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Industrial Filtration

38,346

25,414

12,932

Advanced Materials (2)

34,960

26,870

8,090

Technical Nonwovens net sales

73,306

52,284

21,022

Thermal/Acoustical Metals Segment:

Metal parts

41,522

39,807

1,715

Tooling

8,297

4,830

3,467

Thermal/Acoustical Metals Segment net sales

49,819

44,637

5,182

Thermal/Acoustical Fibers Segment:

Fiber parts

34,739

35,073

(334

)
Tooling

884

1,356

(472
)
Thermal/Acoustical Fibers Segment net sales

35,623

36,429

(806
)
Eliminations and Other (2)

(8,254
)

(6,456
)

(1,798
)
Consolidated Net Sales

$
180,041

$
155,725

$
24,316

30

In thousands	Nine Months Ended YTD-17	YTD-16	Dollar Change
Performance Materials Segment:			
Filtration	$58,047	$53,861	$4,186
Thermal Insulation	22,116	20,570	1,546
Life Sciences Filtration	7,436	10,749	(3,313)
Performance Materials Segment net sales	87,599	85,180	2,419
Technical Nonwovens Segment (1):			
Industrial Filtration	108,884	67,805	41,079
Advanced Materials (2)	90,438	43,526	46,912
Technical Nonwovens net sales	199,322	111,331	87,991
Thermal/Acoustical Metals Segment:			
Metal parts	124,043	117,578	6,465
Tooling	13,441	14,301	(860)
Thermal/Acoustical Metals Segment net sales	137,484	131,879	5,605
Thermal/Acoustical Fibers Segment:			
Fiber parts	116,430	107,629	8,801
Tooling	4,064	4,829	(765)
Thermal/Acoustical Fibers Segment net sales	120,494	112,458	8,036
Eliminations and Other (2)	(24,492)	(18,188)	(6,304)
Consolidated Net Sales	$520,407	$422,660	$97,747

Operating income by segment:

In thousands	Quarter Ended Q3-17 Operating Income	Operating Margin %	Q3-16 Operating Income	Operating Margin %	Dollar Change
Performance Materials	$3,063	10.4%	$3,283	11.4%	$(220)
Technical Nonwovens (1)	8,589	11.7%	5,662	10.8%	2,927
Thermal/Acoustical Metals	1,836	3.7%	5,451	12.2%	(3,615)
Thermal/Acoustical Fibers	8,716	24.5%	10,026	27.5%	(1,310)
Corporate Office Expenses	(7,043)		(6,125)		(918)
Consolidated Operating Income	$15,161	8.4%	$18,297	11.7%	$(3,136)

In thousands	Nine Months Ended YTD-17 Operating Income	Operating Margin %	YTD-16 Operating Income	Operating Margin %	Dollar Change
Performance Materials	$8,516	9.7%	$10,102	11.9%	$(1,586)
Technical Nonwovens (1)	19,792	9.9%	12,807	11.5%	6,985
Thermal/Acoustical Metals	7,453	5.4%	13,090	9.9%	(5,637)
Thermal/Acoustical Fibers	33,162	27.5%	30,980	27.5%	2,182
Corporate Office Expenses	(18,963)		(19,481)		518
Consolidated Operating Income	$49,960	9.6%	$47,498	11.2%	$2,462

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(1) The Technical Nonwovens segment reports results of Texel and Gutsche for the period following the dates of acquisition of July 7, 2016 and December 31, 2016, respectively.

(2) Included in the Technical Nonwovens segment and Eliminations and Other is $6.5 million and $4.5 million in intercompany sales to the T/A Fibers segment for the quarters ended September 30, 2017 and 2016, respectively and $19.5 million and $13.6 million for the nine months ended September 30, 2017 and 2016, respectively.

Performance Materials

Segment net sales increased $0.7 million, or 2.5%, in the third quarter of 2017 compared to the third quarter of 2016. The increase was primarily due to higher net sales of filtration products of $1.9 million, or 10.5%, primarily due to improved demand and share gains particularly in North America and Europe. This increase was partially offset by decreased life sciences product net sales of $1.4 million in the third quarter of 2017 primarily as a result of lower liquid filtration product net sales of $0.8 million, primarily due to product termination buys of $0.6 million in the third quarter of 2016. Foreign currency translation had a favorable impact on net sales of $0.5 million, or 1.7%, in the third quarter of 2017 compared to the third quarter of 2016.

The Performance Materials segment reported operating income of $3.1 million, or 10.4% of net sales, in the third quarter of 2017, compared to operating income of $3.3 million, or 11.4% of net sales, in the third quarter of 2016. The decrease in operating income was primarily attributable to increased selling, product development and administrative expenses of $0.3 million, or 70 basis points as a percentage of segment net sales in the third quarter of 2017 compared to the third quarter of 2016. These increases were primarily related to increased product trial expenses of $0.3 million. Also contributing to the decrease in operating income was lower gross margin of 30 basis points due to an unfavorable mix of product sales, including higher margin product termination buys in the third quarter of 2016. Foreign currency translation had a minimal impact on operating income in the third quarter of 2017 compared with the third quarter of 2016.

Segment net sales increased $2.4 million, or 2.8%, in the first nine months of 2017 compared to the first nine months of 2016. The increase was primarily due to higher net sales of filtration products of approximately $4.2 million, or 7.8%, particularly in North America and Europe due to increased demand and share gains. Additionally, thermal insulation product net sales increased $1.5 million, or 7.5%, in the first nine months of 2017 compared to the first nine months of 2016, primary due to increased order activity in cryo liquid natural gas and energy related applications, and to a lesser extent, improved market demand in the insulation space. These increases were partially offset by lower sales of life sciences products of $3.3 million, or 30.8%, in the first nine months of 2017 compared to the first nine months of 2016, primarily the result of lower liquid filtration product net sales of $3.0 million, as there was product termination buys of $2.2 million in the first nine months of 2016. Foreign currency translation had a minimal impact on net sales in the first nine months of 2017 compared to the first nine months of 2016.

The Performance Materials segment reported operating income of $8.5 million, or 9.7% of net sales, in the first nine months of 2017, compared to operating income of $10.1 million, or 11.9% of net sales, in the first nine months of 2016. The decrease in operating income was primarily due to increased selling, product development and administrative expenses of $1.5 million, or 130 basis points as a percentage of net sales, including $0.8 million from a non-cash long-lived asset impairment charge recorded in the first quarter of 2017. Other increases included higher product trial expenses of $0.3 million, environmental expenses of $0.2 million and other selling, product development and administrative expenses of $0.2 million in the first nine months of 2017 compared to the first nine months of 2016. Also, gross profit decreased $0.1 million, primarily the result of reduction in gross margin of 80 basis points primarily due to unfavorable mix on higher margin product termination buys in the first nine months of 2016 and unfavorable absorption of fixed costs in the first nine months of 2017. Foreign currency translation had a minimal impact on operating income in the first nine months of 2017 compared to the first nine months of 2016.

Technical Nonwovens

Segment net sales increased $21.0 million, or 40.2%, in the third quarter of 2017 compared to the third quarter of 2016 primarily due to increased net sales of $13.9 million from the Gutsche acquisition which occurred on December 31, 2016. The remaining increase in segment net sales of $7.1 million, or 13.6%, was from increased advanced materials products sales of $4.1 million, primarily due to increased sales of automotive rolled-good material for use in the T/A Fibers segment manufacturing process and increased geosynthetic product sales. Also, industrial filtration products sales increased $3.0 million due to improved global demand in power generation markets in the third quarter of 2017 compared to the third quarter of 2016. Foreign currency translation favorably impacted net sales by $1.0 million, or 1.9%, in the third quarter of 2017 compared to the third quarter of 2016.

The Technical Nonwovens segment reported operating income of $8.6 million, or 11.7% of net sales, in the third quarter of 2017, compared to $5.7 million, or 10.8% of net sales, in the third quarter of 2016. The increase in segment operating income of $2.9 million was principally from the acquisitions of Texel and Gutsche, which contributed a combined increase of $2.8 million of operating income. The third quarter of 2016 included the negative impact of a $1.6 million purchase accounting adjustment to cost of sales related to inventory step-up. The increase in operating margin of 90 basis points was primarily attributable to improved gross margin of 170 basis points due to the negative impact of the $1.6 million, or 310 basis point, purchase accounting adjustment related to inventory step-up in the third quarter of 2016, partially offset by unfavorable product mix in the third quarter of 2017 compared to the third quarter of 2016. These increases to operating income was partially offset by higher segment selling, product development and administrative expenses of $2.4 million primarily related to the acquisitions of Texel and Gutsche, which contributed a combined increase of $2.3 million of selling, product development and administrative expenses. Segment selling, product development and administrative expenses negatively impacted operating margin by approximately 80 basis points, which included $0.5 million, or 70 basis points, of incremental intangibles amortization. Foreign currency translation had a minimal impact on operating income in the third quarter of 2017 compared to the third quarter of 2016.

Segment net sales increased $88.0 million in the first nine months of 2017 compared to the first nine months of 2016 primarily due to net sales of $73.1 million from the acquisitions of Texel and Gutsche which occurred on July 7, 2016 and December 31, 2016, respectively. The remaining increase in segment net sales of $14.9 million, or 13.4%, was from advanced materials products which increased $7.8 million, due to increased sales of automotive rolled-good material for use in the T/A Fibers segment manufacturing process, and industrial filtration products increased $7.1 million, primarily due to improved demand in domestic power generation markets. Foreign currency translation had a negative impact on segment net sales of $1.4 million, or 1.2%, in the first nine months of 2017 compared to the first nine months of 2016.

The Technical Nonwovens segment reported operating income of $19.8 million, or 9.9% of net sales, in the first nine months of 2017, compared to $12.8 million, or 11.5% of net sales, in the first nine months of 2016. The increase in segment operating income of $7.0 million was principally from the acquisitions of Texel and Gutsche, which contributed a combined increase of $5.6 million of operating income. The remaining increase in segment operating income of $1.4 million was due to increased sales from the segment's North America and China operations. The decrease in operating margin of 160 basis points was primarily attributable to increased selling, product development and administrative expenses of $11.2 million, or an increase of 160 basis points as a percentage of net sales, primarily due to increased Texel and Gutsche expenses of $11.2 million. Included in selling, product development and administrative expenses was incremental intangible amortization expense of $2.5 million from the acquired Texel and Gutsche businesses in the first nine months of 2017 compared to the first nine months of 2016. Gross margin was flat compared to prior year and had minimal impact on operating margin as lower raw material costs and decreased expenses for purchase accounting adjustments to cost of sales related to inventory step-up were offset by unfavorable product mix. Foreign currency translation had a minimal impact on operating income in the first nine months of 2017 compared to the first nine months of 2016.

Thermal/Acoustical Metals

Segment net sales increased $5.2 million, or 11.6%, in the third quarter of 2017, compared to the third quarter of 2016. Tooling net sales increased $3.5 million, or 71.8%, compared to the third quarter of 2016, due to the timing of new product launches. Automotive parts net sales increased $1.7 million, or 4.3%, compared to the third quarter of 2016 primarily due to increased demand and new platform launches from customers served by the Company's European and Chinese automotive operations, partially offset by lower demand on certain platforms in the Company's North American automotive operations. Foreign currency translation had a favorable impact of $1.1 million, or 2.5%, on segment net sales in the third quarter of 2017 compared to the third quarter of 2016.

The T/A Metals segment reported operating income of $1.8 million, or 3.7% of net sales, in the third quarter of 2017, compared to operating income of $5.5 million, or 12.2% of net sales, in the third quarter of 2016. The decrease in operating income of $3.6 million and operating margin of 850 basis points was primarily due to lower gross margin of

700 basis points due to increased raw material commodity costs, reduced customer pricing and unfavorable mix from increased lower margin tooling sales in the third quarter of 2017 and the absence of higher margin prototype part sales recognized in the third quarter of 2016. Also, to a lesser extent, operational inefficiencies contributed to lower gross margin in the third quarter of 2017 compared to the third quarter of 2016. The remaining 150 basis point reduction in operating margin was due to increased selling, product development and administrative expenses of $1.2 million, or 1.6% as a percentage of net sales, due to consolidation expenses of $0.8 million, or 160 basis points, primarily related to the planned combination of the T/A Metals and T/A Fibers segments, and higher salaries of $0.4 million in the third quarter of 2017 compared to the third quarter of 2016. Foreign currency translation had minimal impact on operating income in the third quarter of 2017 compared to the third quarter of 2016.

Segment net sales increased $5.6 million, or 4.3%, in the first nine months of 2017, compared to the first nine months of 2016. Automotive parts net sales increased $6.5 million, or 5.5%, primarily due to increased demand from customers served by the Company’s Chinese, European and to a lesser extent North American automotive operations. Foreign currency translation had a negative impact on parts net sales of $0.4 million, or 0.4%, in the first nine months of 2017 compared to the first nine months of 2016. Tooling net sales decreased $0.9 million, or 6.0%, compared to the first nine months of 2016 due to the timing of new product launches. Foreign currency translation had a minimal impact on tooling net sales in the first nine months of 2017 compared to the first nine months of 2016.

The T/A Metals segment reported operating income of $7.5 million, or 5.4% of net sales, in the first nine months of 2017, compared to operating income of $13.1 million, or 9.9% of net sales, in the first nine months of 2016. The decrease in operating margin of 450 basis points was primarily due to lower gross margin of 350 basis points due to increased raw material commodity costs, increased overhead expenses including operational inefficiencies, unfavorable product mix and reduced customer pricing in the first nine months of 2017 compared to the first nine months of 2016. The remaining 100 basis point reduction in operating margin was due to increased segment selling, product development and administrative expenses of $1.9 million in the first nine months of 2017 compared to the first nine months of 2016 related to consolidation expenses of $0.8 million, or 60 basis points, associated with the planned combination of the T/A Metals and T/A Fibers segments, increased salaries of $0.8 million and increased other administrative costs of $0.3 million. Overall, the first nine months of 2017 operating income and operating margin were negatively impacted by consolidation expenses of $0.9 million, or 70 basis points, and severance expenses of $0.7 million, or 50 basis points. Foreign currency translation had a minimal impact on operating income in the first nine months of 2017 compared to the first nine months of 2016.

Thermal/Acoustical Fibers

Segment net sales decreased $0.8 million, or 2.2%, in the third quarter of 2017 compared to the third quarter of 2016 due to decreased tooling net sales of $0.5 million due to timing of new product launches. Increased parts volume was offset by lower customer pricing, including approximately 1.5% of adjustments from part design changes, resulting in a decrease of parts net sales of $0.3 million, or 1.0%, in the third quarter of 2017 compared to the third quarter of 2016.

The T/A Fibers segment reported operating income of $8.7 million, or 24.5% of net sales, in the third quarter of 2017, compared to operating income of $10.0 million, or 27.5% of net sales, in the third quarter of 2016. The decrease in operating income as a percentage of segment net sales of 300 basis points was primarily due lower gross margin of 250 basis points in the third quarter of 2017 compared to the third quarter of 2016. The lower gross margin were primarily due to lower customer pricing, and to a lesser extent, increased raw material costs. Segment selling, product development and administrative expenses increased $0.2 million, or 60 basis points as a percentage of net sales, in the third quarter of 2017 compared to the third quarter of 2016 primarily due to expenses associated with the planned combination of the T/A Metals and T/A Fibers segments.

Segment net sales increased $8.0 million, or 7.1%, in the first nine months of 2017 compared to the first nine months of 2016. Automotive parts net sales increased $8.8 million, or 8.2%, due to higher consumer demand for vehicles in North America on Lydall's existing platforms. This increase was partially offset by a decrease in tooling net sales of $0.8 million in the first nine months of 2017 compared to the first nine months of 2016 due to timing of new product launches.

The T/A Fibers segment reported operating income of $33.2 million, or 27.5% of net sales, in the first nine months of 2017 compared to operating income of $31.0 million, or 27.5% of net sales, in the first nine months of 2016. The increase in operating income was attributable to increased parts net sales, partially offset by decreased gross margin of 30 basis points as a result of lower customer pricing partially offset by favorable mix of product sales. Segment selling, product development and administrative expenses increased $0.2 million compared to the prior year quarter primarily due to expenses associated with the planned combination of the T/A Metals and T/A Fibers segments.

Corporate Office Expenses

Corporate office expenses in the third quarter of 2017 were $7.0 million, compared to $6.1 million in the third quarter of 2016. The increase of $0.9 million was primarily due to increased consulting expenses in support of organic growth initiatives in the third quarter of 2017 compared to the third quarter of 2016.

Corporate office expenses for the first nine months of 2017 were $19.0 million, compared to $19.5 million in the first nine months of 2016. The decrease of $0.5 million was primarily due to decreased corporate strategic initiatives expense of $2.1 million, partially offset by increased consulting expenses in support of organic growth initiatives of $1.0 million, increased salaries and benefits of $0.4 million and increased other administrative expenses of $0.2 million in the first nine months of 2017 compared to the first nine months of 2016.

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 service payments, outcomes of contingencies, foreign currency exchange rates and pension funding. The Company manages worldwide cash requirements by considering available funds among domestic and foreign subsidiaries. The Company expects to finance its 2017 operating cash and capital spending requirements from existing cash balances, cash provided by operating activities and through borrowings under the Amended Credit Facility, as needed.

At September 30, 2017, the Company held $64.7 million in cash and cash equivalents, including $11.7 million in the U.S. with the remaining held by foreign subsidiaries.

Financing Arrangements

On July 7, 2016, the Company amended its $100 million senior secured revolving credit facility ("Amended Credit Facility") which increased the available borrowing from $100 million to $175 million, added a fourth lender and changed the maturity date from January 31, 2019 to July 7, 2021. The Amended Credit Facility is secured by substantially all of the assets of the Company. The Company entered into this Amended Credit Facility in part to fund a majority of the 2016 acquisitions and provide additional capacity to support organic growth programs, fund capital investments and continue pursuits of attractive acquisitions.

Under the terms of the Amended Credit Facility, the lenders are providing a $175 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 Company may request the Amended Credit Facility 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 million.

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 17.5 basis points to 30 basis points on the unused portion of the $175 million available under the Amended Credit Facility. At September 30, 2017, the Company had borrowing availability of $78.4 million under the Amended Credit Facility net of $92.6 million of borrowings outstanding and standby letters of credit outstanding of $4.0 million.

In addition to the amounts outstanding under the Amended Credit Facility, the Company has various acquired foreign credit facilities totaling approximately $11.6 million. At September 30, 2017, the Company's foreign subsidiaries had $0.1 million in borrowings outstanding as well as $3.0 million in standby letters of credit outstanding.

In April 2017, the Company entered into a three-year interest rate swap agreement transacted with a bank which converts the interest on the first notional $60.0 million of the Company's one-month LIBOR-based borrowings under its revolver loan from a variable rate, plus the borrowing spread, to a fixed rate of 1.58% plus the borrowing spread. The notional amount reduces quarterly by $5.0 million through March 31, 2020. The interest rate swap agreement was accounted for as cash flow hedge.

Operating Cash Flows

Net cash provided by operating activities in the first nine months of 2017 was $46.2 million compared with $47.4 million in the first nine months of 2016. In the first nine months of 2017, net income and non-cash adjustments were $59.5 million compared

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to $50.7 million in the first nine months of 2016. Since December 31, 2016, net operating assets and liabilities increased by $13.4 million, primarily due to increases of $12.1 million in accounts receivable, $11.8 million in inventories and $6.7 million in other, net, partially offset by an increase of $18.1 million in accounts payable. The increase in accounts receivable was primarily due to higher net sales in the third quarter of 2017 compared to the fourth quarter of 2016 within the Technical Nonwovens and Thermal/Acoustical Fibers and Metals segments. The increase in inventory was primarily due to increases in net tooling inventory in preparation of new automotive platform launches. The increase in other, net, was primarily due to a $3.8 million decrease in benefit plan liabilities resulting from cash contributions to the Company's domestic pension plan as well as a $2.5 million increase in taxes receivable mainly due to the timing of income tax payments within our foreign operations. The increase in accounts payable was primarily driven by the timing of vendor payments within the Technical Nonwovens segment and payments for capital expenditures within the first nine months of 2017.

Investing Cash Flows

In the first nine months of 2017, net cash used for investing activities was $20.3 million compared to $120.1 million in the first nine months of 2016. Investing activities in the first nine month of 2017 consisted of cash outflows of $19.9 million for capital expenditures and a final purchase price adjustment of $0.3 million related to the Gutsche acquisition. Investing activities in the first nine months of 2016 consisted of cash outflows of $101.1 million to fund the Texel acquisition, net of cash acquired of $1.6 million and $19.0 million for capital expenditures. Capital spending for 2017 is expected to be approximately $30 million to $35 million.

Financing Cash Flows

In the first nine months of 2017, net cash used for financing activities was $37.9 million compared to net cash provided by financing activities of $74.5 million in the first nine months of 2016. The Company received proceeds of $85.0 million from borrowings under its Amended Credit Facility in the third quarter of 2016 to fund the acquisition of Texel. Debt repayments were $35.7 million and $10.3 million in the first nine months of 2017 and 2016, respectively. The Company acquired $2.6 million and $0.8 million in company stock through its equity compensation plans during the first nine months of 2017 and 2016, respectively. The Company received $0.4 million from the exercise of stock options in the first nine months of 2017, compared to $0.6 million in the first nine months of 2016.

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, 2016, 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 nine months ended September 30, 2017, other than described below. 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.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on the Company's judgment and estimates of undiscounted future cash flows resulting from the use of the assets and their eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the assets. If the carrying values of the assets are determined to be impaired, then the carrying values are reduced to their estimated fair values. The fair values of the impaired assets are determined based on applying a combination of market approaches, including independent appraisals when appropriate, the income approach, which utilizes cash flow projections, and the cost approach.

During the first quarter of 2017, the Company tested for impairment a discrete long-lived asset group in the Performance Materials segment with a carrying value of $1.3 million, as a result of indicators of possible impairment. To determine the recoverability of this asset group, the Company completed an undiscounted cash flow analysis and compared it to the asset group carrying value. This analysis was primarily dependent on the expectations for net sales over the estimated remaining useful life of the underlying asset group. The impairment test concluded that the asset group was not recoverable as the resulting undiscounted cash flows were less than their carrying amount. Accordingly, the Company determined the fair value of the asset group to assess if there was an impairment. Determining fair value is judgmental in nature and requires the use of significant estimates and assumptions considered to be Level 3 inputs. To determine the estimated fair value of the asset group the Company used the market approach. Under the market approach, the determination of fair value considered market conditions including an independent appraisal of the components of the asset group. The estimated fair value of the asset group was $0.5 million, below its carrying value of $1.3 million, which resulted in a long-lived asset impairment charge of $0.8 million included in selling, product development and administrative expenses during the quarter ended March 31, 2017. This long-lived asset group, with a net book value of $0.5 million, is classified as held for sale as of September 30, 2017.

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

The Company has operations in Germany, France, the United Kingdom, the Netherlands, China and Canada, in addition to the United States. As a result of this, the Company’s financial results are 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 US Dollar, the Euro, the British Pound Sterling, the Japanese Yen, the Chinese Yuan, the Hong Kong Dollar and the Canadian Dollar. The Company’s foreign and domestic operations attempt to 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. 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 variable interest rate debt as of September 30, 2017, the Company’s net income would decrease by an estimated $0.4 million over a twelve-month period.

In April 2017, the Company entered into a three-year interest rate swap agreement transacted with a bank which converts the interest on the first notional $60.0 million of the Company's one-month LIBOR-based borrowings under its revolver loan from a variable rate, plus the borrowing spread, to a fixed rate of 1.58% plus the borrowing spread. The notional amount reduces quarterly by $5.0 million through March 31, 2020.

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 the 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 September 30, 2017 at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

The Company completed the acquisitions of Texel and Gutsche on July 7, 2016 and December 31, 2016, respectively. Management considers these transactions to be material to the Company’s financial statements. We are currently in the process of evaluating the existing controls and procedures of Texel and Gutsche and integrating the businesses into our Section 404 compliance program under the Sarbanes-Oxley Act of 2002 (the "Act") and the applicable rules and regulations under such Act. The Company will report on its assessment of the effectiveness of internal control over financial reporting of its consolidated operations (including the Texel and Gutsche businesses) 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 September 30, 2017 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.

As previously disclosed, Lydall Gerhardi GmbH Co. & KG (“Lydall Gerhardi”), an indirect wholly-owned subsidiary of Lydall, Inc. and part of Lydall’s Thermal/Acoustical Metals reporting segment, has cooperated with the German Federal Cartel Office, Bundeskartellamt (“German Cartel Office”) since May 2014 in connection with an investigation relating to violations of German anti-trust laws by and among certain European automotive heat shield manufacturers, including Lydall Gerhardi.

In December 2016, Lydall Gerhardi agreed in principle with the German Cartel Office to pay a settlement amount of €3.3 million. The Company recorded the expense of €3.3 million (approximately $3.5 million U.S. Dollars) in December 2016. In July 2017, Lydall Gerhardi entered into a formal settlement agreement with the German Cartel Office, and remitted payment in full in August 2017 of €3.3 million (approximately $3.9 million U.S. Dollars), definitively concluding this matter.

In the fourth quarter of 2016, as part of a groundwater discharging permitting process, water samples collected from wells and process water basins at the Company’s Rochester New Hampshire manufacturing facility, within the Performance Materials segment, showed concentrations of Perfluorinated Compounds (“PFCs”) in excess of state ambient groundwater quality standards.

In January 2017, the Company received a notification from the State of New Hampshire Department of Environmental Services (“NHDES”) naming Lydall Performance Materials, Inc. a responsible party with respect to the discharge of regulated contaminants and as such, is required to take action to investigate and remediate the impacts in accordance with standards established by the NHDES. The Company is conducting a site investigation, the scope of which has been reviewed by the NHDES, in order to assess the extent of potential soil and groundwater contamination and develop a remedial action. Based on input received from NHDES in March 2017 with regard to the scope of the site investigation, the Company recorded $0.2 million of expense in the first quarter of 2017 associated with the expected costs of conducting this site investigation. Based on additional information obtained through the results of its site investigation and correspondence with NHDES in September 2017, no additional expense was recorded in the third quarter of 2017. In the fourth quarter of 2017, the Company expects to submit its final site investigation report to the NHDES. The Company does not know the scope or extent of its future obligations, if any, that may arise from the NHDES review of the site investigation report and therefore is unable to estimate the cost of any required future corrective actions. During the nine months ended September 30, 2017, the environmental liability of $0.2 million has been reduced by $0.1 million reflecting payments made to vendors, resulting in a balance of $0.1 million at September 30, 2017. While the site investigation is nearly complete, the Company cannot assure that costs will not exceed the current estimates nor that any future corrective action at this location would not have a material effect on the Company’s financial condition, results of operations or liquidity. Provisions for such matters are charged to expense when it is probable that a liability has been incurred and reasonable estimates of the liability can be made. Estimates of environmental liabilities are based on a variety of matters, including, but not limited to, the stage of investigation, the stage of the remedial design, evaluation of existing remediation technologies, and presently enacted laws and regulations. In future periods, a number of factors could significantly impact any estimates of environmental remediation costs.

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, 2016, as updated by Part I, Item 1. Legal Proceedings of this report. 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.

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

During the three months ended September 30, 2017, the Company acquired 2,044 shares of common stock through withholding, pursuant to provisions in agreements with recipients of restricted stock granted under the Company's equity compensation plans, in which the Company withholds that number of shares having fair value equal to each recipient's minimum tax withholding due.

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
July 1, 2017 - July 31, 2017	—	$ —	—	—
August 1, 2017 - August 31, 2017	341	$ 47.55	—	—
September 1, 2017 - September 30, 2017	1,703	$ 46.25	—	—
	2,044	$ 46.47	—	—

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Item 6. Exhibits

Exhibit Number	Description
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.

October 31, 2017 By: /s/ Scott M. Deakin

Scott M. Deakin
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as
Principal Financial Officer)

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LYDALL, INC.
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