

LYDALL INC /DE/
Form DEF 14A
March 19, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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Lydall, Inc.

(Name of Registrant as Specified In Its Charter)

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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: Cheney Hall,
177 Hartford Road,
Manchester, CT 06040

Date: April 24, 2009

Time: 9:00 a.m.

Directions: Can be found at www.lydall.com

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

1. Electing eight Directors to serve until the next Annual Meeting of Stockholders to be held in 2010;
2. Amending and Restating the Lydall 2003 Stock Incentive Compensation Plan to increase the maximum number of shares of Common Stock available for issuance under the Plan and to re-approve the performance measures set forth in the Plan for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended;
3. Ratifying the appointment of PricewaterhouseCoopers LLP as independent auditors for fiscal year 2009; and
4. Transacting any other business that may properly come before the meeting.

All stockholders are invited and encouraged to attend the meeting. However, whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the meeting. Therefore, I 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.

YOUR VOTE IS IMPORTANT.

Sincerely,

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Mary A. Tremblay

Vice President, General Counsel and Corporate Secretary

Manchester, CT

March 19, 2009

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 24, 2009.

This Proxy Statement, along with the Lydall, Inc. 2008 Annual Report and Form 10-K,

are available free of charge on the following website:

<http://investor.shareholder.com/lydall/investorkit.cfm>

Proxy Statement

GENERAL

This Proxy Statement of Lydall, Inc. (Lydall or the Company), a Delaware corporation, is being mailed or otherwise furnished to stockholders on or about March 19, 2009 in connection with the solicitation by the Board of Directors of Lydall of proxies to be voted at the Annual Meeting of Stockholders. The Annual Meeting will be held on April 24, 2009 at 9:00 a.m. at Cheney Hall, 177 Hartford Road, Manchester, CT.

Enclosed with this Proxy Statement is a proxy card on which the Board of Directors requests that you vote in favor of:

the election of all nominees for Directors of the Company to serve until the next Annual Meeting of Stockholders in 2010;
and

Amending and Restating the Lydall 2003 Stock Incentive Compensation Plan (the Plan) to increase the maximum number of shares of Common Stock available for issuance under the Plan and to re-approve the performance measures set forth in the Plan for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended; and

the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors for fiscal year 2009.

Options for Voting

- 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.
- 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 meeting. However, if your shares are held in street name (i.e., in a brokerage account), you must request a proxy from your broker in order to vote at the 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 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 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 the Board of Directors named in the proxy, **FOR the amendment and restatement of the 2003 Stock Incentive Compensation Plan**, and **FOR the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors.**

Quorum

Under the applicable provisions of the Company's Bylaws, the presence, either in person or by proxy, of the holders of a majority of the shares entitled to vote is necessary to constitute a quorum for the transaction of business at the Annual Meeting.

Vote Required

The election of Directors requires the affirmative vote of a plurality of the votes cast by the holders of shares who are present in person or represented by proxy at the Annual Meeting and are entitled to vote on the matter. In accordance with the Corporate Governance Guidelines, if a nominee for Director who is an incumbent Director does not receive the vote of at least the majority of the votes cast at any meeting for the election of Directors at which a quorum is present and no successor has been elected at such meeting, the Director shall tender his or her resignation. The Corporate Governance Committee will make a recommendation to the Board of Directors as to whether to accept or reject the tendered resignation, or whether other action should be taken. The Board of Directors 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 Securities and Exchange Commission (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 of Directors in making its decision, may each consider any factors or other information that it considers appropriate and relevant. The Director who tenders his or her resignation will not participate in the recommendation of the Corporate Governance Committee or the decision of the Board of Directors with respect to his or her resignation. If such incumbent Director's resignation is not accepted by the Board of Directors, such Director will continue to serve until the next Annual Meeting and until his or her successor is duly elected, or his or her earlier resignation or removal.

If a Director's resignation is accepted by the Board of Directors, or if a nominee for Director is not elected and the nominee is not an incumbent Director, then the Board of Directors, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of Section 5.04 of the Company's Bylaws, or may decrease the size of the Board of Directors pursuant to the provisions of Section 5.02 of the Bylaws and Article 6(a) of the Company's Restated Certificate of Incorporation.

With respect to all other matters, including approval of the amendment and restatement of the Plan and ratification of the independent auditors, the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote shall be the act of the stockholders. If, however, the question is one upon which, by express provision of an applicable statute, the Restated Certificate of Incorporation or the Bylaws of the Company, a different vote is required, such express provision shall govern.

For purposes of determining the number of votes cast with respect to the election of Directors, only those votes cast FOR all nominees, WITHHOLD AUTHORITY FOR ALL NOMINEES or specifying that votes be withheld from one or more designated nominees, or providing the designated proxies with the right to vote in their discretion, are counted. Abstentions will be treated as shares present and entitled to vote for purposes of determining the presence of a quorum, but will not be considered as votes cast in determining whether a matter has been approved by stockholders. Abstentions, therefore, will not have any effect on the outcome of the voting for the election of Directors but will have the same effect as a negative vote for all other matters presented to stockholders at the Annual Meeting. If a broker, other holder of record or nominee indicates on a proxy that it does not have authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter. As a result, these so-called broker non-votes will not have any effect on the outcome of the voting at the Annual Meeting.

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 material. In addition to solicitations 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, par value \$.10 per share (Common Stock), at the close of business on February 27, 2009 (the Record Date) are entitled to vote at the meeting. On that date, there were 16,802,426 shares of Common Stock outstanding, the holders of which are entitled to one vote per share.

Other Matters

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The Board of Directors does not know of other matters which may come before the meeting. However, if other matters are properly presented at the meeting, it is the intention of the proxy committee to vote, or otherwise to act, in accordance with their judgment on such matters.

Obtaining Copies

Copies of the Company's Annual Report on Form 10-K for the fiscal year 2008 may be printed from www.lydall.com or will be provided without charge, upon request. Requests may be directed to the Company at its principal executive offices located at One Colonial Road, P.O. Box 151, Manchester, CT 06045-0151, Attention: Vice President, General Counsel and Corporate Secretary.

Stockholder Proposals and Nominations for Director for the 2010 Annual Meeting of Stockholders

Proposals of stockholders of the Company that are intended to be presented at the Annual Meeting to be held in 2010, and which stockholders desire to have included in the Company's proxy materials relating to such meeting, must be received by the Company no later than November 19, 2009, which is 120 calendar days prior to the first anniversary of the mailing date for this year's Proxy Statement, and must be in compliance with applicable laws and regulations in order to be considered for possible inclusion in the Proxy Statement for that meeting.

Under the Company's Bylaws, no business, including the nomination of persons for election to the Board of Directors of the Company, may be brought before an Annual Meeting of Stockholders, except as set forth in the Notice of the Meeting or as otherwise brought before the meeting by, or at the direction of, the Board of Directors or by a stockholder who has delivered a timely written notice to the Company containing certain specified information. The notice must contain certain specified information about each item of business that the stockholder proposes for consideration or with respect to each person whom the stockholder proposes to nominate for election or reelection as a Director, whichever the case may be. These requirements are separate and distinct from, and are in addition to, the SEC requirements (described above) that a stockholder must meet in order to have a stockholder proposal included in the Company's Proxy Statement. To be timely under the Company's Bylaws, a stockholder's notice for the 2010 Annual Meeting must be received by the Company on or before February 23, 2010, but no earlier than January 24, 2010 (the Bylaw Deadline), which is the period not less than 60 days, nor more than 90 days prior to the first anniversary of the 2009 Annual Meeting.

Any stockholder proposal or nomination which does not comply with the procedures set forth in the Bylaws (including the Bylaw Deadline) will be disregarded, and the stockholder will not be permitted to present the proposal at the Annual Meeting to be held in 2010. A copy of the Bylaw provisions discussed above was filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K dated March 12, 2004 and may be obtained by writing to the Company at its principal executive offices located at One Colonial Road, P.O. Box 151, Manchester, CT 06045-0151, Attention: Vice President, General Counsel and Corporate Secretary.

ELECTION OF LYDALL DIRECTORS

The Corporate Governance Committee of the Board of Directors has selected Mr. Dale G. Barnhart, Ms. Kathleen Burdett, Messrs. W. Leslie Duffy, Esq., Chairman, Matthew T. Farrell, Marc T. Giles, William D. Gurley, Ms. Suzanne Hammett, and Mr. S. Carl Soderstrom, Jr. as nominees for election as Directors of the Company for a term of one year, until the next Annual Meeting. Each nominee is currently serving as a Director.

The only nominee for Director who is a current employee of the Company is the President and Chief Executive Officer, Dale G. Barnhart. The Company intends to maintain its Board with a majority of independent Directors, as required by the applicable rules of the New York Stock Exchange (NYSE).

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

Additional nominations for Director may be made from the floor by stockholders who have complied fully with the advance notice procedures set forth in the Bylaws of the Company; see Stockholder Proposals and Nominations for Director for the 2010 Annual Meeting of Stockholders above. It is the intention of the proxy committee to vote only for the Director nominees listed in this Proxy Statement. Proxies cannot be voted for a greater number of persons than the number of nominees named.

The Board of Directors recommends that stockholders vote FOR the election of nominees referred to in this section.

COMMUNICATIONS WITH DIRECTORS

Stockholders of Lydall and other parties may contact the Chairman of the Board by email at: *chairman@lydall.com*, and if interested in communicating with the Board, or any Director, may write to them at the following address:

Lydall, Inc.

One Colonial Road

P.O. Box 151

Manchester, CT 06045-0151

Communications are distributed to the Board, or to any individual Directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the Board of Directors has requested that certain items which are unrelated to the duties and responsibilities of the Board should be excluded, such as product complaints, product inquiries, new product suggestions, resumes and other forms of job inquiries, surveys, and business solicitations or advertisements. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any non-management Director upon request.

BOARD OF DIRECTORS

Nominees for election at the April 24, 2009 Annual Meeting to serve for a term of one year or until the 2010 Annual Meeting:

Outside Director Nominees

Kathleen Burdett, 53, was the Vice President and Chief Financial Officer of the former Dexter Corporation until its merger with Invitrogen Corporation in 2000, after which she served as a consultant to Invitrogen through 2002. Ms. Burdett was a member of the Board of Directors of Life Technologies, Inc. from 1995 through 2000 where she chaired the Audit Committee and served as a member of the Executive and Compensation Committees. Ms. Burdett was appointed to the Lydall Board of Directors in June 2003. Ms. Burdett serves as Chair of the Audit Review Committee and is a member of the Corporate Governance Committee.

W. Leslie Duffy, Esq., 69, is the Chairman of the Board of Lydall and a partner in the law firm of Cahill Gordon & Reindel LLP. He has been with that law firm since 1965. He has been a Lydall Director since 1992. He currently serves as a member of the Corporate Governance Committee.

Matthew T. Farrell, 52, is the Executive Vice President Finance and Chief Financial Officer of Church & Dwight Co., Inc., which manufactures and markets a wide range of personal care, household and specialty products under the ARM & HAMMER® brand name and other well-known trademarks. He has held that position since September 2006. Mr. Farrell began his career with KPMG Peat Marwick LLP. He was named an audit partner in 1989. He joined AlliedSignal in 1994 as Director, Corporate Audit, and in 1996, he was appointed Chief Financial Officer of the Specialty Chemicals business. In 2000, Mr. Farrell joined Ingersoll-Rand as Vice President, Investor Relations and Communications and was a member of Ingersoll-Rand's enterprise leadership team. In 2002, he joined Alpharma, Inc., a specialty pharmaceutical company, as Executive Vice President and Chief Financial Officer. He was appointed to the Lydall Board of Directors in August 2003. Mr. Farrell serves as a member of the Audit Review and the Compensation Committees.

Marc T. Giles, 53, is the President and Chief Executive Officer of Gerber Scientific, Inc., a manufacturer that provides software, computerized manufacturing systems, supplies and services to a wide variety of industries. He has held that position since November 2001. He joined Gerber Scientific, Inc. as Senior Vice President and President of its subsidiary Gerber Technology, Inc. in November 2000. Prior to joining Gerber Scientific, he served in several senior positions in general management and strategy development, mergers and acquisitions and sales and marketing management over the course of 12 years with FMC Corp., a manufacturer of machinery and chemicals. Mr. Giles had been with Norton Co. serving in various sales, marketing and business development roles before joining FMC Corp. Mr. Giles joined the Lydall Board of Directors in 2008 and he serves as a member of the Compensation and Corporate Governance Committees.

William D. Gurley, 60, is the retired President and Chief Executive Officer of Stanadyne Corporation, an engine components and fuel systems manufacturer, a position he assumed in 1995. During his 21-year career with Stanadyne, he held numerous management positions within that Corporation including Executive Vice President of Marketing, Engineering and Operations. Mr. Gurley was elected as a Director of Stanadyne Corporation in 1989. Mr. Gurley retired from Stanadyne in 2006. Prior to joining Stanadyne, Mr. Gurley was with Garrett Corporation's Automotive Products Division (now owned by Honeywell) and the Packard Electric Division of General Motors Corporation (now a division of Delphi). He is also a member of the New England Advisory Council of the Federal Reserve Bank of Boston. Mr. Gurley was elected to the Lydall Board of Directors in April 2006. Mr. Gurley currently serves as Chair of the Compensation Committee and as a member of the Corporate Governance Committee.

Suzanne Hammett, 53, is the Executive Vice President and Chief Risk Officer for Capital One NA, a position she assumed in February 2007. Prior to joining Capital One, Ms. Hammett was the Executive Vice President, Chief Risk Officer for the Radian Group Inc., a credit enhancement company, a position she began in July 2005. She is also a former Executive Vice President of J.P. Morgan Chase & Co. During her 26-year career with J.P. Morgan Chase & Co., she held numerous positions within the investment bank including Head of Credit Risk Portfolio. She was Head of Credit Risk Policy for that firm until early 2004. Ms. Hammett became a Lydall Director in January, 2000. She serves as a member of the Audit Review and the Compensation Committees.

S. Carl Soderstrom, Jr., 55, is the former Senior Vice President and Chief Financial Officer of ArvinMeritor, Inc. He had been with that company from 1986 to 2004, and held several senior management positions in engineering, quality, and procurement. Prior to joining ArvinMeritor, Mr. Soderstrom was with General Electric Company and the ALCO Controls Division of Emerson Electric. He was appointed to the Lydall Board of Directors in June 2003. Mr. Soderstrom is the Chair of the Corporate Governance Committee and a member of the Audit Review Committee. He is also a member of the FreightCar America Board of Directors and serves as Chairman of its Audit Committee and as a member of its Nominating and Corporate Governance Committee.

Inside Director Nominees

Dale G. Barnhart, 56, is the President and Chief Executive Officer of Lydall, a position he assumed on August 27, 2007. Prior to joining Lydall's management, Mr. Barnhart was the Chief Executive Officer of Synventive Molding Solutions. Synventive is a provider of hot runner systems, machine nozzles, temperature controllers and sprue bushings for the injection molding industry. Previous to Synventive Molding Solutions, Mr. Barnhart spent some time as a consultant working with two private equity groups. From 2000 to 2003, he was President of Invensys Climate Control, a \$1.2 billion global business unit providing products and services to the heating, ventilating and air conditioning and commercial refrigeration markets. Mr. Barnhart became a Director in October, 2007.

FISCAL YEAR 2008 DIRECTOR COMPENSATION

Board compensation for Directors during fiscal year 2008 is summarized in the table below:

	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ⁽¹⁾⁽²⁾	Option Awards (\$) ⁽¹⁾⁽²⁾	Non-equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Kathleen Burdett	38,500	36,013	18,316				92,829
W. Leslie Duffy, Esq.	94,000	36,013	18,316				148,329
Matthew T. Farrell	35,000	36,013	18,316				89,329
Marc T. Giles	17,500	36,013	11,632				65,145
William D. Gurley	35,500	36,013	23,303				94,816
Suzanne Hammett	37,000	36,013	18,316				91,329
S. Carl Soderstrom, Jr.	41,500	36,013	18,316				95,829
Lee A. Asseo (retired)	13,500						13,500

(1) The dollar value represents the amount of compensation expense recorded for stock awards and stock option awards in accordance with FAS 123(R).

(2) The aggregate grant date fair value of fiscal 2008 awards computed in accordance with FAS 123(R) and aggregate number of stock awards and options at year-end are:

Director	Aggregate Grant Date Fair Value of Stock Awards (\$)	Aggregate Grant Date Fair Value of Option Awards (\$)	Aggregate Number of Option Awards
<i>Kathleen Burdett</i>	36,013	18,187	24,391
<i>W. Leslie Duffy, Esq.</i>	36,013	18,187	35,379
<i>Matthew T. Farrell</i>	36,013	18,187	24,391
<i>Marc T. Giles</i>	36,013	67,289	12,032
<i>William D. Gurley</i>	36,013	18,187	17,741
<i>Suzanne Hammett</i>	36,013	18,187	35,054
<i>S. Carl Soderstrom, Jr.</i>	36,013	18,187	24,391
<i>Lee A. Asseo (Retired)</i>			434

Meeting Fees

During 2008, all non-employee Directors (outside Directors) were paid \$1,500 for each meeting of the Board of Directors attended, as well as \$1,500 for any standing Committee meetings attended. Telephonic participation fees are \$1,000 per meeting.

Stock Options

Under the Plan, outside Directors first being elected to the Board receive an automatic grant of nonqualified stock options covering the lesser of (i) 9,000 shares of Common Stock or (ii) a number of shares of Common Stock having an aggregate fair market value on the date of grant equal to \$100,000. In addition, on each Annual Meeting date, there will be an automatic grant of nonqualified stock options to each outside Director covering the lesser of (i) 3,000 shares of Common Stock or (ii) a number of shares of Common Stock having an aggregate fair market value on the date of grant equal to \$33,333. Therefore, in accordance with the Plan, each outside Director elected at the last Annual Meeting received an automatic grant of nonqualified stock options covering 2,927 shares of Common Stock on April 25, 2008.

Retainers

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During 2008, each outside Director received a \$36,000 retainer paid in unrestricted shares of Common Stock rounded up to the nearest whole share, payable 50 percent on June 30 and 50 percent on December 31.

In 2008, Audit Review Committee members received an annual cash retainer of \$6,000 and the Chairperson received an additional \$6,000. This reflects the added responsibilities of this Committee in complying with the Sarbanes-Oxley Act of 2002 and NYSE rules. The Audit Review Committee retainers are paid 50 percent on June 30 and 50 percent on December 31 of each year. The Chairs of the Compensation and Corporate Governance Committees receive a cash retainer of \$5,000 paid 50 percent on June 30 and 50 percent on December 31 of each year. An annual cash retainer is paid to the Chairman of the Board in the amount of \$75,000, payable monthly in arrears.

Former Deferred Compensation Plan

From 1991 through 1996, the Company maintained a Deferred Compensation Plan (the Deferred Compensation Plan) for outside Directors and the Chairman of the Board. The Deferred Compensation Plan was discontinued in 1996, and no further benefits will accrue thereunder. All benefits are fully vested. All Directors who participated in the Deferred Compensation Plan except one have received a lump-sum cash payment upon the later of the date they ceased to serve as a Director or their attaining 62 years of age. For the remaining Director, W. Leslie Duffy, the total amount of the payment to be made as set forth above will be equal to \$30,000. Former Director, Paul S. Buddenhagen, was paid \$42,000 in 2008. Under the Plan, there is an automatic grant each year on the date of the Annual Meeting of a nonqualified stock option covering 325 shares of Common Stock to each outside Director of the Company in lieu of any further accruals under the Deferred Compensation Plan.

Inside Director

Mr. Barnhart, as the only Employee Director, does not receive any compensation for his Board activities. His compensation as an executive is disclosed in the Summary Compensation Table.

CORPORATE GOVERNANCE

Pursuant to the Delaware General Corporation Law and the Company's Bylaws, the Company's business, property and affairs are managed by or under the direction of the Board of Directors. Members of the Board are kept informed of the Company's business through discussions with the Chief Executive Officer and other officers, by reviewing materials provided to them, and by participating in meetings of the Board and its committees. Lydall currently has eight members of the Board and is nominating eight for election as Directors.

Committees

The Board has three standing committees to facilitate and assist the Board in executing its responsibilities. The Committees are the Audit Review Committee, the Compensation Committee and the Corporate Governance Committee. In accordance with NYSE listing standards, each Committee is comprised solely of non-employee, independent Directors. The Board has adopted a charter for each of the three standing committees and Corporate Governance Guidelines that address the makeup and functioning of the Board. The Board has also adopted a code of conduct that applies to all employees, officers and Directors. Links to these materials can be found on Lydall's website at www.lydall.com. All materials available at www.lydall.com are also available to stockholders in print without charge, upon written request to Lydall, Inc., One Colonial Road, P.O. Box 151, Manchester, CT 06045-0151, Attention: Vice President, General Counsel and Corporate Secretary.

The table below shows current membership and indicates the chairperson* for each of the standing Board committees:

Audit Review Committee	Compensation Committee	Corporate Governance Committee
Kathleen Burdett*	Matthew T. Farrell	Kathleen Burdett
Matthew T. Farrell	Marc T. Giles	W. Leslie Duffy
Suzanne Hammett	William D. Gurley*	Marc T. Giles
S. Carl Soderstrom, Jr.	Suzanne Hammett	William D. Gurley
		S. Carl Soderstrom, Jr.*

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The **Audit Review Committee** focuses its efforts on the following three areas: (i) the adequacy of the Company's internal controls (including compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002), the financial reporting process, and the integrity of the Company's financial statements and earnings releases; (ii) the performance of the Company's internal audit function and the qualifications, independence and performance of the Company's independent audit function; and (iii) the Company's compliance with legal and regulatory requirements.

The Audit Review Committee meets periodically with management to consider the adequacy of the Company's internal controls and its financial reporting process. It also discusses these matters with the Company's internal auditors, independent auditors, and appropriate Company financial personnel. The Audit Review Committee reviews the Company's financial statements and discusses them with management and the independent auditors before those financial statements are filed with the SEC.

The Audit Review Committee meets regularly in private session with the independent auditors, has the sole authority to retain and dismiss the independent auditors, and periodically reviews their performance and independence from management. The independent auditors have unrestricted access to, and report directly to, the Audit Review Committee.

Audit Committee Financial Expert. The Board has determined that each member of the Audit Review Committee is financially literate within the meaning of the NYSE listing standards, is an audit committee financial expert as that term is defined in Item 407(d)(5)(ii) of Regulation S-K, and is independent for purposes of NYSE listing standards and Section 10A(m)(3) of the Securities Exchange Act of 1934 (the Exchange Act).

The **Compensation Committee** oversees matters relating to the compensation of the President and Chief Executive Officer, executive officers of the Company and Directors. Its responsibilities include: (i) approving contracts with and compensation for executive officers; and (ii) approving the granting of time-based and performance-based restricted stock awards, stock options and stock awards to key employees pursuant to the Company's equity and compensation plans. These duties may be delegated to a subcommittee or the Chairman as appropriate. See Compensation Discussion and Analysis.

The **Corporate Governance Committee**, which also functions as a nominating committee: (i) considers stockholder-proposed nominees for Director (see Stockholder Proposals and Nominations and Nominations for Director for the 2010 Annual Meeting of Stockholders above); (ii) reviews the composition of the Board to determine qualifications and expertise needed; (iii) identifies and selects prospective nominees for Director; (iv) periodically reviews the Company's Corporate Governance Guidelines; (v) periodically reviews the performance of the Board and its members and makes recommendations to the Board concerning the number, function and composition of the Board's committees; and (vi) makes recommendations to the Board from time to time as to matters of corporate governance.

Independence Determination

The Board has made its annual determination, concluding that all of the non-employee Directors, including all of those who serve on the above-described committees, are independent for purposes of Section 303A of the Listed Company Manual of the NYSE, and that the members of the Audit Review Committee are also independent for purposes of Section 10A(m)(3) of the Exchange Act. The Board has adopted categorical independence standards which are set forth in the Company's Corporate Governance Guidelines (available on www.lydall.com). The Board has determined that each non-employee Director meets those categorical standards. The Board based these determinations primarily on a review of the responses of the Directors and executive officers to questions regarding employment and compensation history, affiliations, family and other relationships, together with an examination of those companies with whom the Company transacts business.

Related Party Transactions

The Board is committed to upholding the highest legal and ethical conduct in fulfilling its responsibilities and recognizes that related party transactions can present a heightened risk of potential or actual conflicts of interest. Accordingly, as a general matter, it is Lydall's preference to avoid related party transactions.

The Company has a policy in place for review and prior approval of all related party transactions by the Corporate Controller's Department. In addition, annually, the Corporate Secretary obtains responses of the Directors and executive officers to questions regarding the employment of family and other relationships. Lydall then compiles a list of those companies reported and compares it against the record of companies with whom the Company transacts business, noting the dollar volume of transactions with such companies, if any. The Company then provides a report to the members of the Audit Review Committee, who review the information in conjunction with SEC rules to determine if any transaction requires disclosure.

Based on its review, the Audit Review Committee has determined that the Company did not engage in any related party transactions requiring disclosure during fiscal year 2008.

Board Attendance

During fiscal year 2008, the Board held 12 meetings and acted by unanimous written consent on three occasions. The Audit Review Committee held seven meetings; the Compensation Committee held seven meetings and acted by unanimous written consent on three occasions, and the Corporate Governance Committee held six meetings. All of the Directors attended at least 75 percent of the total number of meetings of the Board of Directors and the Board committees of which he or she was a member during fiscal year 2008. It is the Board's practice to meet in executive session without members of management present at every Board meeting held in person. These sessions are presided over by the Chairman or Chairperson.

A Board meeting is scheduled in conjunction with the Company's Annual Meeting of Stockholders, and in accordance with the Corporate Governance Guidelines, all of the Director nominees are expected to attend the Annual Meeting of Stockholders. All nominees attended last year's Annual Meeting of Stockholders.

Board Nominations

The Board believes that it should be comprised of Directors with varied, complementary backgrounds, and that Directors should, at a minimum, have expertise that may be useful to the Company. Directors should also possess the highest ethical standing and proven integrity and should be willing and able to devote the required amount of time to the Company's business. 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 independence requirements, the rules and regulations under the 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 sound judgment; (iv) what the candidate's prior experience as a corporate Director with public and/or manufacturing companies is; (v) what the candidate's existing time commitments and obligations are; (vi) whether the number of boards of publicly-traded companies on which the candidate serves exceeds four in addition to the board of the company by which he or she is employed; (vii) what the candidate's relevant financial expertise is, if the candidate would serve on the Audit Review Committee; and (viii) the size and composition of the existing Board.

The Corporate Governance Committee will consider candidates for Director suggested by stockholders, applying the criteria for candidates described above and considering the additional information referred to below. Stockholders wishing to suggest a candidate for Director should write to Lydall's Corporate Secretary at the address set forth above and include:

a statement that the writer is a stockholder and is proposing a candidate for consideration;

the name and contact information of the candidate;

a statement of the candidate's business and educational experience;

information regarding each of the factors listed above, other than the factor regarding Board size and composition, sufficient to enable the Corporate Governance Committee to evaluate the candidate;

a statement detailing any relationship between the candidate and any customer, supplier or competitor of the Company;

detailed information about any relationship or understanding between the proposing stockholder and the candidate; and

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a statement that the candidate is willing to be considered and willing to serve as a Director if nominated and elected. Before nominating a current Director for reelection at an Annual Meeting, the Corporate Governance Committee considers the Director's performance on the Board and whether the Director's reelection would be consistent with the Company's Corporate Governance Guidelines.

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.

For further information on nominations, see [Stockholder Proposals and Nominations for Director for the 2010 Annual Meeting of Stockholders](#) above.

**SECURITIES OWNERSHIP OF DIRECTORS, CERTAIN
OFFICERS AND 5 PERCENT BENEFICIAL OWNERS**

The following table lists, to the Company's knowledge, the ownership of Common Stock and the nature of such ownership for: (a) each Director or nominee for Director, (b) each officer named in the Summary Compensation Table who is not reported under (a), (c) all current executive officers and Directors of Lydall as a group, and (d) each person who beneficially owns in excess of 5 percent of the outstanding shares of Common Stock. Unless otherwise noted, each holder has sole voting and dispositive power with respect to the shares listed. Except as otherwise indicated, all information is given as of February 2, 2009.

Name	Award and Nature of Beneficial Ownership			Total	Percent of Class ⁽²⁾
	Direct	Indirect	Exercisable ⁽¹⁾		
(a)					
Dale G. Barnhart	69,698		8,500	78,198	*
Kathleen Burdett	16,349		17,184	33,533	*
W. Leslie Duffy, Esq., Chairman	30,955		28,172	59,127	*
Matthew T. Farrell	19,227		17,184	36,411	*
Marc T. Giles	6,566			6,566	*
William D. Gurley	20,442		6,784	27,226	*
Suzanne Hammett	19,494		27,847	47,341	*
S. Carl Soderstrom, Jr.	16,349		17,184	33,533	*
(b)					
Thomas P. Smith	18,385	1,500	67,375	87,260	*
Peter V. Ferris	24,277		3,500	27,777	*
Kevin T. Longe	29,142		13,000	42,142	*
Mary A. Tremblay	25,703		31,750	57,453	*
Joseph K. Wilsted	15,205			15,205	*
(c)					