

LYDALL INC /DE/
Form DEF 14A
March 16, 2012

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

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)**

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, For Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Lydall, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

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NOTICE OF ANNUAL MEETING

To: The Owners of Lydall, Inc. Common Stock

You are cordially invited to attend the Annual Meeting of Stockholders.

Location: Hilton Hartford, Connecticut Salon B, 315 Trumbull Street, Hartford, CT 06103
Date: Friday, April 27, 2012
Time: 9:00 a.m.

The Annual Meeting of Stockholders will be held for the purposes of:

1. Electing the eight nominees named in the proxy statement to serve as Directors until the next Annual Meeting of Stockholders to be held in 2013 and until their successors are elected and qualified;
2. Approving the Lydall 2012 Stock Incentive Plan;
3. Holding an advisory vote on executive compensation;
4. Ratifying the appointment of PricewaterhouseCoopers LLP as independent auditors for fiscal year 2012; and
5. Transacting any other business that may properly come before the Annual Meeting.

All stockholders are invited to attend the Annual Meeting. However, whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the Annual Meeting. Therefore, we urge you to vote promptly and submit your proxy by telephone, via the Internet, or by signing, dating and returning the enclosed proxy card in the enclosed prepaid envelope. If you decide to attend the Annual Meeting, you have the right to vote in person even if you have previously submitted your proxy. If you hold your stock in street name, you should follow the voting instructions provided by your bank, broker or other nominee.

Sincerely,

Paul G. Igoe
Vice President, General Counsel and Corporate Secretary

Manchester, CT
March 23, 2012

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON APRIL 27, 2012.

This Proxy Statement, along with the Lydall, Inc. 2011 Annual Report and Form 10-K, are available free of charge on our website at:

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING

www.lydall.com and by clicking on [Investor Relations](#)

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LYDALL 2012 STOCK INCENTIVE PLAN

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PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement of Lydall, Inc. (Lydall or the Company or us or our), a Delaware corporation, is being mailed or otherwise furnished to stockholders on or about March 23, 2012 in connection with the solicitation by the Board of Directors (the Board) of Lydall of proxies to be voted at the 2012 Annual Meeting of Stockholders (the Annual Meeting). The Annual Meeting will be held on April 27, 2012, at 9:00 a.m. at the Hilton Hartford, Connecticut Salon B, 315 Trumbull Street, Hartford, CT 06103.

At the Annual Meeting, the stockholders will consider and vote upon the following proposals put forth by the Board:

1. To elect the eight nominees named in the proxy statement to serve as Directors until the next Annual Meeting of Stockholders to be held in 2013 and until their successors are elected and qualified;
2. To approve the Lydall 2012 Stock Incentive Plan;
3. To hold an advisory vote on executive compensation; and
4. To ratify the appointment of PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending December 31, 2012.

The Board recommends that you vote **FOR** the nominees for election to the Board named in the proxy, **FOR** the approval of the Lydall 2012 Stock Incentive Plan, **FOR** the advisory vote on executive compensation and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors.

The Board knows of no other matter to be presented at the Annual Meeting and the deadline for stockholders to submit proposals or nominations has passed. If any other matter should be presented at the Annual Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board will be voted in accordance with the judgment of those officers named as proxies and in accordance with the applicable rules and regulations of the Securities and Exchange Commission (the SEC).

YOUR VOTE IS IMPORTANT!

You are cordially invited to attend the Annual Meeting. However, to ensure that your shares are represented at the Annual Meeting, please submit your proxy or voting instructions as described in Options for Voting . Submitting a proxy or voting instructions will not prevent you from attending the Annual Meeting and voting in person, if you so desire, but will help the Company secure a quorum and reduce the expense of additional proxy solicitation.

Options for Voting

If you hold shares in your own name, you may vote as follows:

1. **Telephone.** To vote by telephone, please follow the instructions on the enclosed proxy card. If you vote by telephone, it is not necessary to mail your proxy card.
2. **Internet.** To vote on the Internet, please follow the instructions on the enclosed proxy card. If you vote by Internet, it is not necessary to mail your proxy card.

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3. **Mail.** To vote by mail, please complete, sign and mail the proxy card in the enclosed prepaid envelope.

4. **In Person.** If you wish to vote in person, written ballots will be available at the Annual Meeting.

We would appreciate your vote **as soon as possible** for use at the Annual Meeting or at any adjournments of the Annual Meeting. Properly executed proxies received by Lydall's Corporate Secretary before the Annual Meeting will be voted as directed unless revoked. A proxy may be revoked at any time before it is exercised by: (a) notifying Lydall's Corporate Secretary in writing; (b) delivering a proxy with a later date; or (c) attending the Annual Meeting and voting in person.

Unless you indicate otherwise, shares represented by proxies properly voted by telephone, over the Internet or signed and returned to the Company will be voted **FOR** the nominees for election to the Board named in the proxy, **FOR** the approval of the Lydall 2012 Stock Incentive Plan, **FOR** the advisory vote on executive compensation and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors.

If you hold your shares in street name (i.e., in a brokerage account), you should follow the voting instructions provided by your bank, broker or other nominee, including any instructions provided regarding your ability to vote by telephone or through the Internet. Please note that, if you hold your shares in street name, in order to vote in person at the Annual Meeting, you must request a proxy from your broker.

Voting Mechanics

A majority in interest of the outstanding shares represented at the Annual Meeting in person or by proxy shall constitute a quorum for the transaction of business. Votes withheld from any nominee, abstentions and broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum for the Annual Meeting.

Under New York Stock Exchange (NYSE) rules, your broker may vote shares held in street name on certain routine matters. NYSE rules consider the ratification of the appointment of the Company's independent auditors (Proposal 4) to be a routine matter. As a result, your broker is permitted to vote your shares on this matter at its discretion without instruction from you. When a proposal is not a routine matter, such as the election of Directors (Proposal 1), the approval of the Lydall 2012 Stock Incentive Plan (Proposal 2), and the advisory vote on executive compensation, also known as a Say-on-Pay proposal (Proposal 3), and you have not provided voting instructions to your broker with respect to one of these proposals, your broker cannot vote the shares on that proposal. The missing votes for these non-routine matters are called broker non-votes.

With respect to Proposal 1, the election of Directors, a stockholder may cast a vote for all nominees, withhold authority to vote for all nominees or withhold authority to vote for any individual nominee. Under the Company's Bylaws, Directors are elected by a plurality of the votes cast by stockholders entitled to vote at the Annual Meeting. Neither votes that are withheld nor broker non-votes will affect the outcome of the election of directors. However, as discussed below in Majority Voting Policy for Election of Directors, Company policy requires an incumbent Director to tender his or her resignation if the Director does not receive a majority of the votes cast in an uncontested election.

With respect to Proposals 2, 3 and 4, a stockholder may cast a vote for or against the proposal or abstain from voting.

With respect to Proposal 2, the approval of the Lydall 2012 Stock Incentive Plan, under NYSE rules, approval requires that (1) a majority of Lydall's Common Stock, par value \$.10 per share (Common Stock), issued, outstanding and entitled to vote at the Annual Meeting must actually vote on the matter (with abstentions counting as votes and broker non-votes not counting as votes) and (2) votes in favor must constitute at least a majority of the votes cast (with abstentions counting as votes cast and broker non-votes not counting as votes cast). Accordingly, abstentions will have the same effect as a vote against Proposal 2, and the failure to give your broker instructions for how to vote could, depending on the number of votes cast, result in Proposal 2 not being adopted.

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With respect to Proposal 3, the Say-on-Pay proposal, and Proposal 4, the ratification of the appointment of the Company's independent auditors, under the Company's Bylaws, the affirmative vote of a majority of the shares present or represented at the Annual Meeting and entitled to vote and voting on the matter will constitute the stockholders approval. Under the Company's Bylaws, abstentions and broker non-votes are not considered to have been voted on such matters and have the practical effect of reducing the number of affirmative votes required to achieve a majority for such matters by reducing the total number of shares from which the majority is calculated. The Say-on-Pay proposal is an advisory vote and the result will not be binding on the Board or the Company.

Majority Voting Policy for Election of Directors

Our Board has adopted a majority voting policy with respect to the election of Directors, which is set forth in the Corporate Governance Guidelines of the Company. The majority voting policy applies only to uncontested elections for Directors (i.e., elections in which the number of nominees does not exceed the number of Directors to be elected) and requires an incumbent Director nominee to tender his or her resignation if he or she does not receive the favorable vote of at least a majority of the votes cast at any meeting for the election of Directors at which a quorum is present. Under the Company's majority voting policy, a majority of votes cast means that the number of shares voted for a Director's election exceeds 50% of the number of the votes cast with respect to that Director's election. Votes cast include votes to withhold authority and exclude abstentions and broker non-votes with respect to that Director's election.

The Corporate Governance Committee will make a recommendation to the Board as to whether to accept or reject the tendered resignation, or whether other action should be taken. The Board will act on the tendered resignation, taking into account the Corporate Governance Committee's recommendation, and publicly disclose (by press release, a filing with the SEC or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. The Corporate Governance Committee, in making its recommendation, and the Board, in making its decision, may each consider any factors or other information that they consider appropriate and relevant and may act in their sole and absolute discretion. The Director who has tendered his or her resignation in accordance with this policy may not participate in the consideration of such tendered resignation by either the Corporate Governance Committee or the Board.

If an incumbent Director's resignation is not accepted by the Board, such Director will continue to serve until the next Annual Meeting and until his or her successor is duly elected and qualified, or his or her earlier resignation or removal. If a Director's resignation is accepted by the Board, then the Board, in its sole discretion, may fill the resulting vacancy or otherwise take action pursuant to the applicable provisions of the Company's Bylaws and the Company's Restated Certificate of Incorporation, in effect at such time.

Cost of Solicitation

All costs of solicitation of proxies will be borne by the Company. Other costs anticipated are those ordinarily incurred in connection with the preparation and mailing of proxy materials. In addition to solicitations of proxies by mail, the Company's Directors, officers and other employees, without additional remuneration, may solicit proxies by telephone and in person.

Eligibility to Vote

Only holders of record of Lydall's Common Stock at the close of business on March 1, 2012 (the Record Date) are entitled to vote at this Annual Meeting and any adjournment thereof. As of the Record Date, there were 17,130,528 shares of Common Stock issued and outstanding, the holders of which are entitled to one vote per share.

Obtaining Copies

Our Annual Report on Form 10-K containing financial statements for the fiscal year ended December 31, 2011 (2011 Annual Report), has been mailed to the stockholders with this proxy statement. This proxy statement, the 2011 Annual Report, a letter to the stockholders and the accompanying proxy card were first mailed to stockholders on or about March 23, 2012. Additionally, copies of the Company's 2011 Annual Report may be printed from www.lydall.com or will be provided without charge, upon request. Requests may be directed to the Company at Lydall, Inc., P.O. Box 151, Manchester, CT 06045-0151, Attention: Vice President, General Counsel and Corporate Secretary.

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PROPOSAL 1 ELECTION OF DIRECTORS

The current term of office of all of the Company's Directors expires at the 2012 Annual Meeting and when their successors are duly elected and qualified. The Corporate Governance Committee of the Board has nominated Dale G. Barnhart, Kathleen Burdett, W. Leslie Duffy, Matthew T. Farrell, Marc T. Giles, William D. Gurley, Suzanne Hammett, and S. Carl Soderstrom, Jr. for election as Directors of the Company until the 2013 Annual Meeting and until their successors are duly elected and qualified. Each nominee is currently serving as a Director of the Company, and each nominee has consented to serve if re-elected. If any nominee becomes unavailable to serve as a Director before the Annual Meeting, the Corporate Governance Committee may designate a substitute nominee. In that case, the persons named as proxies will vote for the substitute nominee designated by the Corporate Governance Committee.

The Corporate Governance Committee has determined that all nominees (other than Dale G. Barnhart, the Company's President and Chief Executive Officer) are independent within the meaning of the NYSE rules. There are no family relationships between any Director, nominee for Director or executive officer of the Company. The Corporate Governance Guidelines of the Company specify that at least a majority of the members of the Board, as well as all of the members of the Audit Review Committee, the Compensation Committee and the Corporate Governance Committee, shall be independent within the meaning of the NYSE rules.

Under the Restated Certificate of Incorporation of the Company, the Board is empowered to establish the number of Directorships between three and fifteen. The Board has currently fixed the number of Directorships at eight.

Unless otherwise instructed, it is the intention of the persons named in the accompanying proxy card to vote for the Director nominees designated by the Corporate Governance Committee. Proxies cannot be voted for a greater number of persons than the number of nominees named.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION OF ALL PERSONS NOMINATED BY THE CORPORATE GOVERNANCE COMMITTEE AS DIRECTORS OF THE COMPANY.

Biographical Information

Set forth below is biographical information pertaining to each nominee for election as a Director of the Company, including his or her principal occupation and business experience for at least the past five years and the names of other public companies for which each nominee serves as a Director or has served as a Director during the past five years. Please refer to "Qualifications of Nominees" below for a further discussion of the specific experience, qualifications, attributes and skills of each nominee that led our Corporate Governance Committee to conclude that he or she should continue to serve as one of our Directors.

Dale G. Barnhart, 59, has served as a Director since October 2007 and as our President and Chief Executive Officer since August 2007. Mr. Barnhart was the Chief Executive Officer of Synventive Molding Solutions, a manufacturer of hot runner systems, machine nozzles, temperature controllers and sprue bushings for the injection molding industry, from 2005 to 2007. Prior to that, Mr. Barnhart was a consultant working with two private equity groups and was President of Invensys Climate Control, a provider of products and services to the heating, ventilating and air

conditioning and commercial refrigeration markets.

Kathleen Burdett, 56, has served as a Director since June 2003, as Chair of our Audit Review Committee since April 2004 and as a member of our Corporate Governance Committee since April 2008. Ms. Burdett served as Vice President and Chief Financial Officer of Dexter Corporation, or Dexter, a developer and manufacturer of nonwoven products primarily used in the food packaging, medical, and hygiene markets, specialty polymers primarily used in the aerospace and electronics markets and precise, reproducible biological, and biochemical products used for applications in the life sciences industry, from 1994 until Dexter's merger with Invitrogen Corporation, or Invitrogen, in 2000. From 2000 until her retirement in 2002, Ms. Burdett served as a consultant to Invitrogen. Prior to that, Ms. Burdett served as the Controller and Principal Accounting Officer of Dexter and as a member of the Board of Directors of Life Technologies, Inc., or Life Technologies, a majority owned subsidiary of Dexter, and as Chair of the Audit Committee and as a member of the Executive Committee and the Compensation Committee of Life Technologies.

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W. Leslie Duffy, Esq., 72, has served as a Director since May 1992, as Chair of our Board since August 2005 and as a member of our Corporate Governance Committee since May 2003. Mr. Duffy currently is Senior Counsel in the law firm of Cahill Gordon & Reindel LLP, or Cahill Gordon, and has been with Cahill Gordon since 1965.

Matthew T. Farrell, 55, has served as a Director since August 2003 and as a member of our Audit Review Committee since August 2003 and our Compensation Committee since August 2004. Mr. Farrell currently is the Executive Vice President Finance and Chief Financial Officer of Church & Dwight Co., Inc., which manufactures and markets a wide range of products under the ARM & HAMMER® brand name. He has held that position since 2006. Prior to that, Mr. Farrell served as Executive Vice President and Chief Financial Officer of Alpharma, Inc., a specialty pharmaceutical company. In addition, Mr. Farrell previously served as Director, Corporate Audit, and Chief Financial Officer of the Specialty Chemicals business for AlliedSignal and as Vice President, Investor Relations and Communications, and a member of the enterprise leadership team at Ingersoll-Rand PLC. Mr. Farrell began his career with KPMG Peat Marwick LLP, where he was an audit partner from 1989 until 1994.

Marc T. Giles, 56, has served as a Director since April 2008 and as a member of each of our Compensation Committee and our Corporate Governance Committee since April 2008. Mr. Giles is an Executive Board Member of Gerber Scientific, Inc., or Gerber Scientific, a manufacturer that provides software, computerized manufacturing systems, supplies and services to a wide variety of industries. He was the President and Chief Executive Officer of Gerber Scientific from 2001 until February 2012. Mr. Giles continues to provide transitional executive services to Gerber Scientific, which was acquired by a private equity firm in August 2011. Mr. Giles previously served as Senior Vice President and President of Gerber Technology, Inc., or Gerber Technology, a subsidiary of Gerber Scientific. Prior to joining Gerber Technology, Mr. Giles served in several senior positions in business unit management, strategy development, mergers and acquisitions and sales and marketing management with FMC Corp., a manufacturer of machinery and chemicals.

William D. Gurley, 63, has served as a Director since April 2006 and as Chair of our Compensation Committee since April 2008 and as a member of our Corporate Governance Committee since April 2006. From 2005 to 2011, Mr. Gurley served as a member of the New England Advisory Council of the Federal Reserve Bank of Boston. From 1995 until his retirement in 2006, Mr. Gurley served as President and Chief Executive Officer of Stanadyne Corporation, or Stanadyne, an engine components and fuel systems manufacturer for industries including automotive and filtration. Prior to that, Mr. Gurley held various senior executive positions at Stanadyne, including Executive Vice President of Marketing, Engineering and Operations. Mr. Gurley served as a Director on Stanadyne's Board of Directors from 1989 to 2006. Prior to joining Stanadyne, Mr. Gurley worked in the Automotive Products Division of Garrett Corporation and the Packard Electric Division of General Motors Corporation.

Suzanne Hammett, 56, has served as a Director since January 2000 and as a member of the Audit Review Committee since May 2003 and the Compensation Committee since April 2004. Ms. Hammett currently is the Executive Vice President and Chief Risk Officer for Capital One, N.A., a diversified bank that offers financial products and services to consumers, small businesses and commercial clients. She has held that position since 2007. Prior to joining Capital One, N.A., Ms. Hammett served as the Executive Vice President, Chief Risk Officer for the Radian Group Inc., a credit enhancement company, from 2005 to 2007. Ms. Hammett began her career with J.P. Morgan Chase & Co., where she was an Executive Vice President and held numerous senior positions, including Head of Credit Risk Policy.

S. Carl Soderstrom, Jr., 58, has served as a Director since June 2003 and as Chair of the Corporate Governance Committee since August 2004 and as a member of the Audit Review Committee since June 2003. Mr. Soderstrom currently is a member of the Board of Directors of FreightCar America, Inc., or FreightCar America, and serves as Chair of the Audit Committee and as a member of their Nominating and Corporate Governance Committee and

Strategy and Growth Committee. In addition, Mr. Soderstrom currently is a member of the Board of Directors of Westar Energy, Inc., or Westar Energy, and serves as a member of their Nominating and Governance Committee and Finance Committee. From 1986 until his retirement in 2004, Mr. Soderstrom held various senior positions at ArvinMeritor, Inc., or ArvinMeritor, a global supplier of a broad range of integrated systems, modules and components serving light vehicle, commercial truck, trailer and specialty original equipment manufacturers and certain aftermarkets, including Senior Vice President and Chief Financial Officer. Prior to joining ArvinMeritor, Mr. Soderstrom held positions with General Electric Company and the ALCO Controls Division of Emerson Electric Co.

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Nomination Process

The Corporate Governance Committee is charged with the responsibility of identifying individuals who are qualified to be Directors, consistent with criteria approved by the Board, and selecting the Director nominees for each Annual Meeting. In fulfilling its responsibility, the Corporate Governance Committee evaluates the skills and expertise needed by the Board and the skills and expertise that are possessed by current Board members. The Corporate Governance Committee seeks persons of the highest ethical standing and proven integrity, and with demonstrated ability and sound judgment, to serve as members of the Board.

When considering candidates for Director, the Corporate Governance Committee takes into account a number of factors, including the following criteria approved by the Board: (i) whether the candidate is independent under the NYSE rules, the rules and regulations under the Securities Exchange Act of 1934, as amended (Exchange Act), and the independence standards adopted by the Board; (ii) whether the candidate has skills and expertise needed by the Board; (iii) whether the candidate has demonstrated ability and judgment; (iv) whether the candidate has prior experience as a corporate Director; (v) whether the candidate has prior public company experience; (vi) whether the candidate has prior experience in manufacturing companies; and (vii) the extent to which the candidate has other time commitments and obligations that might interfere with his or her duties and responsibilities as a Director. All members of the Audit Review Committee must meet the additional standards for independence applicable to members of an audit committee under Section 10A(m) of the Exchange Act and the NYSE rules and must satisfy the financial literacy requirements of the NYSE rules. At least one member of the Audit Review Committee must be an audit committee financial expert, as defined under rules promulgated by the SEC. Not all Directors need to fulfill all criteria; rather, the Corporate Governance Committee seeks candidates whose skills balance or complement the skills of other Board members. No Director may sit on more than four boards of publicly-traded companies in addition to the board of the company by which he or she is employed.

The Corporate Governance Committee has not adopted a written policy with regard to the consideration of diversity when evaluating candidates for Director. However, in practice, the Committee considers diversity of viewpoint, professional experience, education and skill in assessing candidates for the Board to ensure breadth of experience, knowledge and abilities within the Board. The Committee does not assign specific weights to particular criteria that the Committee reviews and no particular criterion is a prerequisite for the consideration of any prospective nominee.

When seeking candidates for Director, the Corporate Governance Committee may solicit suggestions from incumbent Directors, management or others. In some cases, the Corporate Governance Committee has employed a search firm to identify appropriate candidates and perform screening interviews and reference checks for candidates who are then interviewed by the Corporate Governance Committee and presented to the Board if appropriate.

Unless otherwise requested by the Corporate Governance Committee, a Director shall offer not to stand for reelection at any Annual Meeting that follows his or her seventieth birthday. In addition, a Director shall tender his or her resignation following any change in the Director's employment status or principal position, or any other significant change in their personal circumstances. The Board may ask the Director not to resign, or may defer acceptance of the resignation. Mr. Duffy celebrated his seventy-second birthday on December 31, 2011, and, in accordance with the applicable provisions of the Company's Corporate Governance Guidelines, he offered not to stand for re-election at the 2012 Annual Meeting. After considering Mr. Duffy's many contributions to the Board and his specialized experience in an area of critical importance to the Company, the Corporate Governance Committee recommended to the full Board that Mr. Duffy be asked to continue to serve as a Director and Mr. Duffy agreed. The Board approved the recommendation of the Corporate Governance Committee.

Qualifications of Nominees

The Corporate Governance Committee believes the Company is well-served by its current Directors, and all such persons are willing to continue to serve as Directors. Accordingly, the Corporate Governance Committee has nominated all incumbent Directors for re-election at the Annual Meeting.

In connection with its consideration of Director nominations for the Annual Meeting, the Corporate Governance Committee considered the factors described above under **Nomination Process**. The Corporate Governance Committee has determined that each of the nominees for re-election, other than Mr. Barnhart, is **independent** as defined by the NYSE rules and that each of the nominees for re-election,

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including Mr. Barnhart, are free from the influence of any particular stockholder or group of stockholders whose interests may diverge from the interests of the Company's stockholders as a whole. In addition, the Corporate Governance Committee has determined that each member of our Audit Review Committee is financially literate within the meaning of the NYSE rules and is an audit committee financial expert as defined under rules promulgated by the SEC. Each nominee also brings a unique background and set of skills to our Board, giving the Board as a whole competence and experience in a wide variety of areas, including executive management, manufacturing, marketing, finance, legal, private equity, corporate governance and other board service. Set forth below is each nominee's specific experience, qualifications, attributes and skills that led the Corporate Governance Committee to conclude that he or she should serve as one of our Directors.

Mr. Barnhart is the President and Chief Executive Officer of the Company. As such, he brings an in-depth understanding of the Company's business, including its employees, products and markets, to our Board. In addition, Mr. Barnhart's provides valuable insight through his prior executive management experience with other manufacturing businesses that are comparable to Lydall, including setting an overall strategic direction for company growth and implementing plans to effectively execute growth strategies including in international markets. Mr. Barnhart is also experienced in Lean Six Sigma, the business management strategy utilized by the Company to improve efficiency, reduce costs and meet customer expectations.

Ms. Burdett is the former Vice President and Chief Financial Officer of a publicly held manufacturing company that developed and manufactured products for the life sciences industry and manufactured and sold non-woven fiber products. Our Charter Medical business markets and sells products in the life sciences industry and our Performance Materials business manufactures and sells non-woven fiber products. In addition to her relevant industry experience, Ms. Burdett has prior experience serving as a Director of another publicly held company where she chaired its Audit Committee and served as a member of its Executive and Compensation Committees.

Mr. Duffy is Senior Counsel to an international law firm, where he specializes in transactional and corporate governance matters. He has approximately forty-seven years of experience advising numerous business entities operating in a variety of industry sectors, including oil and gas, pharmaceuticals, healthcare, automotives, professional services, industrial manufacturing, telecommunications, consumer products, and food services, and on a variety of situations. He also is knowledgeable about the Company and its operations, having served on our Board since 1992.

Mr. Farrell is the Executive Vice President and Chief Financial Officer of a publicly held manufacturing business that markets a wide range of personal care, household and specialty products. He has prior experience serving as an audit partner of KPMG Peat Marwick LLP and as a member of the executive management team of another publicly held company that manufactured and sold products in the life sciences industry. In addition to his relevant industry experience and knowledge, Mr. Farrell has relevant professional expertise from senior management positions he has held in investor relations and communications as well as his current role as Chief Financial Officer of a public company.

Mr. Giles is an Executive Board Member and the former President and Chief Executive Officer of a manufacturing business that is comparable in size to the Company and provides software, computerized manufacturing systems, supplies and services to a wide variety of industries. Until August 2011, this manufacturing business was publically traded on the NYSE. In addition, Mr. Giles has prior experience in general management and strategy development, mergers and acquisitions, sales and marketing, and business development.

Mr. Gurley is the former President and Chief Executive Officer of a manufacturer of engine components and fuel systems. He is knowledgeable about the automotive industry in which the Company operates, having prior work

experience for the executive management teams of other businesses serving the industry. He also is knowledgeable about marketing, engineering, operations and strategic planning of highly engineered products in both publicly owned and privately held companies in the United States, Europe, Asia and South America.

Ms. Hammett is the Executive Vice President and Chief Risk Officer of one of the largest banking institutions in the United States, and she has prior experience working for a number of other financial institutions and investment banks. She is knowledgeable about commercial finance, business analysis and credit risk management, all of which are important to the Company's business.

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Mr. Soderstrom is the former Senior Vice President and Chief Financial Officer of a tier one global supplier to the automotive industry. He has also held senior management positions in engineering, quality management and procurement. He currently is a Director of two other publicly held corporations, serving FreightCar America as the Chair of its Audit Committee and as a member of its Strategic Growth and Nominating and Corporate Governance Committees and Westar Energy as a member of its Nominating and Governance Committee and its Finance Committee.

Nominations by Stockholders

The Corporate Governance Committee will consider written proposals from stockholders for nominees for Director, provided such proposals meet the requirements set forth in the Company's Bylaws. All such proposals will be evaluated in accordance with the criteria described above. The Corporate Governance Committee also will consider and evaluate the additional information required to be submitted by the stockholder submitting the proposal. For a description of the procedures a stockholder must follow to nominate a person for election to the Board, please see Stockholder Proposals and Director Nominations below.

PROPOSAL 2 APPROVAL OF LYDALL 2012 STOCK INCENTIVE PLAN

The Board has adopted, subject to stockholder approval, the Lydall, Inc. 2012 Stock Incentive Plan (the 2012 Stock Plan).

The 2012 Stock Plan is intended to replace the Amended and Restated Lydall 2003 Stock Incentive Compensation Plan (the 2003 Stock Plan), which expires by its terms on October 24, 2012. As of March 1, 2012, awards with respect to 1,237,913 shares of Common Stock were outstanding under the Company's existing stock plans and an additional 443,248 shares were reserved for future grants of awards under the 2003 Stock Plan. After adoption of the 2012 Stock Plan, no additional awards will be granted under the 2003 Stock Plan, but then outstanding awards will remain in effect.

The Board believes that the future success of the Company depends, in large part, upon the ability of the Company to maintain a competitive position in attracting, retaining and motivating key personnel. Accordingly, the Board believes adoption of the 2012 Stock Plan is in the best interests of the Company and its stockholders.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL OF THE 2012 STOCK PLAN AND THE RESERVATION OF SHARES OF COMMON STOCK FOR ISSUANCE THEREUNDER.

Description of the 2012 Stock Plan

The following is a brief summary of the 2012 Stock Plan, a copy of which is attached as Appendix A to this Proxy Statement. For purposes of this summary, as appropriate in the relevant context, Company may refer to one or more of Lydall, any of Lydall's present or future parent or subsidiary corporations, or any other business venture in which

Lydall has a controlling interest, as indicated in the 2012 Stock Plan.

Number of Shares Available for Awards

Up to 1,750,000 shares of Common Stock may be issued pursuant to awards granted under the 2012 Stock Plan. In addition, up to 1,237,913 shares of Common Stock subject to outstanding awards granted under the Lydall, Inc. 1992 Stock Incentive Plan and the 2003 Stock Plan that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company at its original issuance price pursuant to a contractual repurchase right may be issued pursuant to awards granted under the 2012 Stock Plan. The number of shares available for awards under the 2012 Stock Plan is subject to adjustment in the event of stock splits and other similar events.

If any award under the 2012 Stock Plan expires, terminates or is otherwise surrendered, cancelled, forfeited or repurchased by the Company at its original issuance price pursuant to a contractual repurchase right, the unused shares of Common Stock covered by such award will again be available for grant under the 2012 Stock Plan, subject, however, in the case of incentive stock options, to any limitations under the Internal Revenue Code of 1986, as amended (the Code). Shares of Common Stock delivered to the Company by a participant to purchase shares of Common Stock upon exercise of an award or to satisfy tax withholding obligations (including shares retained from the

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award creating the tax obligation) will not be added back to the number of shares available for grant under the 2012 Stock Plan. Shares of Common Stock repurchased by the Company on the open market using the proceeds from the exercise of an award will not increase the number of shares available for grant under the 2012 Stock Plan.

Fungible Share Pool

The 2012 Stock Plan provides a fungible share pool for counting Awards (as defined below) against the authorized number of shares available for Awards under the 2012 Stock Plan and the 15% limit on Awards to non-employee directors. Restricted Stock, Restricted Stock Units and Other Stock-Based Awards granted with a per share purchase price of less than 100% of the fair market value of the Common Stock on the date of grant will be counted as 1.32 shares for each one share of Common Stock subject to the Award. Other Awards granted under the 2012 Stock Plan will be counted as one share for each share of Common Stock subject to the Award. If a share that was subject to an Award that counts as 1.32 shares is returned to the 2012 Stock Plan, the authorized number of shares available for Awards under the 2012 Stock Plan and the 15% limit on Awards to non-employee directors will each be credited with 1.32 shares. If a share that was subject to an Award that counts as one share is returned to the 2012 Stock Plan, the authorized number of shares available for Awards under the 2012 Stock Plan and the 15% limit on Awards to non-employee directors will each be credited with one share.

Types of Awards

The 2012 Stock Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Code, nonqualified stock options, restricted stock, restricted stock units and other stock-based awards as described below (collectively, Awards).

Incentive Stock Options and Nonqualified Stock Options. Optionees receive the right to purchase a specified number of shares of Common Stock at a specified exercise price and subject to such other terms and conditions as are specified in connection with the option grant. Options may not be granted at an exercise price which is less than the fair market value of the Common Stock on the date of grant (or, if the Board approves the grant of an option with an effective date that is a specified future date, the fair market value of the Common Stock on such future effective date). Options may not be granted for a term in excess of ten years. The 2012 Stock Plan permits the following forms of payment of the exercise price of options: (i) payment by cash, check or in connection with a cashless exercise through a broker, (ii) subject to certain conditions, delivery to the Company of shares of Common Stock, (iii) subject to certain conditions, delivery to the Company of a notice of net exercise , (iv) other lawful consideration as determined by the Board, or (v) any combination of these forms of payment.

Restricted Stock. An Award of Restricted Stock entitles the recipient to acquire or receive shares of Common Stock, subject to the right of the Company to repurchase all or part of such shares at their issue price or other stated or formula price (or to require forfeiture of such shares if issued at no cost) from the recipient in the event that the conditions specified in the applicable Award are not satisfied. Dividends paid by the Company with respect to shares of Common Stock underlying an Award of Restricted Stock will only be paid to the recipient if and when the shares underlying the Award become free from the restrictions on transferability and forfeitability provisions that apply to such shares.

Restricted Stock Units. Restricted Stock Unit Awards entitle the recipient to receive shares of Common Stock to be issued at the time the Award vests (or at a later date) as set forth in the Award agreement. Restricted Stock Unit Awards may, but are not required to, provide the recipient with the right to receive an amount equal to any dividends or other distributions declared and paid on an equal number of outstanding shares of Common Stock (Dividend

Equivalents), which amount will be subject to the same restrictions on transfer and forfeitability provisions as the underlying Restricted Stock Unit Award. Dividend Equivalents may be paid currently or credited to an account, may be settled in cash and/or shares of Common Stock, and may be subject to additional terms and conditions specified in the Award agreement. No interest will be paid on Dividend Equivalents.

Other Stock-Based Awards. Under the 2012 Stock Plan, the Board may grant other Awards (Other Stock-Based Awards) that are valued by reference to or based on shares of Common Stock. Other Stock-Based Awards will have such terms and conditions as the Board may determine and will be paid in shares of Common Stock. Other Stock-Based Awards may be used as a form of payment in the settlement of other Awards granted under the 2012 Stock Plan or as payment in lieu of other compensation to which a recipient is otherwise entitled.

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Section 162(m) Awards. The Compensation Committee (or another committee or subcommittee of the Board if not all members of the Compensation Committee are outside directors as defined under Section 162(m)) may determine, at the time of grant, that an Award of Restricted Stock or Restricted Stock Units or an Other Stock-Based Award granted to an officer will vest solely upon the achievement of specified performance criteria designed to qualify for deduction under Section 162(m) of the Code. The performance criteria for each such Award will be based on one or more of the following objective performance measures: net income, operating income, earnings per share, operating cash flow, earnings before or after discontinued operations, interest, taxes, depreciation and/or amortization, operating profit before or after discontinued operations and/or taxes, increases in operating margins, reductions in operating expenses, sales, sales growth, earnings on sales growth, earnings growth, cash flow or cash position, gross margins, stock price, market share, return on sales, return on assets, return on equity, return on investment, return on invested capital, economic value added, improvement of financial ratings, cost reductions and savings, increase in surplus, productivity improvements, achievement of balance sheet or income statement objectives, customer satisfaction, total stockholder return, gross profit, revenue growth, inventory management, working capital, quality, safety, business development, growth and profitability, manufacturing objectives, market share, negotiating transactions, developing long-term business goals, completion of strategic acquisitions/dispositions, receipt of regulatory approvals, or cash position. These performance measures may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated and may reflect performance on a per-share basis or a relative comparison to the performance of a peer group. These goals may reflect consolidated Company performance, business unit performance or performance of one or more operating units, divisions, subsidiaries, acquired businesses, minority investments, partnerships or joint ventures. To the extent permitted by Section 162(m), such performance goals may be adjusted to exclude any one or more of (i) extraordinary items, (ii) gains or losses on the dispositions of discontinued operations, (iii) the cumulative effects of changes in accounting principles, (iv) the write-down of any asset, (v) fluctuation in foreign currency exchange rates, and (vi) charges for restructuring and rationalization programs. Such performance goals (i) may vary by participant and may be different for different Awards, (ii) may be particular to a participant or the department, branch, line of business, subsidiary or other unit in which the participant works and may cover such period as may be specified by the Compensation Committee, and (iii) will be set by the Compensation Committee within the time period prescribed by, and will otherwise comply with the requirements of, Section 162(m). The Compensation Committee may adjust downwards, but not upwards, the number of shares payable pursuant to a Section 162(m) Award and may not waive the achievement of the applicable performance measures except in the case of the death or disability of the participant or a change in control of the Company.

Minimum Vesting Requirements

Awards are subject to minimum vesting requirements under the 2012 Stock Plan, subject to certain exceptions. Options that vest solely based on the passage of time may not vest prior to the first anniversary of the date of grant (or, in the case of options granted to non-employee directors, the date of the first annual meeting held after the date of grant, if earlier), unless the option is granted in lieu of salary, bonus or other compensation otherwise earned by or payable to the participant (or, in the case of options granted to non-employee directors, cash director fees otherwise earned by or payable to the non-employee director). Restricted Stock, Restricted Stock Units and Other Stock-Based Awards that vest solely based on the passage of time may not vest in less than pro rata installments over three years from the date of grant (or, in the case of Awards to non-employee directors, through the third annual meeting held after the date of grant, if earlier). Restricted Stock, Restricted Stock Units and Other Stock-Based Awards that do not vest solely based on the passage of time may not vest prior to the first anniversary of the date of grant (or, in the case of Awards granted to non-employee directors, the first annual meeting held after the date of grant, if earlier).

The Board may accelerate the minimum vesting of an Award in the event of the death or disability of the participant, termination of the participant's employment with the Company under specified circumstances, and certain corporate

events, including a change in control. The minimum vesting requirements do not apply to Restricted Stock, Restricted Stock Units and Other Stock-Based Awards granted, in the aggregate, for up to 10% of the authorized number of shares available for grant under the 2012 Stock Plan or to Awards granted to non-employee directors in lieu of cash director fees otherwise earned by or payable to the non-employee director.

Transferability of Awards

Except as the Board may otherwise permit with respect to certain gratuitous transfers in accordance with limitations specified in the 2012 Stock Plan, Awards may not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted,

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either voluntarily or by operation of law, except by will or the laws of descent and distribution or, other than in the case of an incentive stock option or an Award subject to Section 409A of the Code, pursuant to a qualified domestic relations order. During the life of the participant, Awards are exercisable only by the participant.

Eligibility to Receive Awards

Employees, officers, directors, consultants and advisors of Lydall, its parent and subsidiary corporations and other business ventures in which Lydall has a controlling interest are eligible to be granted Awards under the 2012 Stock Plan. However, in accordance with present law, incentive stock options may only be granted to employees of the Company.

The 2012 Stock Plan contains annual per-participant limits for Awards. The maximum number of shares with respect to which options may be granted to any participant under the 2012 Stock Plan is 500,000 shares per calendar year. The maximum number of shares with respect to which Section 162(m) awards may be granted to any participant under the 2012 Stock Plan is 500,000 shares per calendar year. The maximum number of shares with respect to which any other Awards may be granted to any participant under the 2012 Stock Plan is 500,000 shares per calendar year. The maximum number of shares with respect to which Awards may be granted to directors who are not employees of the Company at the time of grant is 15% of the maximum number of shares authorized for Awards under the 2012 Stock Plan.

Plan Benefits

As of March 1, 2012, approximately 1,470 persons would have been eligible to receive Awards under the 2012 Stock Plan, including the Company's five executive officers and seven non-employee directors. The granting of Awards under the 2012 Stock Plan is discretionary, and the Company cannot now determine the number or type of Awards to be granted in the future to any particular person or group.

On March 1, 2012, the last reported sale price of the Common Stock on the NYSE was \$9.17.

Burn Rate

Burn rate is generally calculated as (a) all stock options and non-performance share awards granted in a fiscal year plus (b) actual performance shares earned in a fiscal year, divided by (c) the number of basic weighted-average common shares outstanding at the end of that fiscal year. As shown in the following table, the Company's three-year average annual burn rate for 2009 through 2011 is 1.98%, which is below the Institutional Shareholder Services (ISS) burn rate threshold of 2.93% applied to our industry. For purposes of this calculation, in accordance with ISS's methodology, full value awards (i.e. service-based restricted stock awards, performance-based restricted stock awards, and stock retainer awards to non-employee Directors) were multiplied by a factor of 1.5.

The following table sets forth information regarding awards granted and earned, the burn rate for each of the last three fiscal years and the average burn rate over the last three years.

	FY 2009	FY 2010	FY 2011	3-Year Average
Stock options granted	173,000	201,000	177,500	183,833
Service-based restricted stock granted	10,000	0	0	3,333

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Stock retainer awards granted to non-employee Directors	61,250		32,158		23,821		39,076	
Actual performance-based restricted stock and performance shares earned	0		0		166,020		55,340	
Basic weighted average common shares outstanding at fiscal year end	16,567,000		16,672,000		16,753,000		16,664,000	
Burn Rate	1.69	%	1.49	%	2.76	%	1.98	%

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Administration

The 2012 Stock Plan is administered by the Board. The Board has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2012 Stock Plan and to construe and interpret the provisions of the 2012 Stock Plan and any Award agreements entered into under the Plan. Pursuant to the terms of the 2012 Stock Plan, the Board may delegate authority under the 2012 Stock Plan to one or more committees or subcommittees of the Board. The Board has authorized the Compensation Committee to administer certain aspects of the 2012 Stock Plan, including the granting of options to executive officers. For purposes of this summary, where appropriate in the relevant context, the term Board may include the Compensation Committee or any other committee to whom the Board delegates authority, as indicated in the 2012 Stock Plan.

Subject to any applicable limitations contained in the 2012 Stock Plan, the Board selects the recipients of Awards and determines (i) the number of shares of Common Stock covered by options and the dates upon which such options become exercisable, (ii) the exercise price of options (which may not be less than 100% of the fair market value of the Common Stock), (iii) the duration of options (which may not exceed 10 years), and (iv) the number of shares of Common Stock subject to any Award of Restricted Stock or Restricted Stock Units or any Other Stock-Based Awards and the terms and conditions of such Awards, including conditions for vesting, repurchase, and issue price, if any.

The Board will determine the effect on an Award of the disability, death, termination or other cessation of employment, authorized leave of absence or other change in the employment or other status of a participant and the extent to which, and the period during which, the participant (or the participant's representative) may exercise rights or receive benefits under an Award.

Subject to the terms of the 2012 Stock Plan (including those described above under the heading Minimum Vesting Requirements), the Board may at any time provide that any Award will become immediately exercisable in full or in part, free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

The Board has full authority to grant Awards that are subject to the Company's compensation recoupment or clawback policies and procedures. This generally includes the authority to provide in Awards that:

if the Board determines in good faith that a participant has engaged in fraudulent conduct relating to the Company, then such participant's outstanding Awards will be forfeited and, with respect to the year in which such fraudulent conduct occurred, the participant will be required to reimburse the Company for the economic value that was realized by such participant that was based on or resulted from such fraudulent conduct; and any Award shall be subject to recoupment as required by the applicable provisions of any law (including the clawback provisions added by the Dodd-Frank Act), government regulation or stock exchange listing requirement (and any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

Changes in Capitalization, Reorganization Events and Change in Control Events

The Company is required to make appropriate adjustments in connection with the 2012 Stock Plan and any outstanding Awards, as determined by the Board, to reflect stock splits, stock dividends, recapitalizations, combinations of shares, reclassifications of shares, spin-offs and other similar changes in capitalization or any dividends or distributions to holders of Common Stock other than an ordinary cash dividend.

The 2012 Stock Plan also contains provisions addressing the consequences of a Reorganization Event, which is defined, in summary, as (i) any merger or consolidation as a result of which the Common Stock is converted into or

exchanged for the right to receive cash, securities or other property, or is cancelled, (ii) any transfer or disposition of all or substantially all of the outstanding Common Stock for cash, securities or other property pursuant to a share exchange or other transaction, (iii) any dissolution or complete liquidation of the Company, or (iv) a Change in Control Event (as defined below). In connection with a Reorganization Event, the Board will take one or more of the following actions as to outstanding Awards (other than Restricted Stock), subject in the case of Restricted Stock Unit Awards to Section 409A of the Code: (i) provide that Awards shall be continued by the Company (if the Company is a surviving company), (ii) provide that Awards will be assumed, or substantially equivalent Awards will be substituted, by the acquiring or succeeding corporation (or an

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affiliate thereof), (iii) provide that unvested Awards will terminate immediately prior to the consummation of such Reorganization Event, (iv) upon written notice, provide that all unexercised options will terminate immediately prior to the consummation of such Reorganization Event following an opportunity for the participant to exercise such unexercised options (including if expressly approved by the Board, those not otherwise exercisable or vested) within a specified period following the date of such notice, (v) provide that outstanding Awards will become exercisable, realizable or issuable, or restrictions applicable to an Award will lapse prior to or upon such Reorganization Event, (vi) in the event of a Reorganization Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share surrendered in the Reorganization Event (the Acquisition Price), make or provide for a cash payment to an Award holder equal to (A) the number of shares of Common Stock subject to the Award multiplied by (B) the excess, if any, of the Acquisition Price over the exercise or purchase price of such Award, less any applicable tax withholdings, in exchange for the termination of such Awards, (vii) provide that, in connection with a dissolution or complete liquidation of the Company, Awards will convert into the right to receive liquidation proceeds (if applicable, net of the exercise or purchase price thereof and any applicable tax withholdings) or (viii) any combination of the foregoing.

In connection with a Reorganization Event other than a dissolution or complete liquidation of the Company, the repurchase and other rights of the Company with respect to outstanding Awards of Restricted Stock will inure to the benefit of the Company (if the Company is a surviving company) or the Company's successor and, unless the Board determines otherwise, will apply to the cash, securities or other property which shares of Common Stock were converted into or exchanged for in connection with the Reorganization Event in the same manner and to the same extent as they applied to the Restricted Stock. The Board has discretion to provide for termination or deemed satisfaction of such repurchase or other rights in the Award agreement or any other agreement between the participant and the Company, either initially or by amendment. In connection with a dissolution or complete liquidation of the Company, except to the extent otherwise provided in the Award agreement or other agreement between the participant and the Company, all restrictions and conditions on all Awards of Restricted Stock then outstanding will automatically be deemed terminated or satisfied. The Board may provide that unvested Awards of Restricted Stock will be forfeited or repurchased, as applicable, immediately prior to the consummation of a Reorganization Event.

The 2012 Stock Plan also contains provisions addressing the effect on Awards of a Change in Control Event, which is defined, in summary, as any of the following events: (i) a report on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report) shall be filed with the SEC pursuant to the Exchange Act and that report discloses that any person or persons acting together which would constitute a group (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act), other than the Company or any employee benefit plan sponsored by the Company, is the beneficial owner (as that term is defined in Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act), directly or indirectly, of 50% or more of the outstanding voting stock of the Company; (ii) any person or persons acting together which would constitute a group, other than the Company or any employee benefit plan sponsored by the Company, shall purchase securities pursuant to a tender offer or exchange offer to acquire any voting stock of the Company (or any securities convertible into voting stock of the Company) and, immediately after consummation of that purchase, that person is the beneficial owner, directly or indirectly, of 50% or more of the outstanding voting stock of the Company; (iii) the consummation of: (A) a merger, consolidation or reorganization of the Company with or into any other person if, as a result of such merger, consolidation or reorganization, 50% or less of the combined voting power of the then outstanding securities of such other person immediately after such merger, consolidation or reorganization is held in the aggregate by the holders of voting stock of the Company immediately prior to such merger, consolidation or reorganization, (B) any sale, lease, exchange or other transfer of all or substantially all of the assets of the Company to any other person if, as a result of such sale, lease, exchange or other transfer, 50% or less of the combined voting power of the then outstanding securities of such other person immediately after such sale, lease, exchange or transfer is held in the aggregate by the holders of voting

stock of the Company immediately prior to such sale, lease, exchange or other transfer, or (C) a transaction immediately after the consummation of which any person would be the beneficial owner, directly or indirectly, of more than 50% of the outstanding voting stock of the Company; (iv) the dissolution or complete liquidation of the Company; or (v) during any period of twelve consecutive months, the individuals who at the beginning of that period constituted the Board shall cease for any reason to constitute a majority of the Board, unless the election, or the nomination for election by the Company's stockholders, of each director of the Company first elected during such period was approved by a vote of at least a majority of the directors of the Company then still in office who were directors of the Company at the beginning of such period.

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In connection with a Change in Control Event, except as otherwise provided in an Award agreement or any other agreement between the participant and the Company, if on or prior to the 18-month anniversary of the Change in Control Event, the participant's employment with the Company or the acquiring or succeeding corporation is terminated for "good reason" by the participant or without cause by the Company or the acquiring or succeeding corporation, each option held by the participant will be immediately exercisable in full and each Award of Restricted Stock or Restricted Stock Units held by the participant will immediately become free of all conditions or restrictions. Under the 2012 Stock Plan, "good reason" means, in summary, without the participant's consent: (i) a significant reduction in the scope of the participant's authority, functions, duties or responsibilities from and after the Change in Control Event (except a change in scope solely as a result of the Company no longer being public or becoming a subsidiary of another corporation); (ii) any material reduction in the participant's base compensation from and after the Change in Control Event, other than an across-the-board reduction affecting substantially all employees of the Company on substantially the same proportional basis; or (iii) the relocation of the participant's office location to a location more than 50 miles away from the participant's then current principal place of employment prior to the Change in Control Event, unless, with respect to participants not assigned to the Company's corporate headquarters, such relocation is within 50 miles of the Company's corporate headquarters. Under the 2012 Stock Plan, "cause" means, in summary: (i) an act or acts of dishonesty or fraud by a participant relating to the performance of his or her services to the Company; (ii) a breach by a participant of his or her duties or responsibilities resulting in significant demonstrable injury to the Company; (iii) a participant's conviction of a felony or any crime involving moral turpitude; (iv) a participant's material failure (other than death or disability) to perform his or her duties or insubordination where the participant has been given written notice of the acts or omissions constituting such failure or insubordination and the participant has failed to cure such conduct within ten days following such notice; or (v) a breach by a participant of any material policy of the Company, as applicable, or of any obligations under a confidentiality, non-competition and/or invention ownership agreement executed by the participant with the Company.

The Board may determine in an Award agreement at the time of grant or otherwise the effect of a Change in Control Event on an Other Stock-Based Award.

Authorization of Sub-Plans (Including for Grants to Non-U.S. Employees)

The Board may from time to time establish one or more sub-plans under the 2012 Stock Plan to satisfy applicable securities, tax or other laws of various jurisdictions. The Board will establish any such sub-plans by adopting supplements to the 2012 Stock Plan containing any limitations on the Board's discretion under the 2012 Stock Plan and any additional terms and conditions not inconsistent with the 2012 Stock Plan as the Board deems necessary or desirable. Any supplement adopted by the Board will be deemed to be part of the 2012 Stock Plan but will only apply to participants within the affected jurisdiction.

Amendment or Termination

No Award may be made under the 2012 Stock Plan after ten years after the date it is approved by Lydall's stockholders, but Awards previously granted may extend beyond that date. The Board may at any time amend, suspend or terminate the 2012 Stock Plan; however, no amendment requiring stockholder approval under applicable legal, regulatory or listing requirements will become effective until such stockholder approval is obtained. No Award will be made that is conditioned upon stockholder approval of any amendment to the Plan unless the Award provides that (i) it will terminate or be forfeited if stockholder approval of such amendment is not obtained within no more than 12 months from the date of grant and (ii) it may not be exercised or settled (or otherwise result in the issuance of Common Stock) prior to such stockholder approval.

Subject to any applicable limitations contained in the 2012 Stock Plan (including minimum vesting and stockholder approval requirements), the Board may amend, modify or terminate any outstanding Award. A participant's consent to such amendment will be required unless the Board determines that the amendment does not materially and adversely affect the participant's rights under the 2012 Stock Plan or that the change is permitted under the 2012 Stock Plan in connection with a change in capitalization, Reorganization Event, or Change in Control Event.

Unless approved by the Company's stockholders or permitted under the 2012 Stock Plan in connection with a change in capitalization, Reorganization Event, or Change in Control Event, the Company may not (i) amend any outstanding option (or similar type of Award) granted under the 2012 Stock Plan to provide an exercise price per share that is lower than the then-current exercise price per share of such

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outstanding Award, (ii) cancel any outstanding option to purchase shares of Common Stock (whether or not granted under the 2012 Stock Plan) and grant in substitution new Awards covering the same or a different number of shares of Common Stock and having an exercise or purchase price per share lower than the then-current exercise price per share of the cancelled option, (iii) cancel in exchange for a cash payment any outstanding option (or similar type of Award) with an exercise price per share above the then-current fair market value of the Common Stock, or (iv) take any other action under the 2012 Stock Plan that constitutes a repricing within the meaning of the rules of the NYSE.

If stockholders do not approve the adoption of the 2012 Stock Plan, the 2012 Stock Plan will not go into effect, and the Company will not grant any Awards under the 2012 Stock Plan. In such event, the Board will consider whether to adopt alternative arrangements based on its assessment of the needs of the Company.

Federal Income Tax Consequences

The following is a summary of the United States federal income tax consequences that generally will arise with respect to Awards granted under the 2012 Stock Plan. This summary is based on the federal tax laws in effect as of the date of this Proxy Statement. In addition, this summary assumes that all Awards are exempt from, or comply with, the rules under Section 409A of the Code regarding nonqualified deferred compensation. Changes to these laws could alter the tax consequences described below.