CALAMOS GLOBAL TOTAL RETURN FUND
Form N-CSR
December 28, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

INVESTMENT COMPANY ACT FILE NUMBER: 811-21547

EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER:	Calamos Global Total Return Fund
ADDRESS OF PRINCIPAL EXECUTIVE OFFICES:	2020 Calamos Court Naperville, Illinois 60563-2787
NAME AND ADDRESS OF AGENT FOR SERVICE:	John P. Calamos, Sr., Founder, Chairman and Global Chief Investment Officer Calamos Advisors LLC 2020 Calamos Court Naperville, Illinois 60563-2787

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (630) 245-7200

DATE OF FISCAL YEAR END: October 31, 2017

DATE OF REPORTING PERIOD: November 1, 2016 through October 31, 2017

Item 1. Report to Shareholders

TIMELY INFORMATION INSIDE
GLOBAL TOTAL RETURN FUND (CGO)
ANNUAL REPORT OCTOBER 31, 2017

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SIGN UP FOR E-DELIVERY
Visit www.calamos.com/FundInvestor/GoPaperless to enroll. You can view shareholder communications, including fund prospectuses, annual reports and other shareholder materials online long before the printed publications arrive by traditional mail.

Experience and Foresight

Our Managed Distribution Policy

Closed-end fund investors often seek a steady stream of income. Recognizing this important need, Calamos closed-end funds adhere to a managed distribution policy in which we aim to provide consistent monthly distributions through the disbursement of the following:

- Net investment income
- Net realized short-term capital gains
- Net realized long-term capital gains
- And, if necessary, return of capital

We set distributions at levels that we believe are sustainable for the long term. Our team focuses on delivering an attractive monthly distribution, while maintaining a long-term emphasis on risk management. The level of the funds' distributions can be greatly influenced by market conditions, including the interest rate environment, the individual performance of securities held by the funds, our view of retaining leverage, fund tax considerations, and regulatory requirements.

You should not draw any conclusions about the Fund's investment performance from the amount of this distribution or from the terms of the Fund's plan. The Fund's Board of Trustees may amend or terminate the managed distribution policy at any time without prior notice to the Fund's shareholders.

For more information about any Calamos closed-end funds, we encourage you to contact your financial advisor or Calamos Investments at 800.582.6959 (Monday through Friday from 8:00 a.m. to 6:00 p.m., Central Time). You can also visit us at www.calamos.com.

Note: The Fund will adopt the managed distribution policy on January 1, 2018.

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Letter to Shareholders

JOHN P. CALAMOS, SR.
Founder, Chairman
and Global Chief
Investment Officer

Dear Fellow Shareholder:

Welcome to your annual report for the one-year period ended October 31, 2017. In this report, you will find commentary from the Calamos portfolio management team, as well as a listing of portfolio holdings, financial statements and highlights, and detailed information about the performance and positioning of the Calamos Funds. I encourage you to review this information carefully.

Calamos Global Total Return Fund (CGO) is an income-oriented total-return fund. This means we are focused not only on delivering a competitive stream of distributions, but also on total return. We utilize dynamic asset allocation to pursue high current income with a less rate-sensitive approach, while also maintaining a focus on capital gains.

Distribution

During the period, the Fund provided a compelling monthly distribution of $0.1000 per share. We believe the Fund's current annualized distribution rate, which was 8.58%* on a market price basis as of October 31, 2017, was very competitive, given the low interest rates in many segments of the bond market. In our view, the Fund's distributions illustrate the benefits of a multi-asset class approach and flexible allocation strategy.

We understand that many closed-end fund investors seek steady, predictable distributions instead of distributions that fluctuate. We aim to keep distributions consistent from month to month, and at a level that we believe can be sustained over the long term. In setting the Fund's distribution rate, the investment management team and the Fund's Board of Trustees consider the interest rate, market and economic environment. We also factor in our assessment of individual securities and asset classes.

*

Current Annualized Distribution Rate is the Fund's most recent distribution, expressed as an annualized percentage of the Fund's current market price per share. The Fund's 10/16/17 distribution was $0.1000 per share. Based on our current estimates, we anticipate that approximately $0.1000 is paid from ordinary income or capital gains and that approximately $0.0000 represents a return of capital. Estimates are calculated on a tax basis rather than on a generally accepted accounting principles (GAAP) basis, but should not be used for tax reporting purposes. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters. Under the Fund's level rate distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains and return of capital. When the net investment income and net realized short-term capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. The distribution rate may vary.

Letter to Shareholders

Market Review

During the reporting period, confidence in the synchronized global growth narrative grew against a backdrop of improving economic data and healthy corporate earnings. Stocks posted strong returns and a number of bellwether market gauges reached new heights. From a geographic perspective, gains were broad based, with U.S., developed markets and emerging markets stocks advancing briskly.[1] Convertible securities, which blend attributes of both stocks and bonds, participated in a large measure of the stock market's upside, both in the U.S. and globally.[2] Within the fixed income markets, more economically sensitive high-yield securities continued to perform well[3] as investors maintained an appetite for risk and yield. However, as the Federal Reserve maintained a gradual course of raising short-term interest rates and investors gravitated toward stocks, traditional fixed-income securities, such as investment grade bonds, encountered headwinds.[4]

Our Use of Leverage**

We have the flexibility to utilize leverage in this Fund. Over the long term, we believe that the judicious use of leverage provides us with opportunities to enhance total return and support the Fund's distribution rate. Leverage strategies typically entail borrowing at short-term interest rates and investing the proceeds at higher rates of return. During the reporting period, we believed the prudent use of leverage would be advantageous given the economic environment, specifically the low borrowing costs we were able to secure. Overall, we believe the use of leverage will contribute favorably to the returns of the Fund, as we anticipate that the performance of the Fund's holdings will exceed the cost of borrowing.

Outlook

Looking forward, we believe global economic conditions can provide a supportive backdrop for the markets. The U.S. recovery is mature but still has steam, while other major economies are in earlier stages of recovery. As global growth continues, we see additional upside in the global business cycle and, in turn, for stocks, convertible securities and select areas of the high-yield market.

While our outlook is constructive, our teams are watchful of potential downside risks. Among them, the policies of global central banks are moving away from the exceedingly accommodative stances of past years. We are also mindful of global political instability, strained trade relationships, heated rhetoric between the U.S. and North Korea, potential deceleration in China, and high levels of corporate debt.

** Leverage creates risks that may adversely affect return, including the likelihood of greater volatility of net asset value and market price of common shares, and fluctuations in the variable rates of the leverage financing. The Fund has a non-fundamental policy that it will not issue preferred shares, borrow money, or issue debt securities with an aggregate liquidation preference and aggregate principal amount exceeding 38% of the Fund's managed assets as measured immediately after the issuance of any preferred shares or debt.

Letter to Shareholders

Further, valuations are stretched in some areas of the market, and we may see consolidation and sector rotation. Given the sustained rally in equities, we would not be surprised to see a pause or even a correction. In an environment of economic expansion, downside volatility could provide buying opportunities for our team’s long-term approach.

Calamos at 40 Years: A Look Back … and Ahead

Calamos Investments celebrated its 40-year anniversary earlier this year. Much has changed since I founded the firm in 1977. Some changes, such as the rise of passive strategies, are concerning to me—especially given our view that the markets will increasingly require experienced and active management.

However, many of these changes are quite positive, such as an increased focus on global asset allocation. I’m also encouraged by the growing role of liquid alternative strategies in investors’ portfolios. For decades, we have offered risk-managed global and alternative strategies as a way to potentially mitigate risk, enhance returns, and generate income in innovative ways. We’ve continued to expand our capabilities in both areas, always guided by the asset allocation needs of investors.

When markets are going up as they have been, investors may be more inclined to put financial planning and asset allocation on cruise control. While that’s understandable, I encourage you to take some time to check in with your financial advisor to ensure your portfolio is aligned with your goals and risk tolerance. Throughout the years, I’ve seen the markets change directions quite suddenly in a short period, often catching investors off guard. The allocations of your portfolio will also shift over time as investments appreciate at different rates. Regardless of the direction of the market, a periodic check in with your advisor can be a smart strategy, and as I have noted in the past, the new year presents a good opportunity for these conversations.

As always, we thank you for your continued trust. The longevity and success of our firm over these 40 years is a reflection of the trust you have placed in us. We look forward to helping you achieve your goals over the coming decades.

Please visit our website www.calamos.com often. You’ll find a wealth of resources and commentary on the markets, asset allocation and our funds.

Sincerely,

John P. Calamos, Sr.
Founder, Chairman and Global Chief Investment Officer

Letter to Shareholders

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. Please see the prospectus containing this and other information or call 800.582.6959. Please read the prospectus carefully. Performance data represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted.

1 The MSCI All Country World Index is a measure of global stock market performance, which returned 23.86% for the one-year period ending October 31, 2017. The MSCI World Index is a market-capitalization weighted index composed of companies representative of the market structure of developed market countries in North America, Europe and the Asia/Pacific region. For the one-year period ended, the index returned 23.46%. The S&P 500 Index is an unmanaged index generally considered representative of the U.S. stock market. For the one-year period, the index returned 23.63%. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index considered broadly representative of emerging market equity performance. The index represents companies within the constituent emerging markets that are available to investors worldwide, and it returned 26.91% for the one-year period ended October 31, 2017.

2 The ICE BofAML All U.S. Convertibles ex-Mandatory Index represents the U.S. convertible securities market excluding mandatory convertibles. The index returned 20.69% for the one-year period ending October 31, 2017. The ICE BofAML Global 300 Convertible Index is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. The index returned 16.13% for the one-year period ended October 31, 2017.

3 The Credit Suisse U.S. High Yield Index is an unmanaged index of high yield debt securities, which returned 9.04% for the one-year period ending October 31, 2017.

4 The Bloomberg Barclays U.S. Aggregate Index is considered generally representative of the investment-grade bond market. For the one- year period ending October 31, 2017, the index returned 0.90%.

Sources: Lipper, Inc.; Morningstar, Inc.

Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index. Investments in overseas markets pose special risks, including currency fluctuation and political risks. These risks are generally intensified for investments in emerging markets. Countries, regions, and sectors mentioned are presented to illustrate countries, regions, and sectors in which a fund may invest. Fund holdings are subject to change daily. The Funds are actively managed.

The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the securities mentioned. The information contained herein, while not guaranteed as to accuracy or completeness, has been obtained from sources we believe to be reliable. There are certain risks involved with investing in convertible securities in addition to market risk, such as call risk, dividend risk, liquidity risk and default risk, that should be carefully considered prior to investing. This information is being provided for informational purposes only and should not be considered investment advice or an offer to buy or sell any security in the portfolio. Investments in alternative strategies may not be suitable for all investors.

This report is intended for informational purposes only and should not be considered investment advice.

The Calamos Closed-End Funds: An Overview

In our closed-end funds, we draw upon decades of investment experience, including a long history of opportunistically blending asset classes in an attempt to capture upside potential while seeking to manage downside risk. We launched our first closed-end fund in 2002.

Closed-end funds are long-term investments. Most focus on providing monthly distributions, but there are important differences among individual closed-end funds. Calamos closed-end funds can be grouped into multiple categories that seek to produce income while offering exposure to various asset classes and sectors.

Portfolios Positioned to Pursue High Current Income from Income and Capital Gains

OBJECTIVE: U.S. ENHANCED FIXED INCOME

Calamos Convertible Opportunities and Income Fund
(Ticker: CHI)
Invests in high yield and convertible securities, primarily in U.S. markets

Calamos Convertible and High Income Fund
(Ticker CHY)
Invests in high yield and convertible securities, primarily in U.S. markets

OBJECTIVE: GLOBAL ENHANCED FIXED INCOME

Calamos Global Dynamic Income Fund
(Ticker: CHW)
Invests in global fixed income securities, alternative investments and equities

Portfolios Positioned to Seek Current Income, with Increased Emphasis on Capital Gains Potential

OBJECTIVE: GLOBAL TOTAL RETURN

Calamos Global Total Return Fund

(Ticker: CGO)
Invests in equities and higher-yielding convertible securities and corporate bonds, in both U.S. and non-U.S. markets

OBJECTIVE: U.S. TOTAL RETURN

Calamos Strategic Total Return Fund
(Ticker: CSQ)
Invests in equities and higher-yielding convertible securities and corporate bonds, primarily in U.S. markets

Calamos Dynamic Convertible and Income Fund
(Ticker: CCD)
Invests in convertibles and other fixed income Securities

Investment Team Discussion

TOTAL RETURN* AS OF 10/31/17
Common Shares – Inception 10/27/05

	1 Year	**Since Inception****
On Market Price	40.91%	8.53%
On NAV	21.44%	8.56%

* Total return measures net investment income and net realized gain or loss from Fund investments, and change in net unrealized appreciation and depreciation, assuming reinvestment of income and net realized gains distributions.
**Annualized since inception.

SECTOR WEIGHTINGS

Consumer Discretionary	17.6	%
Information Technology	17.0	
Financials	13.9	
Industrials	11.5	
Health Care	9.0	
Telecommunication Services	7.4	
Consumer Staples	7.4	
Energy	7.0	
Materials	4.1	
Real Estate	2.4	
Utilities	1.1	
Other	0.9	

Sector Weightings are based on managed assets and may vary over time. Sector Weightings exclude any government/sovereign bonds or options on broad market indexes the Fund may hold.

GLOBAL TOTAL RETURN FUND (CGO)

INVESTMENT TEAM DISCUSSION

Please discuss the Fund's strategy and role within an asset allocation.

Calamos Global Total Return Fund (CGO) is a global total return oriented offering that seeks to provide an attractive monthly distribution. We invest in a diversified portfolio of global equities, convertible securities and high yield securities. The allocation to each asset class is dynamic and reflects our view of the economic landscape as well as the potential of individual securities. By combining these asset classes, we believe that we are well positioned to generate capital gains as well as income. This broader range of security types also provides us with increased opportunities to manage the risk/ reward characteristics of the portfolio over full market cycles. Through this approach, we seek to offer investors an attractive monthly distribution and equity participation.

We believe having a relatively high level of exposure to convertible and equity assets is optimal for the portfolio and reflects our generally optimistic view of the global stock markets, albeit on a selective basis. We continue to find new opportunities in the convertible market through new issuance over the course of the year. We believe that maintaining a high exposure to the equity markets via stocks and convertibles has been beneficial to the overall performance of the Fund.

We invest in both U.S. and non-U.S. companies, favoring companies with geographically diversified revenue streams and global business strategies. We emphasize companies that offer reliable debt servicing, respectable balance sheets and sustainable prospects for growth.

How did the Fund perform over the reporting period?

The Fund returned 21.44% on a net asset value (NAV) basis for the 12-month period ended October 31, 2017. On a market price basis, the Fund increased 40.91%. In comparison, the broad global equity market was up 23.46% for the period, as measured by the MSCI World Index.

At the end of the reporting period, the Fund's shares traded at a 4.33% premium to net asset value.

How do NAV and market price return differ?

Closed-end funds trade on exchanges, where the price of shares may be influenced by factors other than the value of the underlying securities. The price of a share in the market is called market value. Market price may be influenced by factors unrelated to the performance of the fund's holdings, such as general market sentiment or future expectation. A fund's NAV return measures the actual return of the individual securities in the portfolio, less fund expenses. It also measures how a manager was able to capitalize on market opportunities. Because we believe closed-end funds are best utilized long term within asset allocations, we think that NAV return is the better measure of a fund's performance. However, when managing the Fund, we strongly consider actions and policies that we believe will optimize its overall price performance and returns based on market value.

Investment Team Discussion

SINCE INCEPTION MARKET PRICE AND NAV HISTORY THROUGH 10/31/17

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. The principal value of an investment will fluctuate so that your shares, when sold, may be worth more or less than their original cost. Returns at NAV reflect the deduction of the Fund's management fee, debt leverage costs and all other applicable fees and expenses. You can obtain performance data current to the most recent month end by visiting www.calamos.com.

Please discuss the Fund's distributions during the 12-month period.

We employ a level rate distribution policy* with the goal of providing shareholders with a consistent distribution stream. In each month of the period, the Fund distributed $0.1000 per share, resulting in a current annualized distribution rate of 8.58% of market price as of October 31, 2017.

We believe that both the Fund's distribution rate and level remained attractive and competitive, as low interest rates limited yield opportunities in the marketplace. For example, as of October 31, 2017, the dividend yield of S&P 500 Index stocks averaged 2.07%. Yields also were low within the U.S. government bond market, with the 10-year U.S. Treasury and 30-year U.S. Treasury yielding 2.38% and 2.88%, respectively.

What factors influenced performance over the reporting period?

The portfolio has a wide set of investment parameters that allow us to take advantage of investment opportunities around the world through many different types of investment vehicles. By optimizing the advantages of such flexibility, the Fund invested opportunistically. The Fund maintained its exposure to the equity markets, and both convertibles and high yield bonds provided income to the portfolio. The strength and performance of global equity and fixed income markets buoyed both price and NAV performance for the period. In addition, price performance was enhanced by good valuations in the stocks relative to the NAV earlier in the period, which served as an enticement to many investors.

Our selection in telecom services, notably in wireless, was additive to performance relative to the MSCI World Index. In addition, selection in consumer staples (packaged food and meat) was helpful.

Conversely, our underweight and selection in financials, notably in asset management & custody banks, was detrimental on a relative basis. In addition, selection in consumer discretionary, specifically apparel, accessories and luxury goods, impeded the result.

* Under the Fund's level rate distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains and return of capital. When the net investment income and net realized short-term capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. The distribution rate may vary. The Fund will transition to a managed distribution policy effective January 2018. See inside front cover for details.

Investment Team Discussion

How is the Fund positioned?

Our heaviest allocations are found within the information technology, consumer discretionary and financials sectors. Given our optimism regarding the global economy, we favor growth companies with higher-quality balance sheets, strong brands, free cash flows and experienced management. Furthermore, we look for companies that possess global revenue drivers and stand ready to benefit from global synchronization. Specifically, we seek to invest in businesses poised to benefit from increased capital spending in technology, the global infrastructure build-out, and the rise of emerging market consumers.

We favor companies with compelling growth opportunities and global revenue drivers. We also believe that businesses and individuals will remain focused on productivity enhancements, stimulating demand for technology and services. Global demographics are also generating opportunities in the information technology field, particularly within emerging market economies. In response, we maintain a heavy overweight position in this area relative to the MSCI World Index.

We also favor financials as we expect rising interest rates and a reflationary economic environment will be beneficial to the sector. We believe that freeing available capital will help energize the overall global economy. Conversely, our weight to utilities is notably below the index weighting, as we do not see utilities as an area that will realize optimal growth in a reflationary environment.

The average credit quality of rated securities within the portfolio is approximately BB, which is higher than the Credit Suisse High Yield index average of B+. This is typical for the Fund, as our credit process tends to guide us away from the most speculative corporate securities. However, we do selectively invest in lower-credit securities when we believe the risk/reward dynamics are favorable.

We believe that this environment is conducive to the prudent use of leverage as a means of enhancing total return and supporting the Fund’s distribution rate. Despite a cost increase due to rising interest rates, our use of leverage enjoyed a favorable reinvestment dynamic. In addition, on September 6, 2017, the Fund announced the issuance of $12 million in mandatory redeemable preferred shares (MRPS). Fitch Ratings assigned long-term ratings of “AA” to each class of MRPS shares. The MRPS shares were privately placed with institutional investors and were issued in three series subject to mandatory redemptions 5, 7 and 10 years from the date of issuance, as shown. The Series A ($4 mm), Series B ($4 mm), and Series C ($4 mm) MRPS shares are to pay monthly cash dividends initially at rates of 3.70%, 4.00% and 4.24%, respectively, subject to adjustment under certain circumstances. In connection with the MRPS share issuance, the Fund terminated an existing credit facility with BNP Paribas and revised the available credit under an existing credit facility with State Street Bank and Trust. As of October 31, 2017, our amount of leveraged assets was approximately 30%.

What are your closing thoughts for Fund shareholders?

Given our outlook for a continued period of economic growth, we favor quality growth companies over cyclicals. Positive factors within the U.S. include solid job creation, low interest rates, range-bound energy prices, increasing consumer and corporate confidence and limited inflationary pressures. We emphasize investments in companies with solid cash-flow generation and stronger balance sheets. From a thematic and sector perspective, we see opportunities in the technology sector, consumer discretionary companies tied to global consumption, and companies

Investment Team Discussion

positioned to benefit from improving fundamentals and diminished political concerns in Europe. We are also optimistic about financials, as we believe that many of these companies are favorably valued and positioned to grow revenues in a lower-regulatory, rising-interest-rate environment. However, we are cautious about companies in the consumer staples sector and believe they are fully valued as investors seek those stocks for income rather than growth. We are selective regarding the health care sector, favoring those companies that are more product-growth oriented versus price driven. We believe our active, risk-managed investment approach positions us to take advantage of volatility and opportunities in global equities and convertible securities.

Schedule of Investments October 31, 2017

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS (14.8%)		
	Consumer Discretionary (4.6%)	
35,000	AV Homes, Inc.µ	
	6.625%, 05/15/22	$36,402
45,000	Beverages & More, Inc.*	
	11.500%, 06/15/22	40,560
	CCO Holdings, LLC / CCO Holdings Capital Corp.µ*	
85,000	5.125%, 05/01/27	85,775
60,000	5.000%, 02/01/28	59,597
103,000	Century Communities, Inc.µ*	
	5.875%, 07/15/25	104,077
65,000	CRC Escrow Issuer, LLC*	
	5.250%, 10/15/25	65,480
1,000,000	Dana Financing Luxembourg Sarlµ*	
	6.500%, 06/01/26	1,088,860
68,000	DISH DBS Corp.^	
	5.875%, 11/15/24	68,094
40,000	Eldorado Resorts, Inc.µ	
	6.000%, 04/01/25	42,335
65,000	goeasy, Ltd.*	
	7.875%, 11/01/22	66,832
10,000	Guitar Center, Inc.µ*	
	6.500%, 04/15/19	9,365
260,000	L Brands, Inc.µ	
	6.875%, 11/01/35	258,604
40,000	Lions Gate Entertainment Corp.*^	
	5.875%, 11/01/24	42,454
60,000	M/I Homes, Inc.µ	
	5.625%, 08/01/25	61,306
40,000	Netflix, Inc.µ*	
	4.875%, 04/15/28	39,831
60,000	Penske Automotive Group, Inc.µ	
	5.500%, 05/15/26	61,869
	PetSmart, Inc.*	
33,000	5.875%, 06/01/25µ	28,770
10,000	8.875%, 06/01/25^	7,896
	Rite Aid Corp.^	
120,000	7.700%, 02/15/27	101,987
75,000	6.125%, 04/01/23*	70,052
110,000	Salem Media Group, Inc.µ*	
	6.750%, 06/01/24	115,383
75,000	Sally Holdings, LLC / Sally Capital, Inc.^	

PRINCIPAL AMOUNT		VALUE
	5.625%, 12/01/25	74,583
900,000	Service Corp. International	
	7.500%, 04/01/27	1,080,522
105,000	Sirius XM Radio, Inc.µ*	
	6.000%, 07/15/24	112,424
115,000	Time, Inc.*^	
	7.500%, 10/15/25	115,693
1,385,000	Toll Brothers Finance Corp.µ	
	4.000%, 12/31/18	$1,414,383
		5,253,134
	Consumer Staples (0.4%)	
65,000	Albertsons Companies, LLC / Safeway, Inc. / New Albertson's, Inc. / Albertson's, LLCµ	
	5.750%, 03/15/25	57,475
55,000	Fresh Market, Inc.*^	
	9.750%, 05/01/23	31,074
250,000	JBS USA LUX SA / JBS USA Finance, Inc.*	
	7.250%, 06/01/21	255,599
	New Albertson's, Inc.µ	
45,000	7.450%, 08/01/29	37,723
30,000	8.000%, 05/01/31	26,135
	Pilgrim's Pride Corp.µ*	
15,000	5.750%, 03/15/25	15,893
10,000	5.875%, 09/30/27	10,405
60,000	Post Holdings, Inc.µ*	
	5.750%, 03/01/27	62,472
		496,776
	Energy (0.9%)	
100,000	Calfrac Holdings, LP*	
	7.500%, 12/01/20	98,301
40,000	Carrizo Oil & Gas, Inc.µ	
	8.250%, 07/15/25	43,173
65,000	Chesapeake Energy Corp.*	
	8.000%, 01/15/25	64,265
15,000	Consol Mining Corp.*	
	11.000%, 11/15/25	15,393
15,000	CrownRock, LP / CrownRock Finance, Inc.µ*	
	5.625%, 10/15/25	15,234
80,000	DCP Midstream, LLCµ*‡	
	5.850%, 05/21/43	
	3 mo. USD LIBOR + 3.85%	76,312
15,000	Diamond Offshore Drilling, Inc.^	
	7.875%, 08/15/25	16,060
115,000	Energy Transfer Equity, LPµ	
	5.500%, 06/01/27	121,867
110,000	Energy Transfer Partners, LPµ‡	
	4.394%, 11/01/66	
	3 mo. USD LIBOR + 3.02%	99,825

65,000	Genesis Energy, LP / Genesis Energy Finance Corp.µ 6.500%, 10/01/25	66,081
25,000	Halcon Resources Corp.µ* 6.750%, 02/15/25	25,638
70,000	Laredo Petroleum, Inc.µ 6.250%, 03/15/23	72,796

See accompanying Notes to Schedule of Investments

Schedule of Investments October 31, 2017

PRINCIPAL AMOUNT		VALUE
65,000	Plains All American Pipeline, LPµ‡ 6.125%, 11/15/22 3 mo. USD LIBOR + 4.11%	$66,282
65,000	SESI, LLC*^ 7.750%, 09/15/24	67,337
25,000	SM Energy Company^ 6.750%, 09/15/26	25,717
45,000	Southwestern Energy Company^ 7.500%, 04/01/26	46,811
25,000	Transocean, Inc.* 7.500%, 01/15/26	25,803
65,000	Vine Oil & Gas, LP he purchase price was financed with a combination of cash on hand and $60.0 million of borrowings through the Company's amended $100 million credit facility.	

During the three and six months ended June 30, 2014, the Company incurred $0.2 million and $2.6 million of transaction related costs, respectively. These transaction costs include investment banker fees, legal fees and other professional services fees to complete the transaction. These corporate office expenses have been recognized in the Company's Condensed Consolidated Statements of Operations as selling, product development and administrative expenses.

The operating results of the Industrial Filtration business have been included in the Condensed Consolidated Statements of Operations since February 20, 2014, the date of the acquisition. The Industrial Filtration business is being reported as a separate reportable segment. For the three and six months ended June 30, 2014, the Industrial Filtration segment reported net sales of $34.1 million and $51.8 million, respectively. For the three and six months ended June 30, 2014, the Industrial Filtration segment reported operating income of $2.2 million and $3.0 million, respectively. Operating income for the three and six months ended June 30, 2014 included $0.5 million and $1.8 million, respectively, of purchase accounting inventory fair value step-up adjustments in cost of sales upon the sale of inventory. The total purchase accounting inventory fair value step-up adjustment included in the balance sheet at the acquisition date was $2.1 million.

The following table summarizes the fair values of identifiable assets acquired and liabilities assumed at the date of the acquisition:

In thousands	
Cash	$7,493
Accounts Receivable	26,779
Inventory	25,046
Other current assets	2,894
Property, plant and equipment	38,780
Deferred Taxes	2,501
Intangible assets (Note 4)	5,596
Goodwill (Note 4)	3,693
Total assets acquired	112,782

Other liabilities	(18,002)
Deferred taxes	(8,130)
Total liabilities assumed	(26,132)
Net assets acquired	$86,650

The final purchase price allocation is subject to post-closing adjustments pursuant to the terms of the Sale and Purchase Agreement with Andrews Industries Limited. The Company anticipates that any post-closing adjustment will not be significant to the total purchase price consideration.

The following table reflects the unaudited pro forma operating results of the Company for the three and six months ended June 30, 2014 and the three and six months ended June 30, 2013, which give effect to the acquisition of Industrial Filtration as if it had occurred on January 1, 2013. The pro forma information includes the historical financial results of the Company and Industrial Filtration. The pro forma results are not necessarily indicative of the operating results that would have occurred had the acquisition been effective January 1, 2013, nor are they intended to be indicative of results that may occur in the future. The pro forma information does not include the effects of any synergies related to the acquisition.

	(Unaudited Pro Forma)		(Unaudited Pro Forma)	
	Quarter Ended June 30,		Six Months Ended June 30,	
In thousands	2014	2013	2014	2013
Net Sales	$148,793	$134,139	$291,535	$263,855
Net Income	$8,679	$7,523	$16,155	$10,124
Earnings per share:				
Basic	$0.52	$0.45	$0.97	$0.61
Diluted	$0.51	$0.45	$0.95	$0.60

Pro forma earnings during the three months ended June 30, 2014 were adjusted to exclude non-recurring items such as acquisition-related costs of $0.2 million and expense related to the fair value adjustment to inventory of $0.5 million. No amount is included in the pro forma earnings during the three months ended June 30, 2014 related to inventory fair value adjustments which would have been recognized in cost of sales as the corresponding inventory would have been completely sold during 2013.

Pro forma earnings during the three months ended June 30, 2013 were adjusted to include acquisition-related costs of $0.2 million and expense of $0.1 million related to the amortization of acquired Industrial Filtration intangible assets recognized at fair value in purchase accounting as well as $0.2 million of interest expense associated with borrowings under the Company's Amended Credit Facility.

Pro forma earnings during the six months ended June 30, 2014 were adjusted to exclude non-recurring items such as acquisition-related costs of $2.6 million and expense related to the fair value adjustment to inventory of $1.8 million, and to include additional amortization of the acquired Industrial Filtration intangible assets recognized at fair value in purchase accounting as well as additional interest expense associated with borrowings under the Company's Amended Credit Facility. No amount is included in the pro forma earnings during the six months ended June 30, 2014 related to inventory fair value adjustments which would have been recognized in cost of sales as the corresponding inventory would have been completely sold during 2013.

Pro forma earnings during the six months ended June 30, 2013 were adjusted to include acquisition-related costs of $2.6 million and expense of $2.3 million related to the amortization of the fair value adjustments to inventory and additional amortization of the acquired Industrial Filtration intangible assets recognized at fair value in purchase accounting as well as $0.4 million of interest expense associated with borrowings under the Company's Amended Credit Facility

3. Inventories

Inventories as of June 30, 2014 and December 31, 2013 were as follows:

In thousands	June 30, 2014	December 31, 2013
Raw materials	$21,680	$11,944
Work in process	15,558	14,546
Finished goods	16,172	9,537
	53,410	36,027
Less: Progress billings	(2,210)	(1,110)
Total inventories	$51,200	$34,917

Included in work in process is gross tooling inventory of $8.2 million and $9.9 million at June 30, 2014 and December 31, 2013, respectively. Tooling inventory, net of progress billings, was $6.0 million and $8.8 million at June 30, 2014 and December 31, 2013, respectively.

4. Goodwill and Other Intangible Assets

Goodwill:

The Company tests its goodwill for impairment annually in the fourth quarter, and whenever events or changes in circumstances indicate that the carrying value may exceed its fair value.

The changes in the carrying amount of goodwill by segment as of and for the six months ended June 30, 2014 were as follows:

In thousands	December 31, 2013	Currency translation adjustments	Additions	June 30, 2014
Performance Materials	$13,929	$(19)	$—	$13,910
Industrial Filtration	—	—	3,693	3,693
Other Products and Services	4,660	—	—	4,660
Total goodwill	$18,589	$(19)	$3,693	$22,263

The goodwill associated with the Industrial Filtration segment results from the acquisition of the Industrial Filtration business on February 20, 2014. The amount allocated to goodwill is reflective of the benefits the Company expects to realize from the entrance into new global markets and Industrial Filtration's assembled workforce. None of the recognized goodwill is expected to be deductible for income tax purposes.

Other Intangible Assets:

The table below presents the gross carrying amount and, as applicable, the accumulated amortization of the Company's acquired intangible assets other than goodwill included in "Other intangible assets, net" in the Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
In thousands	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
License agreements	$879	$(879)	$881	$(881)
Technology	2,500	(60)	—	—
Customer Relationships	2,553	(85)	—	—
Patents	6,747	(3,470)	6,766	(3,307)
Other	830	(254)	278	(227)
Total amortized intangible assets	$13,509	$(4,748)	$7,925	$(4,415)

In connection with the acquisition of Industrial Filtration in February 2014, the Company recorded intangible assets of $5.6 million, which included $2.5 million of customer relationships, $2.5 million of purchased technology, $0.3 million of net favorable operating leases, and $0.2 million of trade names. The weighted average useful lives of the acquired assets were 11 years, 15 years, 7 years and 5 years, respectively.

5. Long-term Debt and Financing Arrangements

On February 18, 2014, the Company amended and restated its $35.0 million senior secured domestic revolving credit facility ("Amended Credit Facility") with a financial institution and two additional lenders, increasing the available borrowing from $35 million to $100 million. The Amended Credit Facility is secured by substantially all of the assets of the Company. The maturity date for the Amended Credit Facility is January 31, 2019, at which time amounts outstanding under the Amended Credit Facility are due and payable. The Company entered into this Amended Credit Facility in part to fund a majority of the purchase price of the Industrial Filtration business.

Under the terms of the Amended Credit Facility, the lenders are providing a $100 million revolving credit facility to the Company, under which the lenders may make revolving loans and issue letters of credit to or for the benefit of the

Company and its subsidiaries. The Amended Credit Facility may be increased by an aggregate amount not to exceed $50 million through an accordion feature, subject to specified conditions.

The Amended Credit Facility contains a number of affirmative and negative covenants, including financial and operational covenants. The Company is required to meet a minimum interest coverage ratio. The interest coverage ratio requires that, at the end of each fiscal quarter, the ratio of consolidated EBIT to Consolidated Interest Charges, both as defined in the Amended Credit Facility, may not be less than 2.0 to 1.0 for the immediately preceding 12 month period. In addition, the Company must maintain a Consolidated Leverage Ratio, as defined in the Amended Credit Facility, as of the end of each fiscal quarter of no greater than

3.0 to 1.0. The Company must also meet minimum consolidated EBITDA as of the end of each fiscal quarter for the preceding 12 month period of $30.0 million. The Company was in compliance with all covenants at June 30, 2014.

Interest is charged on borrowings at the Company's option of either: (i) Base Rate plus the Applicable Rate, or (ii) the Eurodollar Rate plus the Applicable Rate. The Base Rate is a fluctuating rate equal to the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate as set by Bank of America, and (c) the Eurocurrency Rate plus 1.00%. The Eurocurrency Rate means (i) if denominated in LIBOR quoted currency, a fluctuating LIBOR per annum rate equal to the London Interbank Offered Rate; (ii) if denominated in Canadian Dollars, the rate per annum equal to the Canadian Dealer Offered Rate; or (iii) the rate per annum as designated with respect to such alternative currency at the time such alternative currency is approved by the Lenders. The Applicable Rate is determined based on the Company's Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). The Applicable Rate added to the Base Rate Committed Loans ranges from 15 basis points to 100 basis points, and the Applicable Rate added to Eurocurrency Rate Committed Loans and Letters of Credit ranges from 75 basis points to 175 basis points. The Company pays a quarterly fee ranging from 20 basis points to 30 basis points on the unused portion of the $100 million available under the Amended Credit Agreement. At June 30, 2014, the Company had borrowing availability of $37.2 million under the Amended Credit Facility net of standby letters of credit outstanding of $2.8 million.

The Company's previous $35 million senior secured domestic revolving credit facility ("Domestic Credit Facility") that was outstanding at December 31, 2013, was entered into on June 16, 2011. The Domestic Credit Facility was secured by substantially all of the assets of the Company. The maturity date for the Domestic Credit Facility was June 15, 2016. The Company had no borrowings under the Domestic Credit Facility during 2013 and no outstanding borrowings at December 31, 2013. The Company was in compliance with all covenants at December 31, 2013.

At June 30, 2014, the Company's foreign subsidiaries' various credit arrangements with banks totaled €9.0 million (approximately $12.3 million) all of which was available for borrowings, primarily restricted to borrowings by the respective foreign subsidiary. The Company's foreign subsidiaries had no borrowings outstanding under any of their respective credit arrangements at June 30, 2014 and December 31, 2013.

The Company has a capital lease agreement for the land and building at the St. Nazaire, France operating facility, included in the Thermal/Acoustical Metals segment, requiring monthly principal and interest payments through 2016. The capital lease provides an option for the Company to purchase the land and building at the end of the lease for a nominal amount.

Total outstanding debt consists of:

In thousands	Effective Rate		Maturity	June 30, 2014		December 31, 2013	
Revolver Loan, due January 31, 2019	1.40	%	2019	$60,000		$—	
Capital Lease, land and building, St. Nazaire, France	5.44	%	2016	1,329		1,647	
Capital Lease, manufacturing equipment, Hamptonville, North Carolina	5.00	%	2017	52		67	
				61,381		1,714	
Less portion due within one year				(678	)	(663	)
Total long-term debt				$60,703		$1,051	

The carrying value of the Company's Amended Credit Facility approximates fair value given the variable rate nature of the debt. As such this debt would be classified as a Level 2 liability within the fair value hierarchy.

The weighted average interest rate on long-term debt was 1.6% for the six months ended June 30, 2014 and 5.4% for the year ended December 31, 2013.

6. Equity Compensation Plans

As of June 30, 2014, the Company's equity compensation plans consisted of the 2003 Stock Incentive Compensation Plan (the "2003 Plan") and the 2012 Stock Incentive Plan (the "2012 Plan" and together with the 2003 Plan, the "Plans") under which incentive and non-qualified stock options and time and performance based restricted shares have been granted to employees and directors from authorized but unissued shares of common stock or treasury shares. The 2003 Plan is not active, but continues to govern all outstanding awards granted under the plan until the awards themselves are exercised or terminate in accordance with their terms. The 2012 Plan, approved by shareholders on April 27, 2012, authorizes 1.75 million shares of common stock for awards. The 2012 Plan also authorizes an additional 1.2 million shares of common stock to the extent awards granted under prior stock plans that were outstanding as of April 27, 2012 are forfeited. The 2012 Plan provides for the following types of awards: options, restricted stock, restricted stock units and other stock-based awards.

The Company incurred compensation expense of $0.7 million and $0.2 million for the quarters ended June 30, 2014 and June 30, 2013, respectively, and $1.3 million and $0.7 million for the six months ended June 30, 2014 and June 30, 2013, respectively, for the Plans, including restricted stock awards. No compensation costs were capitalized as part of inventory.

Stock Options

The following table is a summary of outstanding and exercisable options as of June 30, 2014:

In thousands except per share amounts and years	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at June 30, 2014	665	$10.49	6.1	$11,229
Exercisable at June 30, 2014	408	$9.06	4.7	$7,468
Expected to vest at June 30, 2014	245	$12.75	8.3	$3,582

There were no stock options granted and 45,929 stock options exercised during the quarter ended June 30, 2014 and no stock options granted and 91,217 stock options exercised during the six months ended June 30, 2014. The amount of cash received from the exercise of stock options was $0.4 million during the quarter ended June 30, 2014 and $0.8 million during the six months ended June 30, 2014. The intrinsic value of stock options exercised was $0.8 million with a tax benefit of $0.3 million during the quarter ended June 30, 2014 and the intrinsic value of stock options exercised was $1.3 million with a tax benefit of $0.5 million during the six months ended June 30, 2014. There were 12,500 stock options granted and 27,337 stock options exercised during the quarter ended June 30, 2013 and 12,500 stock options granted and 97,986 exercised during the six months ended June 30, 2013. The amount of cash received from the exercise of stock options was $0.3 million during the quarter ended June 30, 2013 and $0.9 million during the six months ended June 30, 2013. The intrinsic value of stock options exercised was $0.1 million with a minimal tax-benefit during the quarter ended June 30, 2013 and the intrinsic value of stock options exercised was $0.6 million with a tax benefit of $0.2 million during the six months ended June 30, 2013. At June 30, 2014, the total unrecognized compensation cost related to non-vested stock option awards was approximately $1.2 million, with a weighted average expected amortization period of 2.5 years.

Restricted Stock

Restricted stock includes both performance-based and time-based awards. There were no time-based restricted shares granted during the quarter ended June 30, 2014 and 28,769 time-based restricted shares granted during the six months ended June 30, 2014. There were no performance-based restricted shares granted during the quarter ended June 30, 2014 and 138,000 performance-based restricted shares granted during the six months ended June 30, 2014, which have a 2016 earnings per share target. During the six months ended June 30, 2014, there were 64,200 performance-based shares that vested in accordance with Plan provisions. There were 3,000 time-based shares that vested during the six months ended June 30, 2014. There were 5,000 time-based restricted shares granted during the six months ended June 30, 2013. There were 92,290 performance-based restricted shares granted during the six months ended June 30, 2013, which have a 2015 earnings per share target. During the six months ended June 30, 2013, there were 61,800 performance-based shares that vested in accordance with Plan provisions. At June 30, 2014, there were 414,414 unvested restricted stock awards with total unrecognized compensation cost related to these awards of $3.8 million with a weighted average expected amortization period of 2.3 years. Compensation expense for performance based awards is recorded based on management's assessment of the probability of achieving the performance goals and service period.

7. Stock Repurchases

In April 2012, the Company's Board of Directors approved a stock repurchase program (the "2012 Stock Repurchase Program"), which authorized the Company to repurchase up to 1.0 million shares of its common stock. The Company did not repurchase any stock during the three and six months ended June 30, 2014 under the 2012 Stock Repurchase Program. As of June 30, 2014, there were 267,089 shares remaining and authorized for repurchase under the 2012 Stock Repurchase Program.

During the six months ended June 30, 2014, the Company purchased 23,718 shares of common stock valued at $0.5 million, through withholding, pursuant to provisions in agreements with recipients of restricted stock granted under the Company's equity compensation plans, which allow the Company to withhold the number of shares having fair value equal to each recipient's tax withholding due.

8. Employer Sponsored Benefit Plans

As of June 30, 2014, the Company maintains a defined benefit pension plan that covers certain domestic Lydall employees ("domestic pension plan") that is closed to new employees and benefits are no longer accruing. The domestic pension plan is noncontributory and benefits are based on either years of service or eligible compensation paid while a participant is in the plan. The Company's funding policy is to fund not less than the ERISA minimum funding standard and not more than the maximum amount that can be deducted for federal income tax purposes.

On April 1, 2014, the Company offered a voluntary lump sum payment option to certain former U.S. employees who are vested defined benefit plan participants not currently receiving monthly payments. The voluntary lump sum payments were made in July 2014 and paid from pension plan assets and will be accounted for during the third quarter of 2014. During the third quarter of 2014, the Company expects to incur a non-cash settlement charge of $4.9 million (see subsequent event footnote).

The Company expects to contribute approximately $4.2 million in cash to its domestic pension plan in 2014. Contributions of $0.4 million were made during the second quarter of 2014 and $3.4 million were made for the six months ended June 30, 2014. Contributions of $0.5 million were made during the second quarter of 2013 and $0.6 million were made during the six months ended June 30, 2013.

The following is a summary of the components of net periodic benefit cost, which is recorded primarily within selling, product development and administrative expenses, for the domestic pension plan for the quarters ended June 30, 2014 and 2013:

	Quarter Ended June 30,		Six Months Ended June 30,	
In thousands	2014	2013	2014	2013
Components of net periodic benefit cost				
Interest cost	$665	$614	$1,331	$1,227
Expected return on assets	(793)	(673)	(1,587)	(1,346)
Amortization of actuarial loss	180	267	360	534
Net periodic benefit cost	$52	$208	$104	$415

9. Income Taxes

The Company's effective tax rate was 31.3% and 36.8% for the quarters ended June 30, 2014 and 2013, respectively, and 38.2% and 34.0% for the six months ended June 30, 2014 and 2013, respectively. The difference in the Company's effective tax rate for the quarter ended June 30, 2014 compared to the second quarter of 2013 was primarily due to the expectation of increased earnings in 2014 compared to 2013 derived from countries with lower tax rates compared to that of the United States. The Company's effective tax rate for the six months ended June 30, 2014 was negatively impacted by discrete income tax charges of approximately $1.0 million, recorded in the first quarter of 2014, primarily for non-deductible transaction related expenses associated with the acquisition of the Industrial Filtration business. The Company's effective tax rate for the six months ended June 30, 2013 included a discrete tax benefit of $0.5 million recorded in the first quarter of 2013 as the Company concluded certain U.S. federal income tax matters through the year ended December 31, 2009.

The Company and its subsidiaries file a consolidated federal income tax return, as well as returns required by various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities, including such major jurisdictions as the United States, France, Germany, China, the United Kingdom and the Netherlands. With few exceptions, the Company is no longer subject to U.S. federal examinations for years before 2010, state and local examinations for years before 2002, and non-U.S. income tax examinations for years before 2003.

The Company's effective tax rates in future periods could be affected by earnings being lower or higher than anticipated in countries where tax rates differ from the United States federal rate, the relative impact of permanent tax adjustments on higher or lower earnings from domestic operations, changes in net deferred tax asset valuation allowances, the impact of the completion of acquisitions or divestitures, changes in tax rates or tax laws and the completion of tax audits.

10. Earnings Per Share

For the quarters and six months ended June 30, 2014 and 2013, basic earnings per share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Unexercised stock options and unvested restricted shares are excluded from this calculation but are included in the diluted earnings per share calculation using the treasury stock method as long as their effect is not antidilutive.

The following table provides a reconciliation of weighted-average shares used to determine basic and diluted earnings per share.

	Quarter Ended June 30,		Six Months Ended June 30,	
In thousands	2014	2013	2014	2013
Basic average common shares outstanding	16,618	16,612	16,580	16,674
Effect of dilutive options and restricted stock awards	362	219	345	253
Diluted average common shares outstanding	16,980	16,831	16,925	16,927

For the quarter ended June 30, 2014, there were minimal stock options that were not considered in computing diluted earnings per common share because they were antidilutive. For the quarter ended June 30, 2013, stock options for 0.2 million shares of common stock were not considered in computing diluted earnings per common share because they were antidilutive.

For the six months ended June 30, 2014 and 2013, stock options for 0.1 million and 0.2 million shares of common stock, respectively, were not considered in computing diluted earnings per common share because they were antidilutive.

11. Segment Information

On February 20, 2014, the Company acquired the Industrial Filtration business from Andrew Industries Limited, which is being reported as a separate reportable segment since the acquisition date. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance.

The Company’s reportable segments are Performance Materials, Industrial Filtration, Thermal/Acoustical Metals, and Thermal/Acoustical Fibers. Other Products and Services (“OPS”) includes Life Sciences Vital Fluids.

Performance Materials Segment

The Performance Materials segment includes filtration media solutions for air, fluid power, and industrial applications (“Filtration”), air and liquid life science applications (“Life Sciences Filtration”), and thermal insulation solutions for building products, appliances, and energy and industrial markets (“Thermal Insulation”). Filtration products include LydAir® MG (Micro-Glass) Air Filtration Media, LydAir® MB (Melt Blown) Air Filtration Media, LydAir® SC (Synthetic Composite) Air Filtration Media, and Arioso® Membrane Composite Media. These products constitute the critical media components of clean-air systems for applications in clean-space, commercial, industrial and residential HVAC, power generation, and industrial processes. Lydall has leveraged its extensive technical expertise and applications knowledge into a suite of media products covering the vast liquid filtration landscape across the engine and industrial fields. The LyPore® Liquid Filtration Media series addresses a variety of application needs in fluid power, including hydraulic filters, air-water and air-oil coalescing, industrial fluid processes, diesel filtration and fuel filtration.

Industrial Filtration Segment

The Industrial Filtration segment includes non-woven felt filtration media and filter bags used primarily in industrial air and liquid filtration applications. Non-woven filter media is the most commonly used filter technology to satisfy increasing emission control regulations in a wide range of industries, including power, cement, steel, asphalt, incineration, mining, food, and pharmaceutical.

Industrial Filtration segment products include air and liquid filtration media sold under the brand names Fiberlox® high performance filtration felts, Checkstatic™ conductive filtration felts, Microfelt® high efficiency filtration felts, Pleatlox® pleatable filtration felts, Ultratech™ PTFE filtration felts, Powertech® and Powerlox® power generation filtration felts, Microcap® high efficiency liquid filtration felts, Duotech membrane composite filtration felts, along with traditional scrim supported filtration felts. Industrial Filtration also offers extensive finishing and coating capabilities which provide custom engineered properties tailored to meet the most demanding filtration applications. The business leverages a wide range of fiber types and extensive technical capabilities to provide filtration products that meet our customers' needs across a variety of applications providing both high filtration performance and durability.

Thermal/Acoustical Metals Segment

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

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

Thermal/Acoustical Fibers Segment

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

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

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

Other Products and Services

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

The tables below present net sales and operating income by segment for the quarters ended June 30, 2014 and 2013, and also a reconciliation of total segment net sales and operating income to total consolidated net sales and operating income.

Consolidated net sales by segment: (1)

In thousands	Quarter Ended June 30, 2014	Quarter Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Performance Materials Segment:				
Filtration	$19,546	$17,903	$37,419	$34,553
Thermal Insulation	7,993	8,579	16,521	16,735
Life Sciences Filtration	3,713	2,486	6,165	5,163
Performance Materials Segment net sales	31,252	28,968	60,105	56,451
Industrial Filtration Segment:				
Industrial Filtration	34,135	—	51,791	—
Industrial Filtration net sales	34,135	—	51,791	—
Thermal/Acoustical Metals Segment:				
Metal parts	38,701	35,957	75,726	69,066
Tooling	4,638	4,963	10,069	12,056
Thermal/Acoustical Metals Segment net sales	43,339	40,920	85,795	81,122
Thermal/Acoustical Fibers Segment:				
Fiber parts	34,662	26,458	64,984	54,242
Tooling	1,646	1,501	3,837	1,644
Thermal/Acoustical Fibers Segment net sales	36,308	27,959	68,821	55,886
Other Products and Services:				
Life Sciences Vital Fluids	4,864	4,263	9,588	8,570
Other Products and Services net sales	4,864	4,263	9,588	8,570
Eliminations and Other	(1,105)	(1,059)	(2,081)	(1,949)
Consolidated Net Sales	$148,793	$101,051	$274,019	$200,080

Operating income by segment: (1)

In thousands	Quarter Ended June 30, 2014	Quarter Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Performance Materials	$3,566	$3,271	$5,429	$4,548
Industrial Filtration	2,198	—	2,984	—
Thermal/Acoustical Metals	2,564	4,431	6,217	7,449
Thermal/Acoustical Fibers	9,279	5,432	16,620	11,586
Other Products and Services	286	125	706	481
Corporate Office Expenses	(5,320)	(3,738)	(11,757)	(8,026)
Consolidated Operating Income	$12,573	$9,521	$20,199	$16,038

(1) Industrial Filtration segment reports results for the period following the date of acquisition of February 20, 2014 through June 30, 2014.

12. Commitments and Contingencies

The Company is subject to legal proceedings, claims, investigations and inquiries that arise in the ordinary course of business such as, but not limited to, actions with respect to commercial, intellectual property, employment, personal injury and environmental matters. While the outcome of any matter is inherently uncertain and the Company cannot be sure that it will prevail in any of the

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cases, subject to the matter referenced below, the Company is not aware of any matters pending that are expected to be material with respect to the Company's business, financial position, results of operations or cash flows.

Lydall Gerhardi GmbH & Co. KG ("Lydall Gerhardi"), which is an indirect wholly-owned subsidiary of the Company and part of the Thermal/Acoustical Metals segment, is cooperating with the German Federal Cartel Office (Bundeskartellamt) in connection with an investigation, initiated in the second quarter of 2014, relating to possible violations of German anti-trust laws by and among certain European automotive heat shield manufacturers, including Lydall Gerhardi.

The Company is conducting an internal investigation utilizing outside counsel. In the course of this internal investigation, the Company has discovered instances of inappropriate conduct by certain German employees of Lydall Gerhardi. The Company has disclosed its findings in an application for leniency submitted to the German Federal Cartel Office on July 22, 2014. The Company is continuing its internal investigation and has taken, and will continue to take, remedial actions.

The German Federal Cartel Office has wide discretion in fixing the amount of a fine, up to a maximum fine of ten percent (10%) of the Company's annual revenue of the year preceding the year in which the fine is imposed. The Company believes a loss is probable. However, in light of the uncertainties and variables involved, the Company is unable to estimate either the timing or the amount of the loss associated with this matter. There can be no assurance that this matter will not have a material adverse effect on the Company.

13. Changes in Accumulated Other Comprehensive Income (Loss)

The following table discloses the changes by classification within accumulated other comprehensive income (loss) for the periods ended June 30, 2014 and 2013:

In thousands	Foreign Currency Translation Adjustment	Defined Benefit Pension Adjustment	Total Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2012	$3,178	$(21,544)	$(18,366)
Other Comprehensive loss	(998)	—	(998)
Amounts reclassified from accumulated other comprehensive income (a)	—	331	331
Balance at June 30, 2013	2,180	(21,213)	(19,033)
Balance at December 31, 2013	6,128	(14,972)	(8,844)
Other Comprehensive loss	(3)	—	(3)
Amounts reclassified from accumulated other comprehensive income (a)	—	223	223
Balance at June 30, 2014	$6,125	$(14,749)	$(8,624)

(a) Amount represents amortization of actuarial losses, a component of net periodic benefit cost. This amount was $0.1 million net of $0.1 million tax benefit and $0.2 million net of a $0.1 million tax benefit for the quarters ended June 30, 2014 and 2013, respectively. This amount was $0.2 million net of $0.1 million tax benefit and $0.3 million net of a $0.2 million tax benefit for the six months ended ended June 30, 2014 and 2013, respectively. See Note 8, Employer Sponsored Benefit Plans.

14. Subsequent Event

On April 1, 2014, the Company offered a voluntary one-time lump sum payment option to certain former U.S. employees who were vested defined benefit plan participants and not currently receiving monthly payments from the

Company's domestic defined benefit pension plan ("domestic pension plan"). The election period for this voluntary offer ended in the second quarter of 2014. Approximately 62% of eligible participants elected to receive a lump sum payout resulting in $10.3 million being paid out of domestic pension plan assets in July 2014. This payout required a re-measurement of the domestic pension plan and a partial plan settlement which will result in a non-cash pre-tax loss of $4.9 million in net periodic pension benefit expense in the third quarter of 2014, with an offset to accumulated other comprehensive loss in shareholder’s equity, net of tax. The non-cash charge is required to accelerate the recognition of a portion of the previously unrecognized actuarial losses in the domestic pension plan.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW AND OUTLOOK

Business

Lydall, Inc. and its subsidiaries (collectively, the "Company" or "Lydall") design and manufacture specialty engineered filtration media, thermal insulating solutions, automotive thermal and acoustical barriers, medical filtration media and devices and biopharmaceutical processing components for filtration/separation, thermal/acoustical, and bio/medical applications.

On February 20, 2014, the Company completed an acquisition of certain industrial filtration businesses ("Industrial Filtration") of Andrew Industries Limited, an Altham, United Kingdom based corporation pursuant to the terms of a Sale and Purchase Agreement (the "Sale and Purchase Agreement") for $86.7 million in cash ("the Acquisition"). The Company funded the purchase price of the Acquisition from cash on hand and borrowings under the Company's Amended Credit Facility. The results of Industrial Filtration have been included in the Company's financial statements since the date of the Acquisition. As a result, the consolidated financial results for the six months ended June 30, 2014 do not reflect a full six months of the Industrial Filtration business. The Acquisition resulted in the inclusion of Industrial Filtration's assets and liabilities as of the acquisition date at their respective fair values. Accordingly, the Acquisition materially affected the Company's results of operations and financial position.

Lydall principally conducts its business through four reportable segments: Performance Materials, Industrial Filtration, Thermal/Acoustical Metals and Thermal/Acoustical Fibers, with sales globally.

The Performance Materials segment includes filtration media solutions for air, fluid power, and industrial applications ("Filtration"), air and liquid life science applications ("Life Sciences Filtration"), and thermal insulation solutions for building products, appliances, and energy and industrial markets ("Thermal Insulation"). The Industrial Filtration segment includes non-woven felt filtration media and filter bags used primarily in industrial air filtration applications. Non-woven filter media is used to satisfy increasing emission control regulations in a wide range of industries, including power, cement, steel, asphalt, incineration, food, and pharmaceutical. The Thermal/Acoustical Metals ("T/A Metals") segment and Thermal/Acoustical Fibers ("T/A Fibers") segment offer innovative engineered products to assist in noise and heat abatement within the transportation sector. Included in Other Products and Services ("OPS") is the Life Sciences Vital Fluids business. Life Sciences Vital Fluids offers specialty products for blood filtration devices, blood transfusion single-use containers and bioprocessing single-use containers and products for containment of media, buffers and bulk intermediates used in biotech, pharmaceutical and diagnostic reagent manufacturing processes.

Second Quarter 2014 Highlights

Net sales were $148.8 million in the current quarter, compared to $101.1 million in the second quarter of 2013. The second quarter of 2014 includes net sales of $34.1 million from the acquisition of Industrial Filtration, which was completed in February 2014. Net income was $8.2 million, or $0.49 per diluted share in the second quarter of 2014 compared to $6.0 million, or $0.35 per diluted share, in the second quarter of 2013. Operating margin decreased to 8.4% of consolidated net sales in the second quarter of 2014 compared to 9.4% of consolidated net sales in the second quarter of 2013 as it was negatively impacted by a $2.9 million one-time commission settlement within the T/A Metals segment, as the Company terminated a long-standing commercial sales agreement, and by purchase accounting adjustments and transaction related costs of $0.7 million related to the Acquisition. As a result of these expenses operating margin was negatively impacted by approximately 250 basis points in the second quarter of 2014.

Below are financial highlights comparing Lydall's quarter ended June 30, 2014 ("Q2 2014") results to its quarter ended June 30, 2013 ("Q2 2013") results:

- Net sales increased by $47.7 million, or 47.2%, compared to Q2 2013 as net sales increased 11.7% organically, 33.8% from the Acquisition and 1.7% from favorable foreign currency translation.
- Gross margin increased to 23.3%, compared to 22.8% in Q2 2013, primarily due to increased net sales providing for improved absorption of fixed costs and lower raw material costs, primarily in the T/A Fibers and T/A Metals segments, offset to some extent by gross margin of the Industrial Filtration segment. Also, consolidated gross margin in Q2 2014 was negatively impacted by 30 basis points from purchase accounting adjustments of $0.5 million related to the Acquisition.

- Selling, product development and administrative expenses were $22.1 million, or 14.8% of net sales, compared to $13.5 million, or 13.4% of net sales in Q2 2013;
  - Industrial Filtration segment reported $2.9 million of expenses;
  - T/A Metals selling expenses included $2.9 million for a commission settlement related to the termination of a long-standing commercial sales agreement;
  - Corporate office expenses increased $1.6 million primarily due to increases in non-cash stock based compensation, professional services primarily related to the Acquisition, increased salaries and increases in other administrative costs.

- Operating income was $12.6 million, or 8.4% of net sales, compared to $9.5 million, or 9.4% of net sales, in Q2 2013;
  - Operating income from Performance Materials, T/A Metals, T/A Fibers, OPS and corporate office (“pre-acquisition businesses”) was $10.4 million, or 9.0% of pre-acquisition businesses net sales, compared to $9.5 million, or 9.4% in Q2 2013;
  - Industrial Filtration segment operating income was $2.2 million, or 6.4% of Industrial Filtration segment net sales, including $0.5 million, or 160 basis points of purchase accounting adjustments.
  - Consolidated operating income was negatively impacted by 250 basis points related to a $2.9 million commission settlement within the T/A Metals segment and by purchase accounting adjustments and transaction related costs of $0.7 million related to the Acquisition.

- Effective tax rate of 31.3% in Q2 2014 compared to 36.8% in Q2 2013 as Q2 2014 was positively impacted by the expectation of increased earnings in 2014 compared to 2013 derived from countries with lower tax rates compared to that of the United States. Q2 2013 included a discrete tax benefit of $0.3 million, or $0.02 per share.

Operational and Financial Overview

Net sales for the second quarter of 2014 increased by $47.7 million, or 47.2%, compared to the second quarter of 2013, primarily from the inclusion of Industrial Filtration segment net sales of $34.1 million. In the T/A Fibers segment, higher net sales of $8.3 million, or 29.9%, compared to the same quarter a year ago, were the result of increased consumer demand for vehicles in North America on Lydall’s existing and new platforms and the timing of certain customer purchases. The T/A Metals segment net sales increased $2.4 million, or 5.9%, and the Performance Materials segment net sales increased by $2.3 million, or 7.9%, compared to the second quarter of 2013. Higher net sales in the T/A Metals segment were due to continued favorable market conditions in North America and improving market conditions in Europe compared to the second quarter of 2013. Net sales for the Performance Materials segment increased due to higher fluid power and air filtration net sales within the segments European operations, also as a result of improved market conditions, and from higher volumes of sales in life sciences applications.

Consolidated operating margin in the second quarter of 2014 was 8.4% compared to 9.4% in the second quarter of 2013. T/A Fibers segment reported operating margin of 25.6%, an increase of 620 basis points compared to the second quarter of 2013, primarily the result of increased net sales and improved absorption of fixed costs and raw material and labor efficiencies compared to the second quarter of 2013. Performance Materials operating margin of 11.4% in the second quarter of 2014 was essentially flat with the same quarter of 2013. The Industrial Filtration segment reported operating margin of 6.4% in the second quarter of 2014, including $0.5 million, or 160 basis points, of purchase accounting adjustments. The T/A Metals segment reported operating margin of 5.9% in the second quarter of 2014, compared to 10.8% in the second quarter of 2013. Operating margin for T/A Metals was negatively impacted by 670 basis points due to a $2.9 million commission settlement as the Company terminated a long-standing commercial sales agreement.

Liquidity

Cash balance was $64.4 million at June 30, 2014 compared to $75.4 million at December 31, 2013. The Acquisition in February 2014 was funded by borrowing $60.0 million from the Company's $100 million Amended Credit Facility, with the remaining purchase price funded from the Company's cash. The Company's consolidated leverage ratio was approximately 1.3 at June 30, 2014 (as defined in the Amended Credit Facility), significantly below a maximum permitted ratio of 3.0.

On February 18, 2014, the Company amended and restated its $35.0 million senior secured domestic revolving credit facility ("Amended Credit Facility") with a financial institution and two additional lenders, increasing the available borrowing from $35 million to $100 million. The Company entered into this Amended Credit Facility in part to fund $60 million of the purchase price of the Industrial Filtration acquisition.

As of June 30, 2014, the Company had borrowing availability of $37.2 million under the Amended Credit Facility, net of standby letters of credit outstanding of $2.8 million. As of June 30, 2014, the Company’s foreign subsidiaries’ various credit arrangements with banks totaled €9.0 million (approximately $12.3 million) all of which was available for borrowings, primarily restricted to borrowings by the respective foreign subsidiary.

Outlook

In the Company's first full quarter with the Industrial Filtration business, net sales were $34.1 million due to favorable demand for felt filtration media and filter bags as this business traditionally experiences higher demand in the first half of the year due to many industrial plants coming on-line. The Company continues to remain on track with its integration of this business including the introduction of the Company's Lean Six Sigma principles to achieve future margin and working capital improvements.

Going into the third quarter and second half of the year, the Company expects less robust sales growth than the first half due timing of customer orders, typical customer plant shut-downs in North America and Europe as well as seasonality that normally occurs in some of our segments. As a result, the Company expects lower organic sales growth in the second half compared to the first half of 2014.

Additionally, in the third quarter of 2014 the Company expects to incur a one-time, non-cash pre-tax expense of $4.9 million in net periodic pension benefit expense. This expense is associated with the partial settlement of its U.S. pension plan as a result of the Company's lump sum payments to certain plan participants in July 2014. Conversely, as a result the of second quarter 2014 settlement of a long-standing commercial sales agreement, the Company expects to realize savings on commission expense in the range of $0.6 million to $0.7 million in the second half of 2014.

Results of Operations

All of the following tabular comparisons, unless otherwise indicated, are for the quarters ended June 30, 2014 (Q2-14) and June 30, 2013 (Q2-13) and for the six months ended June 30, 2014 (YTD-14) and June 30, 2013 (YTD-13).

Net Sales

	Quarter Ended				Six Months Ended			
In thousands	Q2-14	Q2-13	Percent Change		YTD-14	YTD-13	Percent Change	
Net sales	$148,793	$101,051	47.2	%	$274,019	$200,080	37.0	%

Net sales for the second quarter ended June 30, 2014 increased by $47.7 million, or 47.2%, compared to the second quarter ended June 30, 2013. This increase was primarily related to the acquisition of Industrial Filtration which occurred on February 20, 2014. As a result, consolidated net sales for the second quarter ended June 30, 2014 include the Industrial Filtration segment net sales of $34.1 million. There were no Industrial Filtration segment net sales in the second quarter of 2013. Pre-acquisition business net sales increased $13.6 million, or 13.5%, in the second quarter of 2014 compared to the same period in 2013. In the T/A Fibers and T/A Metals segments, higher sales volumes resulted in improved net sales of $8.3 million, or 29.9%, and $2.4 million, or 5.9%, respectively, compared to the same quarter a year ago. Additionally, net sales increased in the Performance Materials segment by $2.3 million, or 7.9%, and in the Life Sciences Vital Fluids business by $0.6 million, or 14.1%, in the second quarter of 2014 compared to the second quarter of 2013. Foreign currency translation increased net sales by $1.8 million, or 1.7%, for the current quarter, compared with the second quarter of 2013, favorably impacting the T/A Metals segment by $1.2 million, or 3.0%, and the Performance Materials segment by $0.5 million, or 1.9%.

Net sales for the six months ended June 30, 2014 increased by $73.9 million, or 37.0%, compared to the six months ended June 30, 2013. This increase was primarily related to the acquisition of Industrial Filtration. As a result, Industrial Filtration segment net sales of $51.8 million since the date of the acquisition are included in the Company's consolidated net sales for the six months ended June 30, 2014. Pre-acquisition business net sales for the six months ended June 30, 2014 increased $22.1 million, or 11.1% compared to the six months ended June 30, 2013. In the T/A Fibers and T/A Metals segments, higher sales volumes resulted in improved net sales of $12.9 million, or 23.1%, and $4.7 million, or 5.8%, respectively, compared to the six months ended June 30, 2013. Additionally, net sales increased in the Performance Materials segment by $3.7 million, or 6.5%, and in the Life Sciences Vital Fluids business by $1.0 million, or 11.9%, during the six months ended June 30, 2014 compared to the same period of 2013.
Foreign currency translation increased net sales by $3.1 million, or 1.5%, for the six months ended June 30, 2014, compared with the first six months of 2013, impacting the T/A Metals segment by $2.1 million, or 2.6%, and the Performance Materials segment by $0.9 million, or 1.7%.

Gross Profit

	Quarter Ended			Six Months Ended		
In thousands	Q2-14	Q2-13	Percent Change	YTD-14	YTD-13	Percent Change
Gross profit	$34,653	$23,037	50.4 %	$60,852	$44,402	37.0 %
Gross margin	23.3 %	22.8 %		22.2 %	22.2 %	

Gross margin for the second quarter of 2014 was 23.3% compared to 22.8% in the second quarter of 2013. The increase in gross margin was related to pre-acquisition businesses gross margins which increased consolidated gross margin in the second quarter of 2014 compared to the same period in 2013. This increase was primarily the result of higher net sales of $13.6 million across all of the Company’s pre-acquisition businesses and the resulting improved absorption of fixed costs as well as lower raw material costs primarily in the T/A Fibers and T/A Metals segments. The increased gross margins of the pre-acquisition businesses was offset to some extent by the Industrial Filtration segment gross margin. The Industrial Filtration segment gross margin included the negative impact of a $0.5 million purchase accounting adjustment in cost of sales relating to inventory step-up.

Gross margin for the six months ended June 30, 2014 was 22.2% which was equal to the comparable period of 2013. Gross margin was favorably impacted by the pre-acquisition businesses gross margins which increased consolidated gross margin during the six months ended June 30, 2014 compared to the comparable period of 2013. This increase was primarily the result of higher net sales across all of the Company’s pre-acquisition businesses and the resulting improved absorption of fixed costs, as well as labor and manufacturing efficiencies in the T/A Fibers segment. This increase in gross margin was offset due to the inclusion of Industrial Filtration, since the date of acquisition. The Industrial Filtration segment gross margin included the negative impact of a $1.8 million purchase accounting adjustment in cost of sales relating to inventory step-up. Gross margin in the six months ended June 30, 2013 was favorably impacted by a $1.8 million completed pricing negotiation and non-recurring customer project in the T/A Fibers segment.

Selling, Product Development and Administrative Expenses

	Quarter Ended			Six Months Ended		
In thousands	Q2-14	Q2-13	Percent Change	YTD-14	YTD-13	Percent Change
Selling, product development and administrative expenses	$22,080	$13,516	63.4 %	$40,653	$28,364	43.3 %

Percentage of sales	14.8	%	13.4	%	14.8	%	14.2	%

Selling, product development and administrative expenses for the second quarter of 2014 increased by $8.6 million compared to the quarter ended June 30, 2013. Inclusion of the Industrial Filtration segment increased selling, product development and administrative expenses by $2.9 million in the second quarter of 2014 compared to the second quarter of 2013. Also in the second quarter of 2014, the Company entered into a $2.9 million commission settlement within the T/A Metals segment as the Company terminated a long-standing commercial sales agreement. Other selling, product development and administrative expenses associated with pre-acquisition businesses increased in the second quarter of 2014 compared to the second quarter of 2013 related to salaries, benefits and accrued incentive compensation of $1.5 million, professional services of $0.5 million, other administrative costs of $0.5 million, and product trial costs of $0.3 million.

Selling, product development and administrative expenses for the six months ended June 30, 2014 increased $12.3 million compared to the same period of 2013. Inclusion of the Industrial Filtration segment increased selling, product development and administrative expenses by $4.0 million in the first six months of 2014 compared to the first six months of 2013 and $2.6 million of transaction related costs were incurred in the first six months of 2014 by the corporate office, related to the Acquisition. Additionally, the increase in selling, product development and administrative expenses for the six months ended June 30, 2014 compared to the same period of 2013 was due to a $2.9 million commission settlement within the T/A Metals segment as the Company terminated a long-standing commercial sales agreement in the second quarter of 2014. Other selling, product development and administrative expenses associated with pre-acquisition businesses increased in the first six months of 2014, compared to the first six months of

2013, related to salaries, benefits and accrued incentive compensation of $1.3 million, professional services of $0.6 million, other administrative costs of $0.4 million and product trial costs of $0.5 million.

Interest Expense

In thousands	Quarter Ended Q2-14	Q2-13	Percent Change	Six Months Ended YTD-14	YTD-13	Percent Change
Interest expense	$280	$76	268.4 %	$492	$154	219.5 %
Weighted average interest rate	1.5 %	5.4 %		1.6 %	5.4 %	

The increase in interest expense for the quarter and six months ended June 30, 2014 compared to the same periods of 2013 was due to borrowings under the Company's Amended Credit Facility used to finance the Acquisition, partially offset by lower average principal balances on capital lease obligations.

Other Income/Expense

Other income and expense for the quarters and six months ended June 30, 2014 and 2013 consisted of activity related to foreign exchange transaction gains and losses and interest income.

Income Taxes

The Company's effective tax rate was 31.3% and 36.8% for the quarters ended June 30, 2014 and 2013, respectively, and 38.2% and 34.0% for the six months ended June 30, 2014 and 2013, respectively. The difference in the Company's effective tax rate for the quarter ended June 30, 2014 compared to the second quarter of 2013 was primarily due to the expectation of increased earnings in 2014 compared to 2013 derived from countries with lower tax rates compared to that of the United States. The Company's effective tax rate for the six months ended June 30, 2014 was negatively impacted by discrete income tax charges of approximately $1.0 million, recorded in the first quarter of 2014, primarily for non-deductible transaction related expenses associated with the Acquisition. The Company's effective tax rate for the six months ended June 30, 2013 included a discrete tax benefit of $0.5 million recorded in the first quarter of 2013 as the Company concluded certain U.S. federal income tax matters through the year ended December 31, 2009.

The Company and its subsidiaries file a consolidated federal income tax return, as well as returns required by various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities, including such major jurisdictions as the United States, France, Germany, China, United Kingdom and the Netherlands. With few exceptions, the Company is no longer subject to U.S. federal examinations for years before 2010, state and local examinations for years before 2002, and non-U.S. income tax examinations for years before 2003.

The Company's effective tax rates in future periods could be affected by earnings being lower or higher than anticipated in countries where tax rates differ from the United States federal rate, the relative impact of permanent tax adjustments on higher or lower earnings from domestic operations, changes in net deferred tax asset valuation allowances, the impact of the completion of acquisitions or divestitures, changes in tax rates or tax laws and the completion of tax audits.

Segment Results

The following tables present sales information for the key product and service groups included within each operating segment as well as other products and services and operating income by segment, for the quarter and six months ended June 30, 2014 compared with the quarter and six months ended June 30, 2013:

Net sales by segment:

In thousands	Quarter Ended Q2-14	Q2-13	Dollar Change
Performance Materials Segment:			
Filtration	$19,546	$17,903	$1,643
Thermal Insulation	7,993	8,579	(586)
Life Sciences Filtration	3,713	2,486	1,227
Performance Materials Segment net sales	31,252	28,968	2,284
Industrial Filtration Segment:			
Industrial Filtration	34,135	—	34,135
Industrial Filtration net sales	34,135	—	34,135
Thermal/Acoustical Metals Segment:			
Metal parts	38,701	35,957	2,744
Tooling	4,638	4,963	(325)
Thermal/Acoustical Metals Segment net sales	43,339	40,920	2,419
Thermal/Acoustical Fibers Segment:			
Fiber parts	34,662	26,458	8,204
Tooling	1,646	1,501	145
Thermal/Acoustical Fibers Segment net sales	36,308	27,959	8,349
Other Products and Services:			
Life Sciences Vital Fluids	4,864	4,263	601
Other Products and Services net sales	4,864	4,263	601
Eliminations and Other	(1,105)	(1,059)	(46)
Consolidated Net Sales	$148,793	$101,051	$47,742

In thousands	Six Months Ended YTD-14	YTD-13	Dollar Change
Performance Materials Segment:			
Filtration	$37,419	$34,553	$2,866
Thermal Insulation	16,521	16,735	(214)
Life Sciences Filtration	6,165	5,163	1,002
Performance Materials Segment net sales	60,105	56,451	3,654
Industrial Filtration Segment:			
Industrial Filtration	51,791	—	51,791
Industrial Filtration net sales	51,791	—	51,791
Thermal/Acoustical Metals Segment:			
Metal parts	75,726	69,066	6,660
Tooling	10,069	12,056	(1,987)
Thermal/Acoustical Metals Segment net sales	85,795	81,122	4,673
Thermal/Acoustical Fibers Segment:			
Fiber parts	64,984	54,242	10,742
Tooling	3,837	1,644	2,193
Thermal/Acoustical Fibers Segment net sales	68,821	55,886	12,935
Other Products and Services:			
Life Sciences Vital Fluids	9,588	8,570	1,018
Other Products and Services net sales	9,588	8,570	1,018
Eliminations and Other	(2,081)	(1,949)	(132)
Consolidated Net Sales	$274,019	$200,080	$73,939

Operating income by segment:

In thousands	Quarter Ended Q2-14 Operating Income	Operating Margin %	Q2-13 Operating Income	Operating Margin %	Dollar Change
Performance Materials	$3,566	11.4 %	$3,271	11.3 %	$295
Industrial Filtration	2,198	6.4 %	—	0.0 %	2,198
Thermal/Acoustical Metals	2,564	5.9 %	4,431	10.8 %	(1,867)
Thermal/Acoustical Fibers	9,279	25.6 %	5,432	19.4 %	3,847
Other Products and Services	286	5.9 %	125	2.9 %	161
Corporate Office Expenses	(5,320)		(3,738)		(1,582)
Consolidated Operating Income	$12,573	8.4 %	$9,521	9.4 %	$3,052

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In thousands	Six Months Ended YTD-14 Operating Income	Operating Margin %	YTD-13 Operating Income	Operating Margin %	Dollar Change
Performance Materials	$5,429	9.0 %	$4,548	8.1 %	$881
Industrial Filtration	2,984	5.8 %	—	0.0 %	2,984
Thermal/Acoustical Metals	6,217	7.2 %	7,449	9.2 %	(1,232)
Thermal/Acoustical Fibers	16,620	24.1 %	11,586	20.7 %	5,034
Other Products and Services	706	7.4 %	481	5.6 %	225
Corporate Office Expenses	(11,757)		(8,026)		(3,731)
Consolidated Operating Income	$20,199	7.4 %	$16,038	8.0 %	$4,161

Performance Materials

Segment net sales increased $2.3 million, or 7.9%, in the second quarter of 2014 compared to the second quarter of 2013. Higher demand for fluid power and air filtration products of $1.6 million primarily in Europe due to improving market conditions, contributed to the increase in segment net sales. Life Sciences Filtration net sales increased by $1.2 million in the second quarter of 2014, compared to the same quarter of 2013, primarily from life protection application products offset by lower net sales of $0.6 million associated with Thermal Insulation products. Foreign currency translation positively impacted net sales by $0.5 million, or 1.9%, in the second quarter of 2014 compared to the second quarter of 2013.

The Performance Materials segment reported operating income of $3.6 million, or 11.4% of net sales, in the second quarter of 2014, compared to operating income of $3.3 million, or 11.3% of net sales, in the second quarter of 2013. The increase in operating income was primarily the result of higher net sales of $2.3 million in the second quarter of 2014 compared to the second quarter of 2013 as well as a favorable mix of product sales improving gross margin. The segment reported higher selling, product development and administrative costs of $0.5 million in the second quarter of 2014 compared to the same quarter of 2013 primarily associated with higher salaries, accrued incentive compensation and product development trial costs.

Segment net sales increased $3.7 million, or 6.5%, in the first six months of 2014 compared to the first six months of 2013. Higher demand for fluid power and air filtration products of $2.9 million primarily in Europe contributed to the increase in net sales. Life Sciences Filtration net sales increased by $1.0 million in the first six months of 2014, compared to the first six months of 2013, primarily from life protection application products, offset by lower net sales of $0.2 million associated with Thermal Insulation products. Foreign currency translation positively impacted net sales by $0.9 million, or 1.7%, in the six months ended June 30, 2014 compared to six months ended June 30, 2013.

The Performance Materials segment reported operating income of $5.4 million, or 9.0% of net sales, in the first six months of 2014, compared to operating income of $4.5 million, or 8.1% of net sales, in the first six months of 2013. The increase in operating income was the result of higher net sales of $3.7 million in the first six months of 2014 compared to the first six months of 2013 as well as a favorable mix of product sales improving gross margin. The segment reported higher selling, and administrative costs of $0.6 million in the first six months of 2014 compared to the first six months of 2013 primarily associated with higher salaries, accrued incentive compensation and product development trial costs.

Industrial Filtration

Segment net sales were $34.1 million in the second quarter of 2014 and $51.8 million from the Acquisition date of February 20, 2014 through June 30, 2014. Additionally, the Industrial Filtration segment reported operating income of $2.2 million in the second quarter of 2014 and $3.0 million from the Acquisition date through June 30, 2014, which included the impact of purchase accounting adjustments in cost of sales related to inventory step-up of $0.5 million and $1.8 million, respectively. There were no comparative results for the quarter and six months ended June 30, 2013 as the Industrial Filtration segment was created through the Acquisition of that business on February 20, 2014.

Thermal/Acoustical Metals

Segment net sales increased $2.4 million, or 5.9% in the second quarter of 2014, compared to the second quarter of 2013. Automotive parts net sales increased by $2.7 million, or 7.6%, compared to the second quarter of 2013 due to increased demand from customers served by the Company's European and North American automotive operations. Market conditions in North America have continued to remain favorable and improving market conditions in Europe have led to increased sales volumes. Also, during the second quarter of 2014, the segment's China operations reported its first commercial sales in the quarter. Tooling net sales in the second quarter of 2014 decreased $0.3 million, or 6.5%, compared to the second quarter of 2013, due to timing of new product launches. Foreign currency translation positively impacted net sales by $1.2 million, or 3.0%, in the second quarter of 2014 compared with the second quarter of 2013.

The Thermal/Acoustical Metals segment reported operating income of $2.6 million, or 5.9% of net sales in the second quarter of 2014, compared to operating income of $4.4 million, or 10.8% of net sales, in the second quarter of 2013. The decrease in operating income was due to an increase in selling, product development and administrative costs of $3.2 million in the second quarter of 2014 compared to the second quarter of 2013. This increase was primarily related to a $2.9 million commission settlement associated with the second quarter of 2014 termination of a long-standing commercial sales agreement in Europe, as well as an increase in professional service expenses of $0.2 million. The increase in selling, product development and administrative costs was offset to some extent by an increase in gross profit of $1.3 million due to increased sales, lower raw material costs, and a favorable mix in sales between automotive parts and tooling. Net sales of higher margin automotive parts increased by $2.7 million in the second quarter of 2014 with lower margin tooling net sales declining by $0.3 million compared to the second quarter of 2013.

Segment net sales increased $4.7 million, or 5.8%, in the first six months of 2014, compared to the first six months of 2013. Automotive parts net sales increased by $6.7 million, or 9.6%, compared to the first six months of 2013 primarily due to increased demand from customers served by the Company’s European and North American automotive operations. Tooling net sales in the first six months of 2014 decreased $2.0 million, or 16.5%, compared to the first six months of 2013, due to timing of new product launches. Foreign currency translation positively impacted net sales by $2.1 million, or 2.6%, in the first six months of 2014 compared with the first six months of 2013.

The Thermal/Acoustical Metals segment reported operating income of $6.2 million, or 7.2% of net sales, in the first six months of 2014, compared to operating income of $7.4 million, or 9.2% of net sales, in the first six months of 2013. The decrease in operating income was due to an increase in selling, product development and administrative costs of $3.5 million in the first six months of 2014 compared to the first six months of 2013. This increase was primarily related to a $2.9 million commission settlement associated with the second quarter of 2014 termination of a long-standing commercial sales agreement in Europe, and an increase in professional service expenses of $0.3 million. The increase in selling, product development and administrative costs was offset to some extent by an increase in gross profit of $2.2 million due to increased sales, lower raw material costs, and a favorable mix in sales between automotive parts and tooling. Net sales of higher margin automotive parts increased by $6.7 million in the first six months of 2014 with lower margin tooling net sales declining by $2.0 million compared to the first six months of 2013.

Thermal/Acoustical Fibers

Segment net sales increased $8.3 million, or 29.9%, compared to the second quarter of 2013. Automotive parts net sales increased by $8.2 million, or 31.0%, compared to the second quarter of 2013. This increase was driven by higher consumer demand for vehicles in North America on Lydall’s existing platforms and new platform awards as well as timing of certain customer purchases. Tooling net sales in the second quarter of 2014 increased $0.1 million compared to the second quarter of 2013 due to timing of new product launches.

The Thermal/Acoustical Fibers segment reported operating income of $9.3 million, or 25.6% of net sales, in the second quarter of 2014, compared to operating income of $5.4 million, or 19.4% of net sales, in the second quarter of 2013. The increase in the second quarter of 2014 operating income was primarily attributable to an increase in net sales volume compared to the prior year quarter as well as improved absorption of fixed costs, lower material costs and labor efficiencies resulting in gross margin improvement of approximately 530 basis points. Segment selling, product development and administrative costs in the second quarter of 2014 increased $0.2 million compared to the second quarter 2013, however, these costs decreased as a percentage of sales in the second quarter of 2014 to 4.8% compared to 5.7% in the second quarter of 2013.

Segment net sales increased $12.9 million, or 23.1%, in the first six months of 2014, compared to the first six months of 2013. Automotive parts net sales increased by $10.7 million, or 19.8%, compared to the first six months of 2013. This increase was driven by higher consumer demand for vehicles in North America on Lydall's existing platforms and new platform awards as well as timing of certain customer purchases. Tooling net sales in the first six months of 2014 increased $2.2 million compared to the first six months of 2013 due to timing of new product launches.

The Thermal/Acoustical Fibers segment reported operating income of $16.6 million, or 24.1% of net sales, in the first six months of 2014, compared to operating income of $11.6 million, or 20.7% of net sales, in the first six months of 2013. The increase in operating income was primarily attributable to an increase in net sales volume of $12.9 million in the first six months of 2014 compared to the first six months of 2013, as well as improved absorption of fixed costs, lower material costs and labor efficiencies, resulting in gross margin of improvement of approximately 270 basis points. Segment selling, product development and administrative costs in first six months of 2014 increased $0.2 million compared to the first six months of 2013, however, these costs decreased as a percentage of sales in first six months of 2014 to 4.9% compared to 5.6% in the first six months of 2013.

Other Products and Services

Life Sciences Vital Fluids net sales for the quarter ended June 30, 2014 increased $0.6 million, or 14.1%, compared to the same quarter a year ago, primarily due to increased volumes of blood transfusion product net sales, and to a lesser extent, price increases.

Life Sciences Vital Fluids reported operating income of $0.3 million, or 5.9% of net sales, for the quarter ended June 30, 2014, compared to operating income of $0.1 million, or 2.9% of net sales, for the second quarter of 2013. This improvement was primarily due to higher net sales partially offset by increased selling, product development and administrative expenses primarily due to an asset write off of $0.1 million associated with the termination of a product distribution agreement.

Life Sciences Vital Fluids net sales for the first six months of 2014 increased $1.0 million, or 11.9%, compared to the first six months of 2013 due to higher volumes of bioprocessing and blood transfusion product net sales, and to a lesser extent, price increases.

Life Sciences Vital Fluids reported operating income of $0.7 million, or 7.4% of net sales, for the six months ended June 30, 2014, compared to operating income of $0.5 million, or 5.6% of net sales, for the six months ended June 30, 2013. This improvement was primarily due to higher net sales and favorable mix of products partially offset by increased selling, product development and administrative expenses primarily due to an asset write off of $0.1 million associated with the termination of a product distribution agreement.

Corporate Office Expenses

Corporate office expenses for the quarter ended June 30, 2014 were $5.3 million, compared to $3.7 million in the second quarter of 2013. The increase of $1.6 million was primarily due to increases in non-cash stock based compensation of $0.4 million, professional services of $0.3 million, primarily related to transaction related expenses, salaries expense of $0.2 million, accrued incentive compensation of $0.2 million and increased other administrative expenses of $0.4 million.

Corporate offices expenses for the first six months of 2014 were $11.8 million compared to $8.0 million in the first six months of 2013. The increase of $3.8 million was primarily due to $2.6 million of transaction related costs associated with the Industrial Filtration acquisition on February 20, 2014, including investment banker and legal fees, and accounting professional services. Additionally, other corporate office expenses increased in the first six months of 2014 compared to the first six months of 2013, including salaries and benefits of $0.3 million, non-cash stock based compensation of $0.4 million and other administrative expenses of $0.4 million.

Liquidity and Capital Resources

The Company assesses its liquidity in terms of its ability to generate cash to fund operating, investing and financing activities. The principal source of liquidity is operating cash flows. In addition to operating cash flows, other significant factors that affect the overall management of liquidity include capital expenditures, investments in businesses, strategic transactions, income tax payments, debt payment service payments, outcomes of contingencies and pension funding. The Company manages worldwide cash requirements by considering available funds among domestic and foreign subsidiaries. The Company expects to finance its 2014 operating cash and capital spending requirements from existing cash balances, cash provided by operating activities and through borrowings under its existing credit agreements, as needed.

At June 30, 2014, the Company had a cash balance of $64.4 million and borrowing availability of $37.2 million under the Amended Credit Facility net of standby letters of credit outstanding of $2.8 million. At June 30, 2014, the Company's foreign subsidiaries' various credit arrangements with banks totaled €9.0 million (approximately $12.3 million) all of which was available for borrowings, primarily restricted to borrowings by the respective foreign subsidiary. The Company's foreign subsidiaries had no borrowings outstanding under any of their respective credit arrangements at June 30, 2014 and December 31, 2013.

The Company continually explores its core markets for suitable acquisitions, joint ventures, alliances and licensing agreements. If completed, such activities would be financed with existing cash balances, cash generated from operations, cash borrowings under existing credit facilities or other forms of financing, as required.

Financing Arrangements

On February 18, 2014, the Company amended and restated its $35 million senior secured domestic revolving credit facility ("Amended Credit Facility") with a financial institution and two additional lenders, increasing the available borrowing from $35 million to $100 million. The Amended Credit Facility is secured by substantially all of the assets of the Company. The maturity date for the Amended Credit Facility is January 31, 2019, at which time amounts outstanding under the Amended Credit Facility are due and payable. The Company entered into this Amended Credit Facility in part to fund $60 million of the purchase price of the Industrial Filtration business.

Under the terms of the Amended Credit Facility, the lenders are providing a $100 million revolving credit facility to the Company, under which the lenders may make revolving loans and issue letters of credit to or for the benefit of the Company and its subsidiaries. The Amended Credit Facility may be increased by an aggregate amount not to exceed $50 million through an accordion feature, subject to specified conditions.

The Amended Credit Facility contains a number of affirmative and negative covenants, including financial and operational covenants. The Company is required to meet a minimum interest coverage ratio. The interest coverage ratio requires that, at the end of each fiscal quarter, the ratio of consolidated EBIT, to Consolidated Interest Charges, both as defined in the Amended Credit Facility, may not be less than 2.0 to 1.0 for the immediately preceding 12 month period. In addition, the Company must maintain a Consolidated Leverage Ratio, as defined in the Amended Credit Facility, as of the end of each fiscal quarter of no greater than 3.0 to 1.0. The Company must also meet minimum consolidated EBITDA as of the end of each fiscal quarter for the preceding 12 month period of $30.0 million. The Company was in compliance with all covenants at June 30, 2014.

Interest is charged on borrowings at the Company's option of either: (i) Base Rate plus the Applicable Rate, or (ii) the Eurodollar Rate plus the Applicable Rate. The Base Rate is a fluctuating rate equal to the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate as set by Bank of America, and (c) the Eurocurrency Rate plus 1.00%. The Eurocurrency Rate means (i) if denominated in LIBOR quoted currency, a fluctuating LIBOR per annum rate equal to the London Interbank Offered Rate; (ii) if denominated in Canadian Dollars, the rate per annum equal to the Canadian Dealer Offered Rate; or (iii) the rate per annum as designated with respect to such alternative currency at the time such alternative currency is approved by the Lenders. The Applicable Rate is determined based on the Company's Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). The Applicable Rate added to the Base Rate Committed Loans ranges from 15 basis points to 100 basis points, and the Applicable Rate added to Eurocurrency Rate Committed Loans and Letters of Credit ranges from 75 basis points to 175 basis points. The Company will pay a quarterly fee ranging from 20 basis points to 30 basis points on the unused portion of the $100 million available under the Amended Credit Agreement.

In addition to the borrowing of $60 million under its Amended Credit Facility, which matures on January 31, 2019, the Company has contractual obligations associated with certain operating leases related to its Industrial Filtration properties of approximately $0.7 million per year through 2019, and $1.6 million thereafter.

Operating Cash Flows

Net cash provided by operating activities in the first six months of 2014 was $13.4 million compared with net cash provided by operating activities of $6.5 million in the first six months of 2013. In the first six months of 2014 compared to the same period for 2013, net income increased by $1.5 million. Since December 31, 2013, net operating assets and liabilities increased by $9.6 million, primarily due to increases in accounts receivable of $21.0 million and a reduction in other liabilities, primarily due to pension plan contributions of $3.4 million, partially offset by lower inventories of $6.9 million and higher accounts payable of $6.5 million. The increase in accounts receivable was primarily due to higher net sales in the second quarter of 2014 compared to the fourth quarter of 2013 across all of the Company's pre-acquisition businesses.

Investing Cash Flows

In the first six months of 2014, net cash used for investing activities was $84.8 million compared to net cash used for investing activities of $5.7 million in the first six months of 2013. Investing activities in the first six months of 2014 primarily consisted of the cash outflow of $79.2 million to fund the Acquisition, net of cash acquired of $7.5 million. Capital expenditures were $5.6 million during the first six months of 2014, compared with $5.5 million for the same period of 2013. Capital spending for full-year 2014 is expected to be approximately $17.0 million to $20.0 million.

Financing Cash Flows

In the first six months of 2014, net cash provided by financing activities was $60.5 million compared to net cash used for financing activities in the first six months of 2013 of $5.5 million. The Company received proceeds of $60.0 million from borrowings under its Amended Credit Facility in the first quarter of 2014 to fund the acquisition of Industrial Filtration. Debt repayments were $0.3 million for the first six months of 2014 compared to $0.4 million for the first six months of 2013. The Company received $0.8 million from the exercise of stock options in the first six months of 2014, compared to $0.9 million in the first six months of 2013. The Company acquired $0.5 million and $6.2 million in company stock through its stock repurchase and equity compensation plans during the first six months of 2014 and 2013, respectively.

Critical Accounting Estimates

The preparation of the Company’s consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Footnote 1 of the “Notes to Consolidated Financial Statements” and Critical Accounting Estimates in Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, and the “Notes to Condensed Consolidated Financial Statements” of this report describe the significant accounting policies and critical accounting estimates used in the preparation of the consolidated financial statements. The Company’s management is required to make judgments and estimates about the effect of matters that are inherently uncertain. Actual results could differ from management’s estimates. There have been no significant changes in the Company’s critical accounting estimates during the quarter or six months ended June 30, 2014. The Company continues to monitor the recoverability of the long-lived assets at the Company’s DSM Solutech B.V. (“Solutech”) operation as a result of historical operating losses and negative cash flows. Future cash flows are dependent on the success of commercialization efforts of Solutech products by OEMs, the quality of Solutech products and technology advancements and management’s ability to manage costs. In the event that Solutech’s cash flows in the future do not meet current expectations, management, based upon conditions at the time, would consider taking actions as necessary to improve cash flow. A thorough analysis of all the facts and circumstances existing at the time would need to be performed to determine if recording an impairment loss was appropriate.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Lydall’s limited market risk exposures relate to changes in foreign currency exchange rates and interest rates.

Foreign Currency Risk

On February 20, 2014, the Company acquired the Industrial Filtration business from Andrew Industries Limited as discussed in Note 2, "Acquisition," of the unaudited interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. The Industrial Filtration business has operations in the United Kingdom and China, in addition to the United States. As a result of this acquisition, and combined with the Company’s other foreign operations, the Company’s financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in the foreign markets where the Company manufactures and distributes its products. The Company’s currency exposure is to the Euro, the Japanese Yen, the Chinese Yuan, the Hong Kong Dollar and the British Pound Sterling. The Company’s foreign and domestic operations limit foreign currency exchange transaction risk by completing transactions in local functional currencies, whenever practicable. The Company may periodically enter into foreign currency forward exchange contracts to mitigate exposure to foreign currency volatility. In addition, the Company utilizes bank loans and other debt instruments throughout its operations. To mitigate foreign currency risk, such debt is denominated primarily in the functional currency of the operation maintaining the debt.

The Company also has exposure to fluctuations in currency risk on intercompany loans that the Company makes to certain of its subsidiaries. The Company may periodically enter into foreign currency forward contracts which are intended to offset the impact of foreign currency movements on the underlying intercompany loan obligations.

Interest Rate Risk

The Company’s interest rate exposure is most sensitive to fluctuations in interest rates in the United States and Europe, which impact interest paid on its debt. In February 2014, the Company borrowed $60.0 million from its Amended Credit Facility to fund the Industrial Filtration acquisition. The Company has debt with variable rates of interest based generally on LIBOR. Increases in interest rates could therefore significantly increase the associated interest payments that the Company is required to make on this debt. From time to time, the Company may enter into interest rate swap agreements to manage interest rate risk. The Company has assessed its exposure to changes in interest rates by analyzing the sensitivity to Lydall's earnings assuming various changes in market interest rates. Assuming a hypothetical increase of one percentage point in interest rates on the $60.0 million borrowing as of June 30, 2014, the Company's net income would decrease by an estimated $0.4 million over a twelve-month period.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Company's President and Chief Executive Officer (the "CEO") and Executive Vice President and Chief Financial Officer (the "CFO"), conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the"SEC"), and that such information is accumulated and communicated to management of the Company, with the participation of its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2014 at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

On February 20, 2014, the Company completed the acquisition of Industrial Filtration. Management considers this transaction to be material to the Company's consolidated financial statements. We are currently in the process of evaluating the existing controls and procedures of the Industrial Filtration business and integrating the business into our Section 404 compliance program under the Sarbanes-Oxley Act of 2002 (the "Act") and the applicable rules and regulations under such Act. In accordance with such rules, a company is permitted to exclude an acquired business from management's assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is consummated. The Company will report on its assessment of the effectiveness of internal control over financial reporting of its consolidated operations within the time period provided by the Act and the applicable SEC rules and regulations concerning business combinations.

Subject to the foregoing, there have not been any changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2014 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to legal proceedings, claims, investigations and inquiries that arise in the ordinary course of business such as, but not limited to, actions with respect to commercial, intellectual property, employment, personal injury, and environmental matters. The Company believes that it has meritorious defenses against the claims currently asserted against it and intends to defend them vigorously. While the outcome of litigation is inherently uncertain and the Company cannot be sure that it will prevail in any of the cases, subject to the matter referenced below, the Company is not aware of any matters pending that are expected to have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

Lydall Gerhardi GmbH & Co. KG ("Lydall Gerhardi"), which is an indirect wholly-owned subsidiary of the Company and part of the Thermal/Acoustical Metals segment, is cooperating with the German Federal Cartel Office (Bundeskartellamt) in connection with an investigation, initiated in the second quarter of 2014, relating to possible violations of German anti-trust laws by and among certain European automotive heat shield manufacturers, including Lydall Gerhardi.

The Company is conducting an internal investigation utilizing outside counsel. In the course of this internal investigation, the Company has discovered instances of inappropriate conduct by certain German employees of Lydall Gerhardi. The Company has disclosed its findings in an application for leniency submitted to the German Federal Cartel Office on July 22, 2014. The Company is continuing its internal investigation and has taken, and will continue to take, remedial actions.

The German Federal Cartel Office has wide discretion in fixing the amount of a fine, up to a maximum fine of ten percent (10%) of the Company's annual revenue of the year preceding the year in which the fine is imposed. The Company believes a loss is probable. However, in light of the uncertainties and variables involved, the Company is unable to estimate either the timing or the amount of the loss associated with this matter. There can be no assurance that this matter will not have a material adverse effect on the Company.

Item 1A. Risk Factors

See Part I, Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. There has been no material change in the risk factors facing the Company since that report was filed. The risks described in the Annual Report on Form 10-K, and the “Cautionary Note Concerning Forward-Looking Statements” in this report, are not the only risks faced by the Company. Additional risks and uncertainties not currently known or that are currently judged to be immaterial may also materially affect the Company’s business, financial position, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In April 2012, the Company’s Board of Directors approved a Stock Repurchase Program (“Repurchase Program”) to mitigate the potentially dilutive effects of stock options and shares of restricted and unrestricted stock granted by the Company. Under the Repurchase Program, up to 1.0 million shares of Common Stock may be purchased by the Company. There is no expiration date for the Repurchase Program.

As of June 30, 2014, there were 267,089 shares remaining available for purchase under the Repurchase Program. During the three months ended June 30, 2014, no shares were repurchased under the Repurchase Program and the Company did not acquire any shares through tax withholding in connection with restricted stock grants under the Company's equity compensation plans.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Program
April 1, 2014 - April 30, 2014	—	$—	—	267,089
May 1, 2014 - May 31, 2014	—	$—	—	267,089
June 1, 2014 - June 30, 2014	—	$—	—	267,089
	—	$—	—	267,089

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of the Registrant, as amended, filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K dated March 12, 2004 and incorporated herein by reference.
3.2	Bylaws of the Registrant, as amended and restated as of December 11, 2003, filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K dated March 12, 2004 and incorporated herein by this reference.
31.1	Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, of principal executive officer, filed herewith.
31.2	Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, of principal financial officer, filed herewith.
32.1	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LYDALL, INC.

July 31, 2014

By: /s/ Robert K. Julian

Robert K. Julian
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as
Principal Financial Officer)

LYDALL, INC.
Index to Exhibits

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