability, swings in consumer confidence and spending, unstable economic growth and fluctuations in unemployment rates have caused economic instability that has had, and could continue to have, a negative impact on the Company's results of operations, financial condition and liquidity. These factors also make it difficult to accurately forecast and plan future business activities.

The Company's foreign and export sales were 45.2% of net sales in 2013, 46.7% in 2012, and 49.9% in 2011. If the global economy were to take a significant downturn, depending on the length, duration and severity of such downturn, the Company's business and financial statements could be adversely affected.

*The Company's Thermal/Acoustical Metals and Thermal/Acoustical Fibers segments are tied to general economic and automotive industry conditions* The Company's Thermal/Acoustical Metals and Thermal/Acoustical Fibers segments, suppliers in the automotive market, accounted for 68.5%, 65.5%, and 62.0% of consolidated net sales in 2013, 2012, and 2011, respectively. The segments net sales from products manufactured in North America were 65.4%, 63.1%, and 55.7% in 2013, 2012, and 2011, respectively, with the remainder manufactured in Europe. These segments are tied to general economic and automotive industry conditions as demand for vehicles depends largely on the strength of the economy, employment levels, consumer confidence levels, the availability and cost of credit and the cost of fuel. These factors have had, and could continue to have, a substantial impact on these segments. Adverse developments could reduce demand for new vehicles, causing Lydall's customers to reduce their vehicle production in North America and Europe and, as a result, demand for Company products would be adversely affected.

*The Company's quarterly operating results may fluctuate; as a result, the Company may fail to meet or exceed the expectations of research analysts or investors, which could cause Lydall's stock price to decline* The Company's quarterly results are subject to significant fluctuations. Operating results have fluctuated as a result of many factors, including size and timing of orders and shipments, loss of significant customers, product mix, technological change, operational efficiencies and inefficiencies, competition, changes in deferred tax asset valuation allowances, strategic initiatives, severance and recruiting charges, asset impairments and general economic conditions. In addition, lower revenues may cause asset utilization to decrease, resulting in the under absorption of the Company's fixed costs, which could negatively impact gross margins. Additionally, the Company's gross margins vary among its product groups and have fluctuated from quarter to quarter as a result of shifts in product mix. Any and all of these factors could affect the Company's business, financial condition, future results of operations or cash flows and possibly lead to a decline in Lydall's stock price.

*The Industrial Filtration acquisition exposes the Company to a number of risks and uncertainties, the occurrence of any of which could materially adversely affect the Company's business, cash flows, financial condition and results of operations as well as the market price of Lydall's common stock* The Company entered into a Sale and Purchase Agreement on February 20, 2014 relating to the acquisition of the Industrial Filtration businesses and funded the purchase price for the acquisition from cash on hand and borrowings under the amended credit facility. The acquisition exposes the Company to a number of risks and uncertainties, including the subsequent integration of the acquired businesses with the Company, the financial performance of the Industrial Filtration acquisition, risks



associated with incurring additional indebtedness and the risks associated with international expansion.

Additionally, Company management has spent, and will continue to spend, a significant amount of its time and efforts directed toward the Industrial Filtration businesses, which time and efforts otherwise would have been spent on existing businesses and other opportunities that could have been beneficial to Lydall. In addition, the Company may not realize the anticipated benefits of the acquisition of the Industrial Filtration businesses. The Company's ability to realize such benefits will depend on its ability to successfully and efficiently integrate the Industrial Filtration business, which involves products, markets, and geographies that are new to the Company. Difficulties of integration include coordinating and consolidating separate systems and facilities, integrating the management of the acquired business, integrating

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legal and financial controls in multiple jurisdictions, retaining market acceptance of products, maintaining employee morale, retaining key employees, and implementing Lydall's management information systems and operational procedures and disciplines. Any such difficulties may make it more difficult to maintain relationships with employees, customers, business partners and suppliers. Also, even if integration is successful, the financial performance of the acquired business may not be as expected and there can be no assurance that the Company will realize anticipated revenue and earnings enhancements from the acquisition.

*The Company's inability to implement effective internal controls, procedures and policies for the acquired Industrial Filtration businesses as required by Sarbanes-Oxley Act of 2002 within the time periods prescribed thereby* The Company plans to fully evaluate the internal control of the Industrial Filtration businesses and any subsequently acquired companies, and then implement a standard framework established by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in internal control integrated framework (1992) of internal controls at those acquired businesses. The Company cannot provide assurance that it will be able to provide a report that contains no material weaknesses with respect to the Industrial Filtration businesses or any other acquisition.

*Implementation of the Company's strategic initiatives may not be successful* As part of Lydall's business strategy, the Company continues to review various strategic and business opportunities to grow the business and to assess the profitability and growth potential for each of its existing businesses. The Company may incur significant professional services expenses associated with the review and potential implementation of strategic business opportunities. The Company cannot predict with certainty whether any recent or future strategic transactions will be beneficial to the Company. Among other things, future performance could be impacted by the Company's ability to:

Identify and effectively complete strategic transactions;

Obtain adequate financing to fund strategic initiatives, which could be difficult to obtain;

Successfully integrate and manage acquired businesses that involve numerous operational and financial risks, including difficulties in the integration of acquired operations, diversion of management's attention from other business concerns, managing assets in multiple geographic regions and potential loss of key employees and key customers of acquired operations; and

Improve operating margins through its Lean Six Sigma initiatives which are intended to improve processes and work flow, improve customer service, reduce costs and leverage synergies across the Company.

*The Company incurred a substantial amount of additional indebtedness which could have an adverse effect on the Company's financial health and make it more difficult for Lydall to obtain additional financing in the future* The Company financed the Industrial Filtration acquisition with available cash and \$60.0 million in borrowings under the Amended Credit Facility executed on February 18, 2014. Incurring additional debt to fund the acquisition purchase price may have an adverse effect on the Company's financial condition and may limit Lydall's ability to obtain any necessary financing in the future for working capital, capital expenditures, future acquisitions, debt service requirements or other purposes. Additionally, the Company may not be able to generate sufficient cash flow or otherwise obtain funds necessary to meet the additional debt obligations. Any default under the Amended Credit Facility would likely result in the acceleration of the repayment obligations to our lenders.

*The Company may not have adequate cash to fund its operating requirements* The principal source of the Company's liquidity is operating cash flows. Other significant factors that affect the overall management of liquidity include capital expenditures, investments in businesses, acquisitions, income tax payments, pension funding, share repurchases, outcomes of contingencies and availability of lines of credit and long-term financing. The Company's liquidity can be impacted by the Company's ability to:

Manage working capital and the level of future profitability. The consolidated cash balance is impacted by capital equipment and inventory investments that may be made in response to changing market conditions;

Satisfy covenants and other obligations under its amended credit facility, which could limit or prohibit Lydall's ability to borrow funds. Additionally, these debt covenants and other obligations could limit the Company's ability to make acquisitions, incur additional debt, make investments, or consummate asset sales and obtain additional financing from other sources.

*The Company is subject to the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws, which impose restrictions on the Company and may carry substantial fines and penalties and result in criminal sanctions* The U.S. Foreign Corrupt Practices Act and

