LYDALL INC /DE/

FORM 10-Q
(Quarterly Report)

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Industry	Textiles - Non Apparel
Sector	Consumer Cyclical
Fiscal Year	12/31

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

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 1-7665

LYDALL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**06-0865505**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
One Colonial Road, Manchester, Connecticut	**06040**
(Address of principal executive offices)	**(zip code)**

(860) 646-1233
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock $.10 par value per share.

Total Shares outstanding October 21, 2003	**16,251,845**

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LYDALL, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In Thousands)

	September 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,021	$ 2,596
Accounts receivable, net	45,266	39,882
Inventories:		
Raw materials and supplies	12,042	10,619
Work in process	14,535	11,021
Finished goods	11,076	11,058
Total inventories	37,653	32,698
Income taxes receivable	2,463	2,723
Prepaid expenses and other current assets	5,724	3,857
Net investment in discontinued operations	—	1,044
Deferred tax assets	3,437	2,990
Total current assets	96,564	85,790
Property, plant and equipment, at cost	169,667	158,369
Accumulated depreciation	(80,103)	(72,568)
	89,564	85,801
Other assets, net	38,965	39,297
Total assets	$ 225,093	$ 210,888
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 5,060	$ 9,686
Accounts payable	21,710	19,434
Accrued taxes	1,238	768
Accrued payroll and other compensation	2,628	4,500
Other accrued liabilities	6,707	6,481
Total current liabilities	37,343	40,869
Long-term debt	18,926	16,228
Deferred tax liabilities	13,965	10,408
Other long-term liabilities	14,520	13,315
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock	2,233	2,218
Capital in excess of par value	43,186	42,519
Retained earnings	163,471	156,143
Accumulated other comprehensive loss	(6,909)	(9,170)
	201,981	191,710
Treasury stock, at cost	(61,642)	(61,642)
Total stockholders' equity	140,339	130,068
Total liabilities and stockholders' equity	$ 225,093	$ 210,888

See accompanying Notes to Consolidated Condensed Financial Statements.

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LYDALL, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In Thousands Except Per Share Data)

	Three Months Ended September 30,	
	2003	2002
	(Unaudited)	
Net sales	$63,825	$62,721
Cost of sales	48,890	46,505
Gross margin	14,935	16,216
Selling, product development and administrative expenses	11,757	11,458
Operating income	3,178	4,758
Other (income) expense:		
Investment income	(2)	(14)
Interest expense	209	246
Foreign currency transaction losses (gains), net	6	(84)
Other, net	—	20
	213	168
Income from continuing operations before income taxes	2,965	4,590
Income tax expense	1,062	1,324
Income from continuing operations	1,903	3,266
Discontinued operations:		
Loss on disposal of discontinued segments, net of tax benefit of $481	(819)	—
Loss from discontinued operations	(819)	—
Net income	$ 1,084	$ 3,266
Basic earnings per common share:		
Continuing operations	$ .12	$ .20
Discontinued operations	(.05)	—
Net income	$ .07	$ .20
Diluted earnings per common share:		
Continuing operations	$ .12	$ .20
Discontinued operations	(.05)	—
Net income	$ .07	$ .20
Weighted average common shares outstanding	16,104	16,011
Weighted average common shares and equivalents outstanding	16,283	16,335
Net income	$ 1,084	$ 3,266
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments	605	(82)
Unrealized gain (loss) on derivative instruments	51	(68)
Other comprehensive income (loss), before tax	656	(150)
Income tax (expense) benefit related to other comprehensive income (loss)	(230)	53
Other comprehensive income (loss), net of tax	426	(97)
Comprehensive income	$ 1,510	$ 3,169

See accompanying Notes to Consolidated Condensed Financial Statements.

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LYDALL, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(In Thousands Except Per Share Data)

	Nine Months Ended September 30,	
	2003	2002
	(Unaudited)	
Net sales	$208,274	$188,665
Cost of sales	156,825	137,612
Gross margin	51,449	51,053
Selling, product development and administrative expenses	38,030	35,427
Operating income	13,419	15,626
Other (income) expense:		
Investment income	(29)	(38)
Interest expense	748	631
Foreign currency transaction losses (gains), net	9	(138)
Other, net	—	(4)
	728	451
Income from continuing operations before income taxes	12,691	15,175
Income tax expense	4,544	5,036
Income from continuing operations	8,147	10,139
Discontinued operations:		
Loss on disposal of discontinued segments, net of tax benefit of $481	(819)	—
Loss from discontinued operations	(819)	—
Net income	$ 7,328	$ 10,139
Basic earnings per common share:		
Continuing operations	$ .51	$ .63
Discontinued operations	(.05)	—
Net income	$ .46	$ .63
Diluted earnings per common share:		
Continuing operations	$ .50	$ .62
Discontinued operations	(.05)	—
Net income	$ .45	$ .62
Weighted average common shares outstanding	16,088	15,997
Weighted average common shares and equivalents outstanding	16,172	16,329
Net income	$ 7,328	$ 10,139
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments	3,525	2,325
Unrealized loss on derivative instruments	(46)	(60)
Other comprehensive income, before tax	3,479	2,265
Income tax expense related to other comprehensive income	(1,218)	(793)
Other comprehensive income, net of tax	2,261	1,472
Comprehensive income	$ 9,589	$ 11,611

See accompanying Notes to Consolidated Condensed Financial Statements.

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LYDALL, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In Thousands)

	Nine Months Ended September 30,	
	2003	**2002**
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 7,328	$ 10,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,529	7,814
Amortization	188	315
Deferred income taxes	3,611	(407)
Loss on disposal of discontinued segments	819	—
Loss on disposal of fixed assets	360	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,187)	(9,459)
Income taxes receivable	378	611
Inventories	(3,449)	(2,453)
Accounts payable	1,651	(24)
Accrued taxes	159	1,882
Accrued payroll and other compensation	(2,001)	4,042
Other, net	2,256	(448)
Contributions to pension plans	(2,004)	(1,700)
Total adjustments	7,310	173
Net cash provided by operating activities	14,638	10,312
Cash flows from investing activities:		
Capital expenditures	(12,837)	(10,147)
Acquisitions, net	—	(1,035)
Proceeds from disposal of discontinued segments	127	122
Proceeds from assets held for sale	—	1,002
Net cash used for investing activities	(12,710)	(10,058)
Cash flows from financing activities:		
Debt proceeds	49,860	79,433
Debt payments	(53,347)	(79,710)
Issuance of common stock	681	410
Net cash (used for) provided by financing activities	(2,806)	133
Effect of exchange rate changes on cash	303	42
(Decrease) Increase in cash and cash equivalents	(575)	429
Cash and cash equivalents at beginning of period	2,596	955
Cash and cash equivalents at end of period	$ 2,021	$ 1,384
Supplemental Schedule of Cash Flow Information		
Cash paid during the period for:		
Interest	$ 883	$ 668
Income taxes	484	2,841

See accompanying Notes to Consolidated Condensed Financial Statements.

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LYDALL, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. The accompanying consolidated condensed financial statements include the accounts of Lydall, Inc. and its subsidiaries (collectively, "Lydall," the "Company" or the "Registrant"). All financial information is unaudited for the interim periods reported. All significant intercompany transactions have been eliminated in the consolidated condensed financial statements. Management believes that all adjustments, which include only normal recurring adjustments necessary to fairly present the Company's consolidated financial position, results of operations and cash flows for the periods reported, have been included. The year-end consolidated condensed balance sheet was derived from the December 31, 2002 audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Certain prior year components of the consolidated condensed financial statements have been reclassified to be consistent with current period presentation.

2. Basic earnings per common share are based on income from continuing operations and net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are based on income from continuing operations and net income divided by the weighted average number of common shares outstanding during the period, including the effect of stock equivalents, where such effect is dilutive.

	Quarter Ended September 30, 2003 (Unaudited)			Quarter Ended September 30, 2002 (Unaudited)		
	Income from Continuing Operations ($000's)	Average Shares (000's)	Per Share Amount	Income from Continuing Operations ($000's)	Average Shares (000's)	Per Share Amount
Basic earnings per share	$ 1,903	16,104	$ .12	$ 3,266	16,011	$ .20
Effect of dilutive stock options	—	179	—	—	324	—
Diluted earnings per share	$ 1,903	16,283	$ .12	$ 3,266	16,335	$ .20
	Net Income ($000's)	Average Shares (000's)	Per Share Amount	Net Income ($000's)	Average Shares (000's)	Per Share Amount
Basic earnings per share	$ 1,084	16,104	$ .07	$ 3,266	16,011	$ .20
Effect of dilutive stock options	—	179	—	—	324	—
Diluted earnings per share	$ 1,084	16,283	$ .07	$ 3,266	16,335	$ .20

	Nine Months Ended September 30, 2003 (Unaudited)			Nine Months Ended September 30, 2002 (Unaudited)		
	Income from Continuing Operations ($000's)	Average Shares (000's)	Per Share Amount	Income from Continuing Operations ($000's)	Average Shares (000's)	Per Share Amount
Basic earnings per share	$ 8,147	16,088	$ .51	$ 10,139	15,997	$ .63
Effect of dilutive stock options	—	84	(.01)	—	332	(.01)
Diluted earnings per share	$ 8,147	16,172	$ .50	$ 10,139	16,329	$ .62
	Net Income ($000's)	Average Shares (000's)	Per Share Amount	Net Income ($000's)	Average Shares (000's)	Per Share Amount
Basic earnings per share	$ 7,328	16,088	$ .46	$ 10,139	15,997	$ .63
Effect of dilutive stock options	—	84	(.01)	—	332	(.01)
Diluted earnings per share	$ 7,328	16,172	$ .45	$ 10,139	16,329	$ .62

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LYDALL, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

3. The Company has stock option plans under which employees and directors have options to purchase Common Stock. The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plans. The Company has adopted those provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123) and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of Statement of Financial Accounting Standards No. 123" (FAS 148), which require the disclosure of pro forma effects on net income and earnings per share as if compensation cost had been recognized based upon the fair value method at the date of grant for options awarded.

The following tables illustrate the effect on net income and earnings per share as if compensation cost had been recognized based on the fair value of the options at the grant dates for awards under those plans consistent with FAS 123, as amended, using the Black-Scholes fair value method for option pricing:

In thousands except per share amounts	Quarter Ended September 30, 2003	Quarter Ended September 30, 2002
	(Unaudited)	(Unaudited)
Net income – as reported	$ 1,084	$ 3,266
Compensation expense as determined under the Black-Scholes option pricing model, net of tax	(416)	(481)
Net income – pro forma	$ 668	$ 2,785
Basic earnings per common share:		
Net income – as reported	$ .07	$ .20
Net income – pro forma	$ .04	$ .17
Diluted earnings per common share:		
Net income – as reported	$ .07	$ .20
Net income – pro forma	$ .04	$ .17

In thousands except per share amounts	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
	(Unaudited)	(Unaudited)
Net income – as reported	$ 7,328	$ 10,139
Compensation expense as determined under the Black-Scholes option pricing model, net of tax	(1,243)	(1,443)
Net income – pro forma	$ 6,085	$ 8,696
Basic earnings per common share:		
Net income – as reported	$ .46	$ .63
Net income – pro forma	$ .38	$ .54
Diluted earnings per common share:		
Net income – as reported	$ .45	$ .62
Net income – pro forma	$ .38	$ .53

LYDALL, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

4. The following table presents the gross carrying amount of goodwill and the related accumulated amortization included in "Other assets" in the Company's Consolidated Condensed Balance Sheets by primary operating segment as of September 30, 2003 and December 31, 2002. There were no impairments or dispositions of goodwill recorded during the quarter or nine months ended September 30, 2003.

In thousands	September 30, 2003 Gross Carrying Amount	September 30, 2003 Accumulated Amortization	December 31, 2002 Gross Carrying Amount	December 31, 2002 Accumulated Amortization
	(Unaudited)	(Unaudited)		
Goodwill				
Thermal/Acoustical	$ 32,177	($ 5,953)	$ 32,177	($ 5,953)
Filtration/Separation	5,787	(1,127)	5,787	(1,127)
Total goodwill	$ 37,964	($ 7,080)	$ 37,964	($ 7,080)

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 assets" in the Consolidated Condensed Balance Sheets as of September 30, 2003 and December 31, 2002:

In thousands	September 30, 2003 Gross Carrying Amount	September 30, 2003 Accumulated Amortization	December 31, 2002 Gross Carrying Amount	December 31, 2002 Accumulated Amortization
	(Unaudited)	(Unaudited)		
Amortized intangible assets:				
Customer lists	$ 1,995	($ 1,933)	$ 1,995	($ 1,888)
License agreements	377	(114)	377	(91)
Patents	883	(251)	844	(213)
Non-compete agreements	245	(157)	245	(135)
Other	1,061	(850)	955	(790)
Total amortized intangible assets	$ 4,561	($ 3,305)	$ 4,416	($ 3,117)
Unamortized intangible assets:				
Trademarks	$ 450		$ 450	

Amortization expense was approximately $61 thousand and $188 thousand for the quarter and nine months ended September 30, 2003, respectively, and $124 thousand and $315 thousand for the quarter and nine months ended September 30, 2002, respectively.

The following table presents estimated amortization expense for each of the next five years:

In thousands	2003	2004	2005	2006	2007
Estimated amortization expense	$250	$200	$150	$100	$100

5. In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (FAS 149). FAS 149 amends Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," for certain decisions made by the FASB as part of the Derivatives Implementation Group process. FAS 149 was effective for applicable contracts entered into or modified after June 30, 2003 and should be applied prospectively, except for certain provisions specifically referenced within the pronouncement. The adoption of this standard did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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LYDALL, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

6. During the third quarter ended September 30, 2003, the Company recorded an after-tax charge of $.8 million, or $.05 per diluted share for additional shutdown costs and the write-off of the remaining book value of assets of the previously discontinued Paperboard Segment.

7. The Company amended and restated its $50 million domestic revolving credit facility with a group of five banking institutions on August 29, 2003. The most recent amendment and restatement was completed to provide the Company additional flexibility with respect to certain restrictive and financial covenants under the credit agreement. The credit agreement continues to have the same maturity date of September 30, 2005 and, other than specific modifications made to certain covenants, was renewed under similar terms and conditions as those previously in place under the prior arrangement. The modifications to the financial covenants provide the Company with the flexibility to reacquire its stock under the stock repurchase program recently approved by the Company's Board of Directors and to fund the capital requirements of the new European automotive operation.

   As part of its $50 million domestic credit facility, the Company obtained a €9.0 million four-year term loan from the same group of banking institutions on August 29, 2003, which matures in 2007. The proceeds of this four-year term loan were used to settle amounts outstanding under a €10.2 million line of credit maintained by a foreign subsidiary of the Company, which was subsequently cancelled and replaced with a €6.0 million credit agreement.This new credit agreement, which has a maturity date of September 30, 2007, was completed under similar terms and conditions to those in place under the prior agreement.

   Primarily due to the modifications in the Company's debt structure as well as debt repayments during the year, the debt maturity schedule changed from that originally disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. As of September 30, 2003 the schedule for total debt maturing in 2004, 2005, 2006, 2007, 2008 and thereafter is estimated to be $4.6 million, $9.7 million, $3.7 million, $3.7 million, $.2 million and $.7 million, respectively.

8. Lydall's reportable segments are: Thermal/Acoustical and Filtration/Separation. All other products are aggregated in Other Products and Services. Reconciling Items include Corporate Office operating expenses and intercompany eliminations. For a full description of each segment, refer to Item 1 and the "Notes to Consolidated Financial Statements" in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. The table below presents net sales and operating income by segment for the quarter and nine months ended September 30, 2003 and 2002:

In thousands Quarter Ended	Thermal/ Acoustical	Filtration/ Separation	Other Products and Services	Reconciling Items	Consolidated Totals
September 30, 2003					
Net sales	$ 40,097	$ 17,144	$ 6,975	($ 391)	$ 63,825
Operating income	$ 4,729	$ 2,012	$ 307	($ 3,870)	$ 3,178
September 30, 2002					
Net sales	$ 36,078	$ 19,186	$ 7,967	($ 510)	$ 62,721
Operating income	$ 4,476	$ 3,257	$ 697	($ 3,672)	$ 4,758

In thousands Nine Months Ended	Thermal/ Acoustical	Filtration/ Separation	Other Products and Services	Reconciling Items	Consolidated Totals
September 30, 2003					
Net sales	$130,446	$ 56,741	$ 22,511	($ 1,424)	$ 208,274
Operating income	$ 17,183	$ 7,450	$ 1,713	($ 12,927)	$ 13,419
September 30, 2002					
Net sales	$109,794	$ 55,777	$ 24,502	($ 1,408)	$ 188,665
Operating income	$ 16,247	$ 8,895	$ 2,121	($ 11,637)	$ 15,626

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Concerning Factors That May Affect Future Results

In the interest of more meaningful disclosure, Lydall and its management make statements regarding the future outlook of the Company, which constitute "forward-looking statements" under the securities laws. These forward-looking statements are intended to provide management's current expectations for the future operating and financial performance of the Company, based on assumptions and estimates currently believed to be valid. Forward-looking statements are included under the "Outlook" section of this Item and elsewhere within this report and are generally identified through the use of language such as "believe," "expect," "may," "plan," "estimate," "anticipate" and other words of similar meaning in connection with the discussion of future operating or financial performance.

All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Some of the factors that might cause such a difference include risks and uncertainties which are detailed in Note 14 and in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Results of Operations

Net Sales

The Company recorded net sales of $63.8 million in the third quarter of 2003 compared with $62.7 million for the same quarter of 2002, an increase of $1.1 million, or 1.8 percent. Foreign currency translation, which was primarily related to the significant strengthening of the Euro during 2003, increased net sales 3.4 percent for the period. Excluding the benefit from foreign currency translation, net sales decreased by 1.6 percent. After adjusting for foreign currency translation, the decrease for the third quarter was primarily related to lower air filtration sales, lower Vital Fluids' sales to original equipment manufacturers, lower specialty product sales and decreased revenues from the trucking operations of the transport business. These decreases were partially offset by increased revenues from the automotive business and improved sales volume of passive and active thermal products compared with the same period of 2002. For the nine months ended September 30, 2003 net sales were $208.3 million, an increase of $19.6 million, or 10.4 percent, from $188.7 million for the first nine months of 2002. Foreign currency translation increased sales 4.4 percent for the nine-month period. After adjusting for foreign currency translation, the increase in net sales for the nine months ended September 30, 2003 was primarily related to increased sales of automotive products, building material products and liquid filtration products, as well as improved sales volume of active thermal products and improved revenues from the warehousing operations of the transport business. These increases were slightly offset by lower sales of specialty products, decreased domestic air filtration sales, lower Vital Fluids' sales to original equipment manufacturers and lower revenues from the trucking operations of the transport business compared with the same period of 2002.

Gross Margin

For the quarter and nine months ended September 30, 2003, gross margin was $14.9 million and $51.4 million, respectively, compared with $16.2 million and $51.1 million for the same periods of 2002. Gross margin as a percentage of net sales was 23.4 percent for the third quarter of 2003 compared with 25.9 percent for the same quarter of 2002; and 24.7 percent and 27.1 percent for the nine months ended September 30, 2003 and 2002, respectively. For the quarter, gross margin was negatively impacted by higher fixed overhead costs, operational inefficiencies at the automotive operations, unfavorable production variances due to unplanned plant shutdowns and lower throughput at certain operations and higher insurance and pension costs compared with the third quarter of 2002. Gross margin was also impacted by lower sales of air filtration products, specialty products and Vital Fluids' products sold to original equipment manufacturers, all of which traditionally carry comparatively higher margins, partially offset by increased margin contribution from higher sales in the industrial thermal businesses and a $.5 million lower EVA

bonus accrual for the third quarter. Year to date, gross margin was impacted by these factors, as well as incremental costs incurred to consolidate the Vital Fluids' operations during the second quarter, lower gross margin contributions from blood and bioprocessing products and lower year over year gross margin performance at the Columbus operation, offset by increased gross margin contribution from higher year to date sales in the automotive business and lower EVA bonus expense of $1.1 million.

Selling, Product Development and Administrative Expenses

For the quarter and nine months ended September 30, 2003, selling, product development and administrative expenses were $11.8 million and $38.0 million compared with $11.5 million and $35.4 million for the same periods of 2002, respectively. Selling, product development and administrative expenses were 18.4 percent of net sales for the quarter ended September 30, 2003, compared with 18.3 percent in the third quarter of 2002; and 18.3 percent for the first nine months of 2003, compared with 18.8 percent for the first nine months of 2002. The increase in selling, product development and administrative expenses in the third quarter of 2003 compared to the same quarter of 2002 was primarily due to higher salaries, pension and other employee benefit costs and consulting fees related to Sarbanes-Oxley compliance activities. These increased costs in the quarter were substantially mitigated by EVA bonus accruals, which were approximately $1.1 million lower in the third quarter of 2003 compared with the third quarter of 2002. These factors, as well as charges incurred during the first half of 2003 of approximately $1.1 million for the consolidation of the e-commerce function, outside professional fees related to the investigation at the Columbus operation and fees for tax projects and retained searches, offset by lower EVA bonus expense of $2.6 million for the nine-month period primarily comprised the increase in selling, product development and administrative expenses when compared to the same period of 2002.

Other Income/Expense

For the quarter ended September 30, 2003, other expense was $.2 million and primarily consisted of interest expense. For the quarter ended September 30, 2002, other expense of $.2 million primarily consisted of interest expense of $.3 million, offset by $.1 million of foreign exchange transaction gains.

For the nine months ended September 30, 2003, other expense was $.7 million and primarily consisted of interest expense. For the nine months ended September 30, 2002 other expense was $.5 million and primarily consisted of interest expense of $.6 million, offset by foreign currency transaction gains of $.1 million.

Income Taxes

The effective tax rate for the quarter and nine months ended September 30, 2003 was 35.8 percent. The effective tax rate for the quarter and nine months ended September 30, 2002 was 28.8 percent and 33.2 percent, respectively. The income tax rate for the comparable periods of 2002 included discrete tax benefits of approximately $.3 million. Such benefits related primarily to a larger than expected benefit on export transactions, as well as certain tax credits identified and recognized during the period. Without the effect of these benefits, the effective tax rate for the quarter and nine months ended September 30, 2002 would have been approximately 35.3 percent and 35.1 percent, respectively.

Segment Results

Thermal/Acoustical

Thermal/Acoustical net sales were $40.1 million for the quarter ended September 30, 2003, compared with $36.1 million for the third quarter of 2002, an increase of $4.0 million, or 11.1 percent. For the nine months ended September 30, 2003, segment net sales were $130.4 million, an increase of $20.6 million, or 18.8 percent from $109.8 million for the nine months ended September 30, 2002. Foreign currency translation increased segment net sales by approximately 4.1 percent and 5.1 percent for the quarter and nine months ended September 30, 2003, respectively. The increase in segment net sales during the quarter was primarily related to increased sales of automotive products, building material products and improved sales

performance in the active thermal products business. The increase in segment net sales for the nine-month period was primarily the result of strong sales for the automotive business and an improvement in sales of active thermal products compared with the same period of 2002. The year to date increased automotive operating performance was driven by increased sales of thermal/acoustical exhaust wrap and acoustical tunnel insulator products and increased part sales to DaimlerChrysler in the United States and new part and tooling sales for European platforms, primarily to Volkswagen, Nissan and BMW.

Thermal/Acoustical operating income increased $.2 million, or 5.7 percent to $4.7 million for the quarter ended September 30, 2003, compared with $4.5 million for the third quarter of 2002. For the nine months ended September 30, 2003, segment operating income was $17.2 million, compared with $16.2 million for the same period of 2002, an increase of $1.0 million, or 5.8 percent. Foreign currency translation increased segment operating income by approximately 3.1 percent and 3.2 percent for the quarter and nine months ended September 30, 2003, respectively. Operating margin as a percentage of segment net sales for the quarter and nine months ended September 30, 2003 was 11.8 percent and 13.2 percent, respectively, compared with 12.4 percent and 14.8 percent for the quarter and nine months ended September 30, 2002. Despite the increase in segment net sales, segment operating income was only slightly improved for the quarter and nine months ended September 30, 2003 compared with the same period of 2002 on a constant currency basis. Segment operating income continued to be negatively impacted by higher fixed overhead costs, operational inefficiencies at certain automotive operations, unfavorable production variances due to unplanned plant shut downs, higher insurance and pension costs and lower comparable operating performance at the Columbus operation. These reductions in segment operating income were mitigated by improved operating performance in active thermal products, increased operating margin contribution from building products and lower EVA bonus expense compared with the same periods of 2002.

Filtration/Separation

Filtration/Separation net sales were $17.1 million for the quarter ended September 30, 2003, compared with $19.2 million for the third quarter of 2002, a decrease of $2.1 million, or 10.6 percent. For the nine months ended September 30, 2003, segment net sales were $56.7 million, an increase of $.9 million, or 1.7 percent from $55.8 million for the nine months ended September 30, 2002. Foreign currency translation increased segment net sales by approximately 3.2 percent and 4.9 percent for the quarter and nine months ended September 30, 2003, respectively. The decrease in segment net sales for the quarter was substantially related to lower air filtration sales, lower Vital Fluids' sales to original equipment manufacturers, and lower than expected blood and cell therapy product sales due to the delay in the delivery of new production equipment. These decreases were partially offset by sales growth of liquid filtration products and favorable foreign currency translation compared with the third quarter of 2002. After excluding the benefit of foreign currency translation, the decrease in segment net sales for the nine-month period compared with the same period of 2002 was primarily related to lower air filtration sales and lower Vital Fluids' sales to original equipment manufacturers. These decreases were partially offset by sales growth of liquid filtration products, increased sales of new blood and cell therapy products and bioprocessing products to new and existing customers.

Filtration/Separation operating income decreased $1.3 million, or 38.2 percent to $2.0 million for the quarter ended September 30, 2003, compared with $3.3 million for the third quarter of 2002. For the nine months ended September 30, 2003, segment operating income was $7.5 million, compared with $8.9 million for the same period of 2002, a decrease of $1.4 million, or 16.2 percent. Foreign currency translation increased segment operating income by approximately 1.9 percent and 3.6 percent for the quarter and nine months ended September 30, 2003, respectively. Operating margin as a percentage of segment net sales for the quarter and nine months ended September 30, 2003 was 11.7 percent and 13.1 percent, respectively, compared with 17.0 percent and 15.9 percent for the quarter and nine months ended September 30, 2002. The decrease in segment operating income and margin percentage for the quarter primarily related to a combination of the decline in segment net sales volume, unfavorable production variances at certain operations due to lower throughput, losses on equipment dispositions, as well as higher fixed and administrative expenses, such as salary, pension, insurance and energy costs. The decrease in segment operating income and margin percentage for the quarter was partially mitigated by the favorable impact of

foreign currency translation and a reduction in the EVA bonus accrual during the quarter. These factors, as well as restructuring costs incurred to consolidate the Vital Fluids' operations during the second quarter of 2003 contributed to the decline in segment operating income and margin percentage for the nine-month period.

Other Products and Services

Other Products and Services net sales were $7.0 million for the quarter ended September 30, 2003, compared with $8.0 million for the third quarter of 2002, a decrease of $1.0 million, or 12.5 percent. For the nine months ended September 30, 2003, segment net sales were $22.5 million, a decrease of $2.0 million, or 8.1 percent from $24.5 million for the nine months ended September 30, 2002. The decrease in segment net sales for the quarter and nine months ended September 30, 2003 was primarily related to significantly lower sales of specialty products and reduced revenues from the trucking operation of the transport business. These decreases were partially offset by increased revenues from the warehouse distribution operation of the transport business as the Newport News Distribution Center continued to perform at improved operating levels compared with its prior year's start-up performance.

Other Products and Services operating income decreased $.4 million, or 56.0 percent to $.3 million for the quarter ended September 30, 2003, compared with $.7 million for the third quarter of 2002. For the nine months ended September 30, 2003, segment operating income decreased by $.4 million, or 19.2 percent to $1.7 million from $2.1 million for the same period of 2002. Operating margin as a percentage of segment net sales for the quarter and nine months ended September 30, 2003 was 4.4 percent and 7.6 percent, respectively, compared with 8.7 percent for both the quarter and nine months ended September 30, 2002. The decrease in operating income and margin percentage for the quarter and nine months ended September 30, 2003 primarily related to lower sales volume and sales mix changes in the specialty products business and lower margin contribution from the trucking operation, partially offset by improved operating performance in the warehouse distribution business, which resulted from higher sales volume and the absence of start-up costs incurred during 2002.

Discontinued Operations

During the third quarter ended September 30, 2003, the Company recorded an after-tax charge of $.8 million, or $.05 per diluted share for additional shutdown costs and the write-off of the remaining book value of assets of the previously discontinued Paperboard Segment.

Outlook

We believe Lydall's thermal/acoustical and filtration/separation businesses are in markets that present good growth opportunities and we expect the businesses to grow over the long term, primarily through the introduction of new products and penetration of new markets.

Lydall continues to garner new automotive business and has received approvals for several future vehicle platforms. However, vehicle production of the Big 3 domestic automotive companies was down approximately 12 percent in the third quarter compared to the prior year quarter. In particular, production of our top 10 vehicles declined by 20 percent for the third quarter compared with the third quarter of 2002. These factors, as well as reduced content on the new model of one of our largest platforms and the end of production of certain products, could result in a reduction in automotive sales in the near term. In addition, the Company expects to incur costs related to the start-up of the new automotive operation in St. Nazaire, France; such costs will continue to be incurred until the opening of the facility in the second quarter of 2004. This new facility, when operational, will enable the Company to support important new automotive customers in Europe, from which the Company has received significant purchase commitments.

Demand for the Company's bioprocessing products is expected to increase as existing customers continue to expand utilization and products gain validation with new customers. The Company anticipates that demand for its blood and cell therapy products will continue to grow through new product introductions, particularly

custom devices. However, sales to original equipment manufacturers are expected to decrease due to a decline in demand for cardiotomy reserviors used in open heart surgeries, which may partially offset the expected growth in other areas of the Vital Fluids' business. Lydall intends to leverage its market position in the air and liquid filtration markets by expanding the Company's technology base and range of products.

In July 2003, coinciding with his appointment as President and Chief Executive Officer, the Company issued David Freeman a grant of one hundred thousand shares of Lydall restricted stock. These shares vest 20 percent per year over the next five years and will be expensed over this five-year period based on the closing market value of the stock on the date of grant. The total compensation cost to be recognized by the Company over the next five years is approximately $1.1 million on a pre-tax basis, of which approximately $.1 million was recognized during the third quarter of 2003.

Similar to other public companies, Lydall is currently completing internal projects in order to comply with the Sarbanes-Oxley Act of 2002. These projects require the Company to devote internal resources and incur costs related to the use of external advisors. The Company continues to evaluate its approach to achieving compliance with all aspects of the Sarbanes-Oxley Act and the expected impact of these costs in the short and long term, which may have a material impact on the results of operations.

For the year ended December 31, 2002, the Company recognized pension expense of $1.5 million. For 2003, the Company lowered its expected return on plan assets to 8.75 percent. In addition, the reduction in the discount rate to 6.75 percent and the lower than expected return on plan assets in 2002 have increased the deferred actuarial loss subject to amortization. As a result of these changes in assumptions, pension expense has increased significantly from 2002 and is currently estimated to be approximately $2.6 million for 2003, of which approximately $1.9 million has been recorded as of September 30, 2003.

Liquidity and Capital Resources

At September 30, 2003, cash and cash equivalents were approximately $2.0 million compared with $2.6 million at December 31, 2002. Working capital at September 30, 2003 was $59.2 million compared with $44.9 million at December 31, 2002. The increase in working capital was primarily due to increased trade accounts receivable related to year to date increased sales performance, increased inventories related to new business primarily in the Thermal/Acoustical Segment and a reduction in short term borrowings from December 31, 2002 that have been refinanced on a long term basis, as discussed below.

Capital expenditures were $12.8 million for the first nine months of 2003, which included a payment of $1.6 million for the purchase of certain foreign assets not yet settled in cash at December 31, 2002, compared with $10.1 million for the same period of 2002. The Company expects that its full year 2003 capital expenditures will be approximately $18.0 million to $20.0 million, compared with planned capital expenditures for 2003 of $24.8 million disclosed in the Annual Report on Form 10-K for the year ended December 31, 2002. The anticipated reduction in planned expenditures for the full year 2003 was related to adjustments in the timing of projects across the Company's operations, the majority of which are expected to be incurred during 2004.

The funded status of the Company's defined benefit pension plans is dependent upon many factors, including returns on invested assets. Declines in the value of equity securities during the past few years have negatively impacted the value of the plans' assets; and consequently have had a negative impact on the funded status of the plans. The minimum required contribution the Company must make to fund its pension plans for the 2003 plan year is estimated to be approximately $2.4 million. Approximately $2.0 million has been contributed as of September 30, 2003. The Company expects to fund more than the minimum required contribution for the 2003 plan year and plans to contribute approximately $3.8 million during the fourth quarter of 2003. Additionally, due to the declines in the value of equity securities in prior years and a decrease in prevailing interest rate yields, the Company may be required to record an additional minimum pension liability through a non-cash, after tax charge to equity upon final measurement of the plans' funded status during the fourth quarter of 2003.

In September 2003, the Company announced the initiation of a Stock Repurchase Program (the "Program"). The purpose of the Program is to mitigate the potentially dilutive effects of stock options and shares of restricted and unrestricted stock granted by the Company. Shares may be repurchased up to the quantity of shares underlying options and other equity-based awards granted after January 1, 2003 under shareholder approved plans. Purchases of common stock under the Program may be made from time to time at prevailing prices in the open market. The Company will fund repurchases with internally generated funds and existing credit facilities. No repurchases of common stock were made during the third quarter of 2003.

The Company amended and restated its $50 million domestic revolving credit facility with a group of five banking institutions on August 29, 2003. The most recent amendment and restatement was completed to provide the Company additional flexibility with respect to certain restrictive and financial covenants under the credit agreement. The credit agreement continues to have the same maturity date of September 30, 2005 and, other than specific modifications made to certain covenants, was renewed under similar terms and conditions as those previously in place under the prior arrangement. The modifications to the restrictive and financial covenants provide the Company with the flexibility to reacquire its stock under the stock repurchase program recently approved by the Company's Board of Directors and to fund the capital requirements of the new European automotive operation. The restrictive and financial covenants of the credit agreement that were amended are listed in the table below. For a complete description of the covenants, please refer to the credit agreement, filed as Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q dated August 13, 2002 and the amended and restated credit agreement, filed as Exhibit 10.1 to this report.

Covenant Number	Covenant Description	Previous Requirement	Amended Requirement
6.06	Restricted Payments	Not to exceed $5,000,000 in any fiscal year	Not to exceed $8,000,000 in any fiscal year
6.12	Fixed Charge Coverage Ratio	• 2.25 to 1.00 – For quarters ending on or before December 31, 2003 • 2.50 to 1.00 – For quarters ending after December 31, 2003	1.50 to 1.00
6.15	Consolidated Capital Expenditures	Less than $20,000,000 for prior trailing four fiscal quarters	Less than $30,000,000 for prior trailing four fiscal quarters

As part of its $50 million domestic revolving credit facility, the Company obtained a €9.0 million four-year term loan from the same group of banking institutions on August 29, 2003, which matures in 2007. The proceeds of this four-year term loan were used to settle amounts outstanding under a €10.2 million line of credit maintained by a foreign subsidiary of the Company, which was subsequently cancelled and replaced with a €6.0 million credit agreement. This new credit agreement, which has a maturity date of September 30, 2007, was completed under similar terms and conditions to those in place under the prior agreement.

Primarily due to the modifications in the Company's debt structure as well as debt repayments during the year, the debt maturity schedule changed from that originally disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. As of September 30, 2003 the schedule for total debt maturing in 2004, 2005, 2006, 2007, 2008 and thereafter is estimated to be $4.6 million, $9.7 million, $3.7 million, $3.7 million, $.2 million and $.7 million, respectively.

As of September 30, 2003, the Company had unused borrowing capacity of approximately $49.5 million under various credit facilities. Management believes that the Company's cash and cash equivalents, operating cash flow and unused borrowing capacity at September 30, 2003 are sufficient to meet current and anticipated requirements for the foreseeable future.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 describe the critical accounting estimates and significant accounting policies 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 significant accounting policies or critical accounting estimates during the quarter or nine months ended September 30, 2003.

Recently Issued Accounting Standards

In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (FAS 149). FAS 149 amends Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," for certain decisions made by the FASB as part of the Derivatives Implementation Group process. FAS 149 was effective for applicable contracts entered into or modified after June 30, 2003 and should be applied prospectively, except for certain provisions specifically referenced within the pronouncement. The adoption of this standard did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes in market risks from those disclosed in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Company's President and Chief Executive Officer and Vice President – Controller and Interim Chief Financial Officer, have conducted an evaluation as of September 30, 2003 of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e)). Based on that evaluation, the President and Chief Executive Officer and Vice President – Controller and Interim Chief Financial Officer concluded that the disclosure controls and procedures were effective in ensuring that all material information required to be disclosed in the reports the Company files and submits under the Securities and Exchange Act of 1934 has been made known to them on a timely basis and that it has been properly recorded, processed, summarized and reported, as required.

Changes in Internal Controls

There have been no significant changes in the Company's internal controls over financial reporting during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

3.1	Certificate of Incorporation of the Registrant, filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K dated March 21, 2001 and incorporated herein by reference.
3.2	Bylaws of the Registrant, filed as Exhibit 3(ii) to the Registrant's Quarterly Report on Form 10-Q dated November 12, 1999 and incorporated herein by reference.
10.1	Credit Agreement dated as of July 14, 1999, amended and restated as of May 13, 2002 and amended and restated as of August 29, 2003, filed herewith.
10.2	Contract for a Consortium Credit in the Amount of €6,000,000, filed herewith.
10.3	Restricted Stock Agreement dated July 1, 2003 between Lydall, Inc. and David Freeman, filed herewith.
10.4	Amendment dated July 1, 2003 to the Employment Agreement with Christopher R. Skomorowski dated March 1, 2000 filed as Exhibit 10.30 to the Registrant's Annual Report on Form 10-K dated March 21, 2001, filed herewith.
31.1	Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, filed herewith.
31.2	Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, 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.

b. Reports on Form 8-K

On July 2, 2003, a Report on Form 8-K was filed pursuant to Item 5 "Other Events" to disclose the issuance of a press release announcing the appointment of David Freeman as Chief Executive Officer and of Christopher R. Skomorowski as Chief Operating Officer.

On July 31, 2003, a Report on Form 8-K was filed under Item 12 "Results of Operations and Financial Condition" to disclose the issuance of a press release setting forth the Company's financial results for the second quarter ended June 30, 2003. This information was presented under Item 9 "Regulation FD Disclosure," in accordance with SEC Releases 33-8216 and 34-47583. The report contained an Exhibit furnished under Item 7 "Financial Statements and Exhibits," which was the Company's press release dated July 31, 2003 (such press release is not incorporated by reference herein or deemed "filed" within the meaning of Section 18 of the Securities Act.).

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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.
(Registrant)

November 7, 2003

By: /s/ THOMAS P. SMITH

Thomas P. Smith
Vice President – Controller
and Interim Chief Financial Officer
(On behalf of the Registrant and
as Principal Accounting Officer
and Interim Principal Financial Officer)

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LYDALL, INC.
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Exhibit 10.1

CREDIT AGREEMENT

dated as of

July 14, 1999,

amended and restated as of

May 13, 2002

and amended and restated as of

August 29, 2003

among

LYDALL, INC.

LYDALL DEUTSCHLAND HOLDING, GMBH

The LENDERS Party Hereto

JPMORGAN CHASE BANK,

as Administrative Agent

and

FLEET NATIONAL BANK,

as Documentation Agent

JPMORGAN SECURITIES, INC.,

as Arranger and Book Manager

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Exhibit A-1 — Form of Opinion of Mary A. Tremblay
Exhibit A-2 — Form of Opinion of German Local Counsel

CREDIT AGREEMENT, dated as of July 14, 1999, and amended and restated as of May 13, 2002 and amended and restated as of August 29, 2003, among LYDALL, INC., LYDALL DEUTSCHLAND HOLDING, GMBH, the LENDERS party hereto, JP MORGAN CHASE BANK, as Administrative Agent, and FLEET NATIONAL BANK, as Documentation Agent.

WHEREAS, the Borrower, the Subsidiary Borrower, the Lenders, the Administrative Agent and the Documentation Agent have entered into that certain Credit Agreement dated as of July 14, 1999 (as amended and restated as of May 13, 2002 and as in effect prior to the effectiveness of this Agreement, the "Existing Credit Agreement"), pursuant to which the Lenders have agreed, subject to the terms and conditions therein set forth, to make or participate in Loans to, and to issue or participate in Letters of Credit for the account of, the Borrower and the Subsidiary Borrower; and

WHEREAS, the Borrower, the Subsidiary Borrower, the Lenders, the Administrative Agent and the Documentation Agent have agreed to enter into this Agreement to provide for, among other things, the establishment of a new term loan and the modification of certain covenants and definitions;

NOW THEREFORE, the parties hereto agree as follows:

ARTICLE I
Definitions

Section 1.01. Defined Terms . As used in this Agreement, the following terms have the meanings specified below:

" ABR ", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

" Adjusted LIBO Rate " means, with respect to any Eurocurrency Borrowing in any Committed Currency for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

" Administrative Agent " means JPMorgan Chase Bank, in its capacity as administrative agent for the Lenders hereunder.

" Administrative Questionnaire " means an Administrative Questionnaire in a form supplied by the Administrative Agent.

" Affiliate " means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

" Agreement Currency " has the meaning assigned to such term in Section 10.14(b).

" Alternate Base Rate " means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus ½ of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

" Alternative Currency " means (a) euros and (b) any other Eligible Currency that shall be designated by the Borrower or the Subsidiary Borrower, as applicable, in a notice delivered to the Administrative Agent and approved by the Administrative Agent and all the Lenders as an Alternative Currency.

" Alternative Currency Equivalent " means, on any date of determination, with respect to any amount in dollars, the equivalent in the relevant Alternative Currency of such amount, determined by the Administrative Agent using the Exchange Rate with respect to such Alternative Currency then in effect as determined pursuant to Section 1.05(a).

" Applicable Creditor " has the meaning assigned to such term in Section 10.14(b).

" Applicable RC Percentage " means, with respect to any Lender, the percentage of the total Revolving Credit Commitments represented by such Lender's Revolving Credit Commitment. If the Revolving Credit Commitments have terminated or expired, the Applicable RC Percentages shall be determined based upon the Revolving Credit Commitments most recently in effect, giving effect to any assignments.

" Applicable Rate " means, for any day, with respect to any Eurocurrency Loan or ABR Loan, or with respect to the commitment fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption "Eurocurrency Spread", "ABR Spread" or "Commitment Fee Rate", as the case may be, based upon the Leverage Ratio applicable on such date:

	Leverage Ratio	Eurocurrency Spread for Initial Term Loan	Eurocurrency Spread for Second Term Loan	Eurocurrency Spread for Revolving Loans [1]	ABR Spread	Commitment Fee Rate
Category 1	Greater than or equal to 2.00 to 1	1.750%	2.250%	1.750%	0.000%	0.375%
Category 2	Greater than or equal to 1.50 to 1 but less than 2.00 to 1	1.500%	2.000%	1.500%	0.000%	0.375%
Category 3	Greater than or equal to 1.00 to 1 but less than 1.50 to 1	1.250%	1.750%	1.250%	0.000%	0.375%
Category 4	Less than 1.00 to 1	1.000%	1.500%	1.000%	0.000%	0.250%

1 Each of the rates set forth below in this column is to be increased by 0.125% for any period during which the aggregate Revolving Credit Exposures exceeds 50% of the aggregate Revolving Credit Commitments.

For purposes of the foregoing, (a) the Leverage Ratio shall be determined as of the end of each fiscal quarter of the Borrower and as of the date immediately subsequent to the closing date of a Permitted Business Acquisition based upon Consolidated Indebtedness then outstanding and Consolidated EBITDA determined from the financial statements delivered pursuant to Section 5.01(a) or (b) and (c); and (b) each change in the Applicable Rate resulting from a change in the Leverage Ratio shall be effective during the period commencing on and including the date of delivery to the Administrative Agent of such financial statements indicating such change (or, if later, the date immediately subsequent to the closing date of such Permitted Business Acquisition) and ending on the date immediately preceding the effective date of the next change in the Applicable Rate; provided that the Leverage Ratio shall be deemed to be in Category 1 (i) at any time that an Event of Default has occurred and is continuing and has not been waived or (ii) if the Borrower fails to deliver the financial statements required to be delivered by it pursuant to Section 5.01(a) or (b) and (c), during the period from the expiration of the time for delivery thereof until such financial statements are delivered. Assuming no Event of Default has occurred and is continuing, the initial Applicable Rate shall be determined by reference to Category 3. For example, if (A) Consolidated Indebtedness was $30,000,000 prior to the acquisition of a Person on May 31, 2002, (B) the Borrower incurred $20,000,000 of additional Indebtedness in connection with such acquisition, (C) Consolidated EBITDA (exclusive of EBITDA of the acquired Person prior to the acquisition) for each fiscal quarter equals $8,750,000 and (D) EBITDA of the acquired Person equals the amounts set forth in the example at the end of the definition of Consolidated EBITDA, then for purposes of determining the Applicable Rate, the Leverage Ratio would equal (a) .857 to 1 immediately prior to the acquisition [$30,000,000/(8,750,000*4)], (b) 1.282 on June 1, 2002 [$50,000,000/((8,750,000*4) + $4,000,000)] and (c) 1.277 for the fiscal quarter ending on June 30, 2002 [$50,000,000/((8,750,000*4) + $4,168,494)].

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.04), and accepted by the Administrative Agent, in the form of Exhibit A to the Existing Credit Agreement or any other form approved by the Administrative Agent.

"Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Revolving Credit Maturity Date and the date of termination of the Revolving Credit Commitments.

“ Base CD Rate ” means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

“ Board ” means the Board of Governors of the Federal Reserve System of the United States of America.

“ Borrower ” means Lydall, Inc., a Delaware corporation.

“ Borrowing ” means Loans of the same Type, Class and currency made, converted or continued on the same date and, in the case of Eurocurrency Loans, as to which a single Interest Period is in effect.

“ Borrowing Date ” means any Business Day specified in a notice pursuant to Section 2.03 or 2.04 as a date on which the Borrower or the Subsidiary Borrower, as applicable, requests Loans to be made hereunder.

“ Borrowing Request ” means a request by the Borrower or the Subsidiary Borrower, as applicable, for a Borrowing in accordance with Section 2.03.

“ Business Day ” means (a) when such term is used in respect of any amount denominated in any Committed Currency, a day other than a Saturday or Sunday on which banks are open for general banking business in (w) London, (x) the city which is the principal financial center of the country of issuance of such Committed Currency, (y) in the case of the euro only, Frankfurt am Main, Germany (or such other principal financial center as the Administrative Agent may from time to time nominate for this purpose) and (z) New York City and (b) when such term is used for the purpose of determining the date on which the LIBO Rate is determined under this Agreement for any Loan denominated in euro for any Interest Period therefor and for purposes of determining the first and last day of any Interest Period therefor, Target Operating Days.

“ Calculation Date ” means (a) the last Business Day of each calendar month and (b) at any time when the Dollar Equivalent of the total Revolving Credit Exposures exceeds 75% of the total Revolving Credit Commitments, the last Business Day of each calendar week.

“ Capital Expenditures ” means, for any period, the dollar amount of gross expenditures (including Capital Lease Obligations) made for the acquisition of any fixed assets, real property, plant and equipment, and all renewals, improvements and replacements thereto (but not repairs thereof) incurred during such period in each case which are required to be capitalized for financial reporting purposes in accordance with GAAP.

“ Capital Lease Obligations ” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“ Capital Stock ” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests

in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934, as amended, and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof) of shares representing more than 25% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower, (b) the occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated, (c) the acquisition of direct or indirect Control of the Borrower by any Person or group (as so defined) or (d) the occurrence of a "change in control" (or similar event, howsoever denominated) under and as defined in any indenture or other agreement in respect of Material Indebtedness to which any Loan Party is a party.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Charges" has the meaning assigned to such term in Section 10.13.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans, Term Loans or Swingline Loans.

"Closing Date" means July 14, 1999.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" means all of the right, title and interest of the Borrower or any Subsidiary in and to the property in which such Person has granted a Lien to the Administrative Agent for its benefit and the ratable benefit of the Lenders under any Loan Document.

"Committed Currency" means dollars or any Alternative Currency.

"Commitment" means any Revolving Credit Commitment, any Initial Term Loan Commitment or any Second Term Loan Commitment.

"Consolidated Capital Expenditures" means, for any period of four consecutive fiscal quarters of the Consolidated Entities, the aggregate amount of Capital Expenditures of the Consolidated Entities (other than Capital Lease Obligations incurred by Lydall Thermic/Acoustic, S.A.S. not exceeding 5,000,000 euros in the aggregate) for such period of four consecutive fiscal quarters as determined on a consolidated basis in accordance with GAAP.

" Consolidated EBITDA " means, for any period of four consecutive fiscal quarters of the Consolidated Entities, Consolidated Net Income for such period of four consecutive fiscal quarters, minus the aggregate noncash amount of extraordinary or nonrecurring gains for such period, plus, without duplication and to the extent deducted from revenues in determining Consolidated Net Income for such period, the sum of (a) the aggregate amount of Consolidated Interest Expense for such period, plus (b) the aggregate amount of income tax expense for such period, plus (c) the aggregate amount of depreciation and amortization for such period, plus (d) the aggregate amount of severance costs arising from the termination of employment of Leonard Jaskol, plus (e) the aggregate amount of charges for the impairment of assets, severance costs and writedowns of inventory incurred in connection with the closing or sale of the Lydall & Foulds Division, the Southern Products Division and the Composite Materials Division, all as determined on a consolidated basis with respect to the Consolidated Entities in accordance with GAAP. For the purposes of determining Consolidated EBITDA during any period of four consecutive quarters of the Consolidated Entities, in connection with the acquisition of a Person (or part thereof) in a Permitted Business Acquisition occurring after the Effective Date, there shall be included, without duplication, in Consolidated Net Income net income (or loss) of such Person (or part thereof) as if such Person (or part thereof) was acquired at the beginning of such period; provided that the Borrower shall have delivered to the Lenders acceptable financial statements of such Person (or part thereof) as required under Section 5.01(c). To the extent that actual Consolidated EBITDA has not been determined for an acquired Person for a particular calendar quarter(s) ending prior to the date of closing of the applicable Permitted Business Acquisition or for the period from the most recent calendar quarter end to the date of such closing, Consolidated EBITDA for such period of determination shall be equal to (A) the result of (i) the accrued days in such period of determination divided by (ii) 365 times (B) Consolidated EBITDA of such acquired Person for the four most recently ended calendar quarters. For example, if a Person acquired on May 31, 2002 has (A) demonstrated EBITDA of $4,000,000 for the period from March 31, 2001 through March 31, 2002 ($500,000, $1,750,000, $1,000,000 and $750,000 in the four consecutive calendar quarters), and (B) no financials for the period from April 1, 2002 to May 31, 2002, then (a) for purposes of determining the Applicable Rate on June 1, 2002, Consolidated EBITDA would include EBITDA of the acquired Person of $4,000,000 and (b) for purposes of demonstrating compliance with Section 6.12, Section 6.13, Section 6.16 and the Applicable Rate for the quarter ending on June 30, 2002, Consolidated EBITDA would include EBITDA of the acquired Person of $4,168,493 ($3,500,000 + (61/365 * $4,000,000)) plus actual EBITDA of the acquired Person for June 2002 as incorporated in the Borrower's consolidated financial statements.

" Consolidated Entity " means the Borrower or any Subsidiary whose accounts are or are required to be consolidated or included with the accounts of the Borrower in accordance with GAAP.

" Consolidated Indebtedness " means, as of any date of determination, the aggregate principal amount of Indebtedness of the Consolidated Entities outstanding as of such date, as determined on a consolidated basis in accordance with GAAP.

" Consolidated Interest Expense " means, for any period, the interest expense, both expensed and capitalized (including the interest component in respect of Capital Lease

Obligations), accrued or paid by the Consolidated Entities during such period, as determined on a consolidated basis in accordance with GAAP.

" Consolidated Net Income " means, for any period, net income or loss of the Consolidated Entities for such period, as determined on a consolidated basis in accordance with GAAP.

" Consolidated Net Worth " means, at any date of determination thereof, the result of (a) all assets as shown on a consolidated balance sheet of the Consolidated Entities, minus (b) all liabilities as shown on a consolidated balance sheet of the Consolidated Entities, as determined on a consolidated basis in accordance with GAAP.

" Control " means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. " Controlling " and " Controlled " have meanings correlative thereto.

" Credit Exposure " means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Term Loans and its Revolving Credit Exposure.

" Default " means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

" Documentation Agent " means Fleet National Bank, in its capacity as documentation agent for the Lenders hereunder.

" Dollar Equivalent " means, on any date of determination, (a) with respect to any amount in dollars, such amount, and (b) with respect to any amount in any Alternative Currency, the equivalent in dollars of such amount, determined by the Administrative Agent pursuant to Section 1.05(a) using the Exchange Rate with respect to such Alternative Currency then in effect.

" dollars " or " $ " refers to lawful money of the United States of America.

" Domestic Plan " means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

" Domestic Subsidiary " means any Subsidiary that is organized under the laws of any jurisdiction in the United States.

" Effective Date " means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 10.02).

" Eligible Currency " means, on any date of determination, any currency (other than dollars) that is freely tradeable and exchangeable into dollars in the London market and for which an Exchange Rate can be determined by reference to the Reuters World Currency Page or another publicly available service for displaying exchange rates.

" EMU " means the Economic and Monetary Union as contemplated in the Treaty on European Union.

" EMU Legislation " means legislative measures of the European Union for the introduction of, changeover to or operation of the euro in one or more member states.

" Environmental Laws " means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

" Environmental Liability " means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

" ERISA " means the Employee Retirement Income Security Act of 1974, as amended from time to time.

" ERISA Affiliate " means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

" ERISA Event " means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Domestic Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Domestic Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or any other Governmental Authority or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan or Plans; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“ euro ” means the single currency of the European Union as constituted by the Treaty on European Union and as referred to in EMU Legislation.

“ euro unit ” means the currency unit of the euro as defined in the EMU Legislation.

“ Eurocurrency ”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

“ Event of Default ” has the meaning assigned to such term in Article VII.

“ Exchange Rate ” means, on any day, with respect to any Alternative Currency, the rate at which such Alternative Currency may be currently exchanged into dollars (and, for purposes of the definition of “Alternative Currency Equivalent” and Section 2.07(e), 2.14(i) or 2.15 (e)(ii), the rate at which dollars may be exchanged into such Alternative Currency), as set forth at approximately 11:00 a.m., London time, on such date on the Reuters World Currency Page for such Alternative Currency. In the event that such rate does not appear on any Reuters World Currency Page, the Exchange Rate shall be determined by reference to such other publicly available service for displaying exchange rates as may be agreed upon by the Administrative Agent and the Borrower, or, in the absence of such agreement, such Exchange Rate shall instead be the arithmetic average of the spot rates of exchange of the Administrative Agent in the market where its foreign currency exchange operations in respect of such Alternative Currency are then being conducted, at or about 10:00 a.m., local time, on such date for the purchase of dollars (or such Alternative Currency, as the case may be) for delivery two Business Days later; provided that if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may use any reasonable method it deems appropriate to determine such rate, and such determination shall be presumed correct absent manifest error.

“ Excluded Subsidiary ” means any Subsidiary that is not a Guarantor (other than Lydall France, S.A.S. and Lydall Filtration/Separation, S.A.S. so long as 65% of the voting Capital Stock of Lydall Filtration/Separation, S.A.S. is pledged to the Administrative Agent for the ratable benefit of the Lenders).

“ Excluded Taxes ” means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower or the Subsidiary Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) such recipient’s net income (including branch profits or similar taxes) imposed by a Governmental Authority of the jurisdiction in which such Lender or the applicable lending office designated by such Lender and (b) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender (i) to the extent it is in effect and would apply as of the date such Foreign Lender becomes a party to this Agreement or (ii) to the extent it relates to payments received by a new lending office designated by such Foreign Lender and is in effect and would apply at the time such lending office is designated, except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the applicable Borrower with respect to such withholding tax pursuant to Section 2.17(a) (other than,

in the case of (b)(i) or (b)(ii) above, any withholding tax imposed on payments by the Borrower or the Subsidiary Borrower from a payment location other than one specifically identified in this Agreement or any schedule hereto as of the date such Foreign Lender becomes a party to this Agreement or designates a new lending office), or (iii) that is attributable to such Foreign Lender's failure to comply with Section 2.17(e).

" Existing Credit Agreement " has the meaning assigned to such term in the recitals.

" Federal Funds Effective Rate " means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

" Financial Officer " means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

" Fiscal Quarter Net Worth Increase Amounts " means, with respect to each fiscal quarter of the Borrower, (a) if such fiscal quarter is the last fiscal quarter of a fiscal year of the Borrower, the greater of (i) Zero Dollars ($0) and (ii) 50% of Consolidated Net Income for such fiscal year plus (b) 75% of the proceeds (net of underwriting commissions and discounts and reasonable fees and expenses) from the issuance of Capital Stock of the Borrower during such fiscal quarter plus (c) 100% of the aggregate market value of Capital Stock of the Borrower issued in a Permitted Business Acquisition during such fiscal quarter.

" Fixed Charge Coverage Ratio " means, on any date, the ratio of (a) Consolidated EBITDA for the period of four consecutive fiscal quarters of the Consolidated Entities ended on or most recently ended as of such date to (b) Fixed Charges during the period of four consecutive fiscal quarters of the Consolidated Entities ended on or most recently ended as of such date.

" Fixed Charges " means, with respect to any period of four consecutive fiscal quarters of the Consolidated Entities, the sum of (i) all principal payments due on, and with respect to, Consolidated Indebtedness during such period, plus (ii) Consolidated Interest Expense for such period, plus (iii) all taxes of the Borrower or any Subsidiary due during such period, plus (iv) all Restricted Payments made during such period. For the purposes of determining Fixed Charges during any period of four consecutive fiscal quarters of the Consolidated Entities, there shall be included in Fixed Charges all principal payments, interest expense, taxes and restricted payments of any Person (or part thereof) acquired during such period in a Permitted Business Acquisition accrued from the beginning of such period to the date of closing of such Permitted Business Acquisition.

" Foreign Lender " means any Lender that is organized under the laws of a jurisdiction other than that in which the Relevant Jurisdiction is located.

“ Foreign Plan ” means any pension plan or other deferred compensation plan, program or arrangement maintained by any Foreign Subsidiary which may or may not, under applicable local law, be required to be funded through a trust or other funding vehicle.

“ Foreign Subsidiary ” means any Subsidiary that is not organized under the laws of any jurisdiction in the United States.

“ GAAP ” means generally accepted accounting principles in the United States of America.

“ Governmental Authority ” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“ Granting Lender ” has the meaning assigned to such term in Section 10.04(h).

“ Guarantee ” of or by any Person (the “ guarantor ”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “ primary obligor ”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party or applicant in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided , that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“ Guarantee Agreement ” means each Guarantee delivered by the applicable Subsidiary to the Administrative Agent whereby such Subsidiary shall guarantee the obligations under the Loan Documents, as amended, supplemented, restated or otherwise modified from time to time, which Guarantee shall be substantially in the form of Exhibit C to the Existing Credit Agreement.

“ Guarantors ” means the Subsidiaries that are or become parties to a Guarantee Agreement.

“ Hazardous Materials ” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“ Hedging Agreement ” means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

“ Indebtedness ” of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person and all obligations of such Person under Synthetic Leases, (i) all obligations, contingent or otherwise, of such Person as an account party or applicant in respect of letters of credit and letters of guaranty, (j) all obligations of such Person in respect of Hedging Agreements, (k) all obligations, contingent or otherwise, of such Person in respect of bankers’ acceptances, and (l) all obligations of such Person arising with respect to Capital Stock that is mandatorily redeemable by such Person. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person’s ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

“ Indemnified Taxes ” means Taxes other than Excluded Taxes.

“ Indemnitee ” has the meaning assigned to such term in Section 10.03(b).

“ Initial Term Loan ” means a Loan pursuant to Section 2.01(b).

“ Initial Term Loan Commitment ” means, with respect to each Lender, the commitment of such Lender to make Initial Term Loans as set forth on Schedule 2.01. The initial aggregate amount of the Lenders’ Initial Term Loan Commitments was 18,500,000 euros.

“ Initial Term Loan Maturity Date ” means June 30, 2004.

“ Interest Election Request ” means a request by a Borrower to convert or continue a Borrowing in accordance with Section 2.07.

“ Interest Payment Date ” means (a) with respect to any ABR Loan (other than a Swingline Loan), the last day of each calendar month, (b) with respect to any Eurocurrency Loan with an Interest Period of one, two or three months, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurocurrency Loan with an Interest Period of more than three months’ duration, each day at intervals of three months after the first day of such Interest Period and the last day of such Interest Period and (c) with respect to any Swingline Loan, the Swingline Loan Maturity Date applicable to such Swingline Loan.

“ Interest Period ” means, with respect to any Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three, six, nine or twelve months thereafter, as the Borrower or the Subsidiary Borrower may elect; provided , that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurocurrency Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, in the case of a Revolving Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“ Issuing Bank ” means JPMorgan Chase Bank, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.05(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term “Issuing Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“ Judgment Currency ” has the meaning assigned to such term in Section 10.14(b).

“ LC Disbursement ” means a payment made by the Issuing Bank pursuant to a Letter of Credit.

“ LC Exposure ” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable RC Percentage of the total LC Exposure at such time.

“ Lenders ” means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance. Unless the context otherwise requires, the term “Lenders” includes the Swingline Lender.

“ Letter of Credit ” means any letter of credit issued pursuant to this Agreement.

“ Leverage Ratio ” means, on any date, the ratio of (a) Consolidated Indebtedness as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters of the Consolidated Entities ended on or most recently ended as of such date.

“ LIBO Rate ” means, with respect to any Eurocurrency Borrowing in any Committed Currency for any Interest Period, the rate appearing on the page for such Committed Currency of the Telerate Service (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for

purposes of providing quotations of interest rates applicable to deposits in such Committed Currency in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for deposits in such Committed Currency with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the " LIBO Rate " with respect to such Eurocurrency Borrowing for such Interest Period shall be the rate at which deposits in such Committed Currency of $5,000,000 (or the Dollar Equivalent of which is approximately equal to $5,000,000) and for a maturity comparable to such Interest Period are offered by the principal London office of the Person then serving as the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

" Lien " means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

" Loan Documents " means this Agreement, each Guarantee Agreement, each Security Document, each promissory note issued pursuant to Section 2.09(e) and each Hedging Agreement between a Loan Party and a Lender, as each may be amended or supplemented from time to time.

" Loan Parties " means the Borrower, the Subsidiary Borrower and the Guarantors.

" Loans " means the loans (including the Revolving Loans, the Term Loans and the Swingline Loans) made by the Lenders to the Borrower and the Subsidiary Borrower pursuant to this Agreement.

" Material Adverse Effect " means a material adverse effect on (a) the business, assets, operations or condition, financial or otherwise, of the Borrower and the Subsidiaries, taken as a whole, (b) the ability of any Loan Party to perform, or the enforceability against any Loan Party of, any of its obligations under any Loan Document or (c) the rights of or benefits available to the Lenders under any Loan Document. For purposes of clause (a) of this definition but without limiting such clause (a), a "Material Adverse Effect" shall be deemed to arise from any action or omission or the occurrence of any event or the existence of any fact or condition involving, individually or in the aggregate, more than $5,000,000.

" Material Indebtedness " means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding $3,000,000 in the aggregate. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Maturity Date" means, with respect to any Revolving Loan, the Revolving Credit Maturity Date, with respect to any Initial Term Loan, the Initial Term Loan Maturity Date and, with respect to any Second Term Loan, the Second Term Loan Maturity Date.

"Maximum Rate" has the meaning assigned to such term in Section 10.13.

"Money Market", when used in reference to any Loan or Borrowing, refers to whether such Loan or the Loans comprising such Borrowing are bearing interest at a rate determined by reference to the Money Market Rate.

"Money Market Rate" means the quoted rate per annum offered by the applicable Swingline Lender to the Borrower no later than three hours after the quote is requested by the Borrower, which quote shall be requested by the Borrower, in no event later than 11:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Obligations" means the obligations of the Subsidiary Borrower under this Agreement and the other Loan Documents, whether for principal, interest, guaranties, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all reasonable fees and disbursements of counsel to the Administrative Agent or any Lender) or otherwise. Without limiting the generality of the foregoing, the definition of "Obligations" includes all amounts that would be owed by the Subsidiary Borrower to the Lenders and the Administrative Agent under this Agreement and the other Loan Documents but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Subsidiary Borrower.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"Participant" has the meaning assigned such term in Section 10.04(e).

"Participating Member State" means each state so described in any EMU Legislation.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Business Acquisition" means any acquisition if immediately after giving effect thereto: (a) such acquisition is of (i) shares or other equity interests in a Person or (ii) all or substantially all of the assets of a Person or division or line of business of a Person (or any subsequent investment made in a previous Permitted Business Acquisition) and at least a significant portion thereof relates to business incidental, similar or complementary to existing businesses of any Consolidated Entity or to the design and manufacture of engineered specialty

products for thermal/acoustical/insulation and filtration /separation applications, (b) no Default shall have occurred and be continuing or would result therefrom, (c) all transactions related thereto shall be consummated in accordance with applicable laws, (d) any acquired or newly formed corporation, partnership or limited liability company shall be a Wholly-Owned Subsidiary and all actions required to be taken, if any, with respect to such acquired or newly formed Subsidiary under Section 5.09 shall have been taken and (e) the Borrower shall be in compliance, on a pro forma basis after giving effect to such acquisition or formation, with the covenants contained in Sections 6.12, 6.13 and 6.14 recomputed as at the last day of the most recently ended fiscal quarter of the Borrower as if, for the purposes of calculating Consolidated Interest Expense, principal due on Consolidated Indebtedness and Consolidated Capital Expenditures, Consolidated Net Income and Consolidated EBITDA, such acquisition and related financings or other transactions had occurred on the first day of the period for testing such compliance, and, if the amount of such acquisition and series of related investments exceeds $7,000,000, then the Borrower shall have delivered to the Administrative Agent and the Lenders an officers' certificate to such effect, together with all relevant financial information as required under Section 5.01(c) for such Person (or part thereof).

" Permitted Encumbrances " means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that (i) are not overdue by more than 30 days or (ii) are being contested in compliance with Section 5.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary; and

(g) where the context otherwise requires and without duplication, Liens permitted under clauses (b) through (d) of Section 6.02.

“ Permitted Investments ” means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody’s;

(c) investments in certificates of deposit, banker’s acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than $500,000,000 or, so long as such investments do not exceed $250,000 in the aggregate, of any other bank;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above; and

(e) investments in auction rate preferred stock maturing within 180 days of the date of acquisition thereof and which is rated “AAA” by S&P, not exceeding $5,000,000 in the aggregate.

“ Person ” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“ Plan ” means any Domestic Plan or Foreign Plan.

“ Pledge Agreement ” means each pledge agreement delivered by the Borrower or any Subsidiary to the Administrative Agent, as amended, supplemented, restated or otherwise modified from time to time, which pledge agreement shall be substantially in the form of Exhibit D to the Existing Credit Agreement.

“ Prime Rate ” means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“ Register ” has the meaning assigned to such term in Section 10.04(c).

“ Regulation D ” means Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“ Regulation T ” means Regulation T of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“ Regulation U ” means Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“ Regulation X ” means Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“ Related Parties ” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“ Relevant Jurisdiction ” means (a) in the case of any Loan to the Borrower, the United States of America or any state thereof and (b) in the case of any Loan to the Subsidiary Borrower, the Federal Republic of Germany.

“ Required Lenders ” means, at any time while any Loan or Letter of Credit is outstanding, Lenders having Credit Exposures representing more than 50% of the sum of the total Credit Exposures at such time and, at any time while no Loan or Letter of Credit is outstanding, Lenders having more than 50% of the sum of the Revolving Credit Commitments.

“ Reset Date ” has the meaning assigned to such term in Section 1.05.

“ Restricted Payment ” means any dividend or other distribution (whether in cash, securities or other property) or setting aside of property for any dividend or other distribution with respect to any shares of any class of Capital Stock of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property) or setting aside of property, including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of Capital Stock of the Borrower or any Subsidiary or any option, warrant or other right to acquire any such shares of Capital Stock of the Borrower or any Subsidiary.

“ Revolving Credit Commitment ” means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Letters of Credit and Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender’s Revolving Credit Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Revolving Credit Commitment, as applicable. The initial aggregate amount of the Lenders’ Revolving Credit Commitments is $50,000,000.

“ Revolving Credit Exposure ” means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender’s Revolving Loans and its LC Exposure and Swingline Exposure at such time.

“ Revolving Credit Maturity Date ” means September 30, 2005.

“ Revolving Loan ” means a Loan made pursuant to Section 2.01(a).

“ S&P ” means Standard & Poor’s.

“ Second Term Loan ” means a Loan pursuant to Section 2.01(c).

“ Second Term Loan Commitment ” means, with respect to each Lender, the commitment of such Lender to make Second Term Loans as set forth on Schedule 2.01. The initial aggregate amount of the Lenders’ Second Term Loan Commitments is 9,000,000 euros.

“ Second Term Loan Maturity Date ” means June 1, 2007.

“ Security Documents ” means each Pledge Agreement and each other security document from time to time delivered to the Administrative Agent (including all financing statements, assignments, stock certificates and stock powers), each as amended, supplemented, restated or otherwise modified from time to time.

“ Significant Subsidiary ” means (a) (i) each Subsidiary, including its subsidiaries, and (ii) the combined Excluded Subsidiaries, if such Subsidiary or the combined Excluded Subsidiaries, as applicable, meet either of the following conditions: (A) for the period of four consecutive fiscal quarters of the Borrower most recently ended, the gross revenues of such Subsidiary or of the combined Excluded Subsidiaries exceed $15,000,000, as determined on a consolidated basis in accordance with GAAP, or (B) as of the end of the most recently ended fiscal quarter of the Borrower, the gross assets of such Subsidiary or of the combined Excluded Subsidiaries exceed $5,000,000, as determined on a consolidated basis in accordance with GAAP, (b) each Loan Party (other than the Borrower) and (c) Lydall France, S.A.S. and Lydall Filtration/Separation, S.A.S.

“ SPC ” has the meaning assigned to such term in Section 10.04(h).

“ Statutory Reserve Rate ” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by any Governmental Authority with jurisdiction over the Administrative Agent or any Lender (including any branch, affiliate or other funding office thereof making or holding a Loan) for any category of liabilities which includes deposits by reference to which the Base CD Rate or the Adjusted LIBO Rate in respect of any Borrowing is determined. Such reserve percentages shall include those imposed pursuant to Regulation D. Eurocurrency Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“ subsidiary ” means, with respect to any Person (the “ parent ”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the

equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

" Subsidiary " means any subsidiary of the Borrower including any subsidiary of the Borrower created or acquired by the Borrower after the date hereof.

" Subsidiary Borrower " means Lydall Deutschland Holding, GmbH, a German corporation.

" Swingline Exposure " means, at any time, the aggregate principal amount of all Swingline Loans outstanding at such time. The Swingline Exposure of any Lender at any time shall be its Applicable RC Percentage of the total Swingline Exposure at such time.

" Swingline Lender " means JPMorgan Chase Bank or Fleet National Bank, as the case may be, in its capacity as lender of Swingline Loans hereunder.

" Swingline Loan " means a Loan made pursuant to Section 2.04.

" Swingline Loan Maturity Date " means the maturity date requested by the Borrower in connection with a Swingline Loan (which date shall in no event be later than the earlier of (a) 10 Business Days after the date of borrowing thereof and (b) the Revolving Credit Maturity Date).

" Synthetic Lease " means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

" Target Operating Day " means any day that is not (a) a Saturday or Sunday, (b) Christmas Day or New Year's Day or (c) any other day on which the Trans-European Real-time Gross Settlement Operating System (or any successor settlement system) is not operating (as determined by the Administrative Agent).

" Taxes " means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

" Term Loans " means the Initial Term Loans and the Second Term Loans.

" Three-Month Secondary CD Rate " means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding

Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

" Transactions " means the execution, delivery and performance by each of the Borrower and the Subsidiaries of each of the Loan Documents to which it is a party, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

" Treaty on European Union " means the Treaty of Rome of March 25, 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on February 7, 1992, and came into force on November 1, 1993), as amended from time to time.

" Type ", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

" Wholly-Owned Subsidiary " means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares) is owned by the Borrower and/or one or more other Wholly-Owned Subsidiaries.

" Withdrawal Liability " means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

Section 1.02. Classification of Loans and Borrowings . For purposes of this Agreement, Loans may be classified and referred to by Class (e.g. , a "Revolving Loan") or by Type (e.g. , a "Eurocurrency Loan") or by Class and Type (e.g. , a "Eurocurrency Revolving Loan"). Borrowings also may be classified and referred to by Class (e.g. , a "Revolving Borrowing") or by Type (e.g. , a "Eurocurrency Borrowing") or by Class and Type (e.g. , a "Eurocurrency Revolving Borrowing").

Section 1.03. Terms Generally . The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section 1.04. Accounting Terms; GAAP . Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

Section 1.05. Exchange Rates . (a) Not later than 1:00 p.m., New York City time, on each Calculation Date, the Administrative Agent shall (i) determine the Exchange Rate as of such Calculation Date with respect to each Alternative Currency and (ii) give notice thereof to the Lenders and the Borrower. The Exchange Rates so determined shall become effective on the first Business Day immediately following the relevant Calculation Date (a "Reset Date"), shall remain effective until the next succeeding Reset Date, and shall for all purposes of this Agreement (other than Section 2.07, Section 2.14(i), Section 2.15(e)(ii), Section 10.14, or any other provision expressly requiring the use of a current Exchange Rate) be the Exchange Rates employed in converting any amounts between dollars and Alternative Currencies; and (b) not later than 5:00 p.m., New York City time, on each Reset Date and each Borrowing Date with respect to Loans denominated in an Alternative Currency, the Administrative Agent shall (i) determine the Dollar Equivalent of the Credit Exposure at such time (after giving effect to any Loans made or repaid on such date) and (ii) notify the Lenders and the Borrower of the results of such determination.

ARTICLE II
The Credits

Section 2.01. Commitments . (a) Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in the Dollar Equivalent of such Lender's Revolving Credit Exposure exceeding such Lender's Revolving Credit Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

(b) The Lenders have made Initial Term Loans in euros to the Subsidiary Borrower on the Closing Date in the initial aggregate principal amount equal to 18,500,000 euros. Amounts repaid in respect of Initial Term Loans may not be reborrowed.

(c) Subject to the terms and conditions set forth herein, each Lender agrees to make a Second Term Loan in euros to the Subsidiary Borrower on the Effective Date in an aggregate principal amount equal to such Lender's Second Term Loan Commitment. Amounts repaid in respect of Second Term Loans may not be reborrowed.

Section 2.02. Loans and Borrowings . (a) Each Loan (other than a Swingline Loan) shall be made as part of a Borrowing consisting of Loans of the same Class and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the obligations (including the Commitments) of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14 and Section 2.15(e), each Revolving Borrowing and Term Borrowing shall be comprised of ABR Loans (if denominated in dollars) or Eurocurrency Loans, as the Borrower or the Subsidiary Borrower, as applicable, may request in accordance herewith. Each Swingline Borrowing shall be denominated in dollars and shall be an ABR Loan or Money Market Loan, as the Borrower may request in accordance herewith. Each Lender at its option may make any Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower or the Subsidiary Borrower, as applicable, to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurocurrency Borrowing, such Borrowing shall be in an aggregate amount that is not less than $1,000,000 (or the Alternative Currency Equivalent thereof) and, in the case of a Borrowing denominated in dollars, an integral multiple of $100,000. At the time that each ABR Borrowing is made, such Borrowing shall be in an aggregate amount that is not less than $500,000 and an integral multiple of $100,000; provided that an ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Revolving Credit Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Each Swingline Borrowing shall be in an amount that is not less than $100,000. Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of ten Eurocurrency Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, no Borrower shall be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

Section 2.03. Requests for Revolving or Term Borrowings . To request a Revolving Borrowing or Term Borrowing, the Borrower or the Subsidiary Borrower, as applicable, shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurocurrency Borrowing denominated in dollars, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing, (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing, and (c) in the case of a Eurocurrency Borrowing denominated in an Alternative Currency, not later than 11:00 a.m., London time, three Business Days before the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower or the Subsidiary Borrower, as applicable. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing;

(iv) in the case of a Eurocurrency Borrowing, the currency thereof, which shall be a Committed Currency (and which, in the case of a Term Borrowing, shall be in euros);

(v) in the case of a Eurocurrency Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and

(vi) the location and number of the Borrower's or the Subsidiary Borrower's account, as applicable, to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Type of Revolving Borrowing or Term Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing if denominated in dollars or a Eurocurrency Borrowing if denominated in an Alternative Currency. If no election as to the currency of Borrowing is specified, then the requested Borrowing shall be denominated in dollars. If no Interest Period is specified with respect to any requested Eurocurrency Borrowing, then the Borrower or the Subsidiary Borrower, as applicable, shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section 2.03, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing. If the Borrower or the Subsidiary Borrower, as applicable, shall revoke a Borrowing Request, it shall be liable for all costs under Section 2.16 as if such revocation was treated as a prepayment.

Section 2.04. Swingline Loans . (a) Subject to the terms and conditions set forth herein, each Swingline Lender agrees to make Swingline Loans to the Borrower from time to time during the Availability Period, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding $5,000,000 or (ii) the Dollar Equivalent of the total Revolving Credit Exposures exceeding the total Revolving Credit Commitments; provided that no Swingline Lender shall be required to make a Swingline Loan to refinance an outstanding Swingline Loan. If a Swingline Lender shall have received written notice that a Default has occurred and is continuing or that the Revolving Credit Commitments have been terminated, such Swingline Lender shall not make additional Swingline Loans without the consent of each Lender. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Loans. Upon request, the Administrative Agent shall provide notice to any Swingline Lender of the aggregate principal amount of outstanding Swingline Loans and the Dollar Equivalent of the total Revolving Credit Exposures.

(b) To request a Swingline Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (confirmed by telecopy), not later than 11:00 a.m., New York City time, on the day of a proposed Swingline Borrowing. Each such notice shall be irrevocable and shall specify (i) the requested date (which shall be a Business Day), (ii) the amount of the requested Swingline Loan, and (iii) the applicable Swingline Lender. The Administrative Agent will promptly advise the applicable Swingline Lender of any such notice received from the Borrower. The applicable Swingline Lender shall make each Swingline Loan available to the Borrower by means of a credit to the general deposit account of the Borrower with such Swingline Lender (or, in the case of a Swingline Loan made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e), by remittance to the Issuing Bank) on the requested date of such Swingline Loan by 3:00 p.m., New York City time.

(c) A Swingline Lender may by written notice given to the Administrative Agent not later than 10:00 a.m., New York City time, on the Business Day of the proposed acquisition of participations, require the Lenders to acquire participations on such Business Day in all or a portion of the Swingline Loans outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Lenders will participate. Upon the giving of any such notice, each Money Market Swingline Loan shall be converted to an ABR Borrowing and the right of the Borrower to request any further Money Market Borrowings shall be terminated. Promptly upon receipt of such notice, the Administrative Agent will give notice thereof to each Lender, specifying in such notice such Lender's Applicable RC Percentage of such Swingline Loan or Loans. Each Lender hereby absolutely and unconditionally agrees, upon the date of the proposed acquisition of participations as provided above, to pay to the Administrative Agent, for the account of the applicable Swingline Lender, such Lender's Applicable RC Percentage of such Swingline Loan or Loans. Each Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or reduction or termination of the Revolving Credit Commitments but excluding Swingline Loans made in contravention of the second sentence of Section 2.04(a), and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.06 with respect to Revolving Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis , to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the applicable Swingline Lender the amounts so received by it from the Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the applicable Swingline Lender. Any amounts received by a Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by such Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Lenders that shall have made their payments pursuant to this paragraph and to such Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

Section 2.05. Letters of Credit . (a) General . Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. If the Issuing Bank shall have received written notice that a Default has occurred and is continuing or that the Revolving Credit Commitments have been terminated, the Issuing Bank shall not issue Letters of Credit without the consent of each Lender. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions . To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the Dollar Equivalent of the LC Exposure shall not exceed $5,000,000 and (ii) the Dollar Equivalent of the total Revolving Credit Exposures shall not exceed the total Revolving Credit Commitments.

(c) Expiration Date . Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date not later than one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Revolving Credit Maturity Date.

(d) Participations . By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable RC Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable RC Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any

reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Revolving Credit Commitments but excluding Letters of Credit issued in contravention of the penultimate sentence of Section 2.05(a), and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement . If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on the Business Day immediately following the day that the Borrower receives such notice; provided that, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.04 that such payment be financed with an ABR Revolving Borrowing or a Swingline Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing or Swingline Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable RC Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable RC Percentage of the payment then due from the Borrower, in the same manner as Revolving Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis , to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans or a Swingline Loan as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement. Notwithstanding anything to the contrary contained herein, the obligation of a Lender to provide a Loan (or a participation in a Loan) or to reimburse the Issuing Bank with respect to an LC Disbursement shall not exceed such Lender's Applicable RC Percentage of such LC Disbursement.

(f) Obligations Absolute . The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the

Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary except in the case of notice by the Borrower as to the noncompliance of such documents, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (c) of this Section, then Section 2.13(e) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section

to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank . The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization . If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing greater than 50% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing greater than 50% of the total LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

Section 2.06. Funding of Borrowings . (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by (i) 12:00 noon, New York City time, in the case of a Loan denominated in dollars, and (ii) 11:00 a.m., London time, in the case of a Loan denominated in an Alternative Currency, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders; provided that Swingline Loans shall be made as provided in Section 2.04. The Administrative Agent will make such Loans available to the Borrower or the Subsidiary Borrower, as applicable, by promptly crediting the amounts so received, in like funds, to an account of the Borrower or the Subsidiary Borrower, as applicable, maintained with the Administrative Agent (i) in the case of a Loan denominated in dollars, in New York City, and (ii) in the case of a Loan denominated in an Alternative Currency, in London, England, in each case as designated by the Borrower or the Subsidiary Borrower, as applicable, in the applicable Borrowing Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower or the Subsidiary Borrower, as applicable, a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower or the Subsidiary Borrower, as applicable, severally agree to pay (without duplication) to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower or the Subsidiary Borrower, as applicable, to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, (x) the Federal Funds Effective Rate (in the case of a Borrowing in dollars) and (y) the rate reasonably determined by the Administrative Agent to be the cost to it of funding such amount (in the case of a Borrowing in an Alternative Currency) or (ii) in the case of the Borrower or the Subsidiary Borrower, the interest rate applicable to the subject Loan. If a Lender pays its share of such Borrowing with interest thereon to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing as of the date of such Borrowing.

Section 2.07. Interest Elections . (a) Each Revolving and Term Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurocurrency Revolving Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower or the Subsidiary Borrower, as applicable, may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurocurrency Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower or the Subsidiary Borrower, as applicable, may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. Notwithstanding any contrary provision herein, this Section shall not be construed to permit the Borrower or the Subsidiary Borrower, as applicable, to change the currency or Class of any Borrowing.

(b) To make an election pursuant to this Section, the Borrower or the Subsidiary Borrower, as applicable, shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if such Borrower were requesting a Revolving or Term Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower or the Subsidiary Borrower, as applicable.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) if the Borrowing to which such Interest Election Request applies is denominated in dollars, whether the resulting Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing; and

(iv) if the resulting Borrowing is a Eurocurrency Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term “Interest Period”.

If any such Interest Election Request requests a Eurocurrency Borrowing but does not specify an Interest Period, then the Borrower or the Subsidiary Borrower, as applicable, shall be deemed to have selected an Interest Period of one month’s duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender’s portion of each resulting Borrowing.

(e) If the Borrower or the Subsidiary Borrower, as applicable, fails to deliver a timely Interest Election Request with respect to a Eurocurrency Revolving Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing (unless such Borrowing is denominated in an Alternative Currency, in which case such Borrowing shall become due and payable on the last day of such Interest Period). Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower or the Subsidiary Borrower, as applicable, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurocurrency Borrowing and (ii) unless repaid, each Eurocurrency Borrowing shall be converted to an ABR

Borrowing at the end of the Interest Period applicable thereto (and, in the case of a Eurocurrency Borrowing denominated in an Alternative Currency, such Borrowing shall be converted into dollars at the Exchange Rate determined by the Administrative Agent on the last day of the Interest Period applicable thereto).

Section 2.08. Termination and Reduction of Commitments . (a) The Initial Term Loan Commitments terminated on the Closing Date. Immediately following the making of the Second Term Loans, the Second Term Loan Commitments shall be terminated on the Effective Date and shall not be reinstated. Unless previously terminated, the Revolving Credit Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Revolving Credit Commitments; provided that (i) each reduction of the Revolving Credit Commitments shall be in an amount that is an integral multiple of $100,000 and not less than $500,000 and (ii) the Borrower shall not terminate or reduce the Revolving Credit Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.10, the Dollar Equivalent of the total Revolving Credit Exposures would exceed the total Revolving Credit Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Revolving Credit Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Revolving Credit Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Revolving Credit Commitments shall be permanent. Each reduction of the Revolving Credit Commitments shall be made ratably among the Lenders in accordance with their respective Revolving Credit Commitments.

Section 2.09. Repayment of Loans; Evidence of Debt . (a) The Borrower and the Subsidiary Borrower, as applicable, hereby unconditionally promises to pay on the Maturity Date to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan provided by such Lender to such Borrower. The Borrower hereby unconditionally promises to pay to the Swingline Lender the then unpaid principal amount of each Swingline Loan on the Swingline Loan Maturity Date applicable to such Swingline Loan; provided that on each date that a Revolving Borrowing in dollars is made, the Borrower shall repay all Swingline Loans then outstanding.

(b) Amortization of Initial Term Loans . The principal amount of the Initial Term Loans shall be repaid in twenty quarterly installments, each such installment to be payable on the last day of each March, June, September and December beginning on September 30, 1999 and ending on the Initial Term Loan Maturity Date and to be in the aggregate amounts set forth below, such that on each such payment date, each Lender shall be paid an amount equal to such

Lender's pro rata share of the Initial Term Loans (calculated based on the outstanding principal amount of the Initial Term Loans of such Lender as a percentage of the outstanding Initial Term Loans of all Lenders) of the amount set forth below:

Payment Date	Aggregate Amount of Installments
September 30, 1999	462,500 euros
December 31, 1999	462,500 euros
March 31, 2000	462,500 euros
June 30, 2000	462,500 euros
September 30, 2000	925,000 euros
December 31, 2000	925,000 euros
March 31, 2001	925,000 euros
June 30, 2001	925,000 euros
September 30, 2001	925,000 euros
December 31, 2001	925,000 euros
March 31, 2002	925,000 euros
June 30, 2002	925,000 euros
September 30, 2002	1,156,250 euros
December 31, 2002	1,156,250 euros
March 31, 2003	1,156,250 euros
June 30, 2003	1,156,250 euros
September 30, 2003	1,156,250 euros
December 31, 2003	1,156,250 euros
March 31, 2004	1,156,250 euros
June 30, 2004	1,156,250 euros
TOTAL	18,500,000 euros

(c) Amortization of Second Term Loans . The principal amount of the Second Term Loans shall be repaid in twelve equal quarterly installments, each such installment to be payable on the first day of each March, June, September and December beginning on September 1, 2004 and ending on the Second Term Loan Maturity Date and to be in the aggregate amounts set forth below, such that on each such payment date, each Lender shall be paid an amount equal to such Lender's pro rata share of the Second Term Loans (calculated based on the outstanding principal amount of the Second Term Loans of such Lender as a percentage of the outstanding Second Term Loans of all Lenders) of the amount set forth below:

Payment Date	Aggregate Amount of Installments
September 1, 2004	750,000 euros
December 1, 2004	750,000 euros
March 1, 2005	750,000 euros
June 1, 2005	750,000 euros
September 1, 2005	750,000 euros
December 1, 2005	750,000 euros
March 1, 2006	750,000 euros
June 1, 2006	750,000 euros

September 1, 2006	750,000 euros
December 1, 2006	750,000 euros
March 1, 2007	750,000 euros
June 1, 2007	750,000 euros
TOTAL	9,000,000 euros

(d) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower and the Subsidiary Borrower, as applicable, to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(e) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class, Type and currency thereof and the Interest Period (if any) applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower and the Subsidiary Borrower, as applicable, to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(f) The entries made in the accounts maintained pursuant to paragraph (d) or (e) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of any Borrower to repay the Loans in accordance with the terms of this Agreement.

(g) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower and the Subsidiary Borrower, as applicable, shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. After the delivery of any such promissory note, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 10.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.10. Voluntary Prepayment of Loans . (a) Subject to Section 2.16, the Borrower or the Subsidiary Borrower, as applicable, shall have the right at any time and from time to time to prepay any Borrowing of the Borrower or the Subsidiary Borrower, as applicable, in whole or in part, subject to prior notice in accordance with paragraph (b) of this Section. In the case of the Term Loans, all prepayments shall be applied to the principal installments of the Term Loans in the inverse order of their maturities.

(b) The Borrower or the Subsidiary Borrower, as applicable, shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lender) by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurocurrency Revolving Borrowing or Eurocurrency Term Borrowing denominated in dollars, not later than 9:00 a.m., New York City time, three Business Days before the date of prepayment, (ii) in the case of prepayment of a Eurocurrency Revolving

Borrowing or Eurocurrency Term Borrowing denominated in an Alternative Currency, not later than 9:00 a.m., London time, three Business Days prior to the date of prepayment and (iii) in the case of prepayment of an ABR Revolving Borrowing or ABR Term Borrowing, not later than 9:00 a.m., New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Revolving Credit Commitments as contemplated by Section 2.08, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08. Promptly following receipt of any such notice relating to a Revolving Borrowing or Term Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing or Term Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Revolving Borrowing or Term Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

Section 2.11. Mandatory Prepayment of Loans .

(a) Sale of Assets . On the date on which the Borrower or any Subsidiary shall receive consideration from the sale, lease, assignment, transfer or other disposition of any property in excess of $2,500,000 in the aggregate during any fiscal year of the Borrower, the Borrower or the Subsidiary Borrower, as applicable, shall prepay (without premium or penalty but subject to Section 2.16) the principal of, at its option, the Initial Term Loans (to be applied to the principal installments of the Initial Term Loans in inverse order of their maturities), the Second Term Loans (to be applied to the principal installments on the Second Term Loans in inverse order of their maturities) and/or the Revolving Loans, in an aggregate amount equal to 100% of the consideration received (net of taxes and transaction expenses, including commissions).

(b) Proceeds of Insurance and Condemnation . On the date on which the Borrower or any Subsidiary shall receive insurance proceeds upon the occurrence of any casualty or shall receive proceeds upon the occurrence of any condemnation in excess of $2,500,000 in the aggregate during any fiscal year of the Borrower, any of which proceeds have not been applied or committed to be applied toward repair or replacement of the damaged or condemned property within 270 days of receipt thereof, the Borrower shall prepay (without premium or penalty but subject to Section 2.16) the principal of, at its option, the Initial Term Loans (to be applied to the principal installments of the Initial Term Loans in inverse order of their maturities), the Second Term Loans (to be applied to the principal installments of the Second Term Loans in inverse order of their maturities) and/or the Revolving Loans, in an aggregate amount equal to 100% of the proceeds received and not so applied or committed to be applied (net of taxes and transaction expenses, including commissions).

(c) Commitments Exceeded . If, on any Reset Date, the Dollar Equivalent of the aggregate Revolving Credit Exposures exceeds the aggregate Revolving Credit Commitments, the Borrower shall immediately prepay on such Reset Date outstanding Revolving Loans in an amount so that, after giving effect to any such prepayment, the Dollar

Equivalent of the aggregate Revolving Credit Exposures does not exceed the aggregate Revolving Credit Commitments (and if the Revolving Loans cannot be repaid to eliminate such excess due to the amount of LC Exposure that exists at such time, the Borrower shall deposit with the Administrative Agent sufficient cash collateral to cover such excess).

Section 2.12. Fees . (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at the Applicable Rate on the daily unused amount of the Revolving Credit Commitment of such Lender during the period from and including the date hereof to but excluding the date on which such Revolving Credit Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Revolving Credit Commitment terminates, then such commitment fee shall continue to accrue on the daily amount of such Lender's Revolving Credit Exposure from and including the date on which its Revolving Credit Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Revolving Credit Commitments terminate, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of this Section 2.12(a), the unused amount of the Revolving Credit Commitment of such Lender shall be deemed to be the excess of (i) the aggregate Revolving Credit Commitment of such Lender over (ii) the aggregate Revolving Credit Exposure of such Lender (exclusive of Swingline Exposure).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate as interest on Eurocurrency Revolving Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Revolving Credit Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate or rates per annum separately agreed upon between the Borrower and the Issuing Bank on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Revolving Credit Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Revolving Credit Commitments terminate and any such fees accruing after the date on which the Revolving Credit Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) The Borrower agrees to pay on the Effective Date to the Administrative Agent, for the account of each Lender, (i) an upfront fee equal to .250% of such Lender's Second Term Loan Commitment and (ii) an amendment fee equal to .075% of the sum of such Lender's Revolving Credit Commitment plus the principal amount of such Lender's Initial Term Loans outstanding on the Effective Date.

(e) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of upfront fees, commitment fees and participation fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

Section 2.13. Interest . (a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurocurrency Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) The Loans comprising each Money Market Borrowing shall bear interest at the Money Market Rate for the Interest Period in effect for such Borrowing.

(d) Notwithstanding the foregoing, if an Event of Default shall exist, interest shall accrue on any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder, from and including the date of such Event of Default until such Event of Default is cured or waived, at a rate per annum equal to (i) in the case of principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section and (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(e) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Revolving Credit Commitments; provided that (i) interest accrued pursuant to paragraph (d) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment, (iii) in the event of any conversion of any Eurocurrency Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion and (iv) all accrued interest shall be payable upon termination of the Revolving Credit Commitments.

(f) All interest hereunder shall be computed on the basis of a year of 360 days shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be

determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

Section 2.14. Alternate Rate of Interest . If prior to the commencement of any Interest Period for a Eurocurrency Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that in their reasonable determination the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period; or

(c) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that deposits in the applicable Committed Currency are not generally available, or cannot be obtained by the Lenders, in the London interbank market, as applicable;

then the Administrative Agent shall give notice thereof to the Borrower or the Subsidiary Borrower, as applicable, and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower or the Subsidiary Borrower, as applicable, and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurocurrency Borrowing shall be ineffective, and any Eurocurrency Borrowing so requested to be continued shall, at the option of the Borrower or the Subsidiary Borrower, as applicable, be repaid on the last day of the then current Interest Period with respect thereto or shall be converted to an ABR Borrowing denominated in dollars at the Exchange Rate determined by the Administrative Agent in accordance with this Agreement on the last day of the then current Interest Period with respect thereto, (ii) if any Borrowing Request requests a Eurocurrency Revolving Borrowing in dollars, such Borrowing shall be made as an ABR Borrowing and (iii) any request by the Borrower or the Subsidiary Borrower, as applicable, for any other Eurocurrency Borrowing in the affected Committed Currency shall be ineffective; provided that if the circumstances giving rise to such notice do not affect all applicable currencies, then requests for Eurocurrency Borrowings may be made in the currencies that are not affected thereby.

Section 2.15. Increased Costs; Illegality .

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market (or any other market in which the funding operations of such Lender shall be conducted with respect to any Committed Currency) any other condition affecting this Agreement or Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Loan (or of maintaining its obligation to make any Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower or the Subsidiary Borrower, as applicable, will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower or the Subsidiary Borrower, as applicable, will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company, as the case may be, as specified in paragraph (a) or (b) of this Section 2.15 and in reasonable detail the basis for such amount and the allocation to the Borrower or the Subsidiary Borrower, as applicable, of such amount shall be delivered to the Borrower or the Subsidiary Borrower, as applicable, and shall be conclusive absent manifest error. The Borrower or the Subsidiary Borrower, as applicable, shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section 2.15 shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower or the Subsidiary Borrower, as applicable, shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section 2.15 for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank notifies the Borrower or the Subsidiary Borrower, as applicable, of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided

further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

(e) Notwithstanding any other provision of this Agreement, if, after the date hereof, (i) any Change in Law shall make it unlawful for any Lender to make or maintain any Loan or to give effect to its obligations as contemplated hereby with respect to any Loan, or (ii) there shall have occurred any change in national or international financial, political or economic conditions (including the imposition of or any change in exchange controls or the introduction of different types of currency to replace the currency in which such Loan was made) or currency exchange rates which would make it impracticable in such Lender's reasonable determination for any Lender to make or maintain Loans denominated in a particular Committed Currency to, or for the account of, the Borrower or the Subsidiary Borrower, as applicable, then, by written notice to the Borrower or the Subsidiary Borrower, as applicable, and to the Administrative Agent:

(i) such Lender may declare that Loans (in the affected currency or currencies) will not thereafter (for the duration of such unlawfulness) be made by such Lender hereunder (or be continued for additional Interest Periods), whereupon any request for a Borrowing (in the affected currency or currencies) (or to continue a Borrowing (in the affected currency or currencies) for an additional Interest Period) shall, as to such Lender only, be deemed a request for a Loan denominated in dollars (or a request to convert a Eurocurrency Loan (in the affected currency or currencies) into a Eurocurrency Loan denominated in dollars on the last day of the then current Interest Period with respect thereto), unless such declaration shall be subsequently withdrawn; and

(ii) such Lender may require that all outstanding Loans (in the affected currency or currencies) made by it be converted to Loans denominated in dollars, in which event all such Loans (in the affected currency or currencies) shall be converted to Loans denominated in dollars as of the effective date of such notice as provided in paragraph (f) below and at the Exchange Rate on the date of such conversion; provided the Borrower or the Subsidiary Borrower, as applicable, shall retain the option to prepay such Loans under Section 2.10 (so long as the Loans of the other Lenders of the same Type, Class, currency and Interest Period are prepaid at the same time) in each affected currency if such affected currency in an Eligible Currency at the time of such prepayment.

In the event any Lender shall exercise its rights under this Section 2.15(e), all payments and prepayments of principal that would otherwise have been applied to repay the Loans that would have been made by such Lender or the converted Loans of such Lender shall instead be applied to repay the Loans denominated in dollars, as the case may be, made by such Lender in lieu of, or resulting from the conversion of, such Loans.

(f) In addition to any other indemnification or other "gross-up" provisions contained herein, if any law, or any governmental or quasi-governmental rule, regulation, policy, guideline, or directive of any jurisdiction outside of the United States, imposes or deems

applicable any reserve, assessment or other charge or cost on any Lender domiciled in the United States and the result of any of the foregoing is to increase the cost to such Lender of making or maintaining any Loan to the Borrower or the Subsidiary Borrower, as applicable, or to reduce the return received by such Lender in connection with any such Loan, then, to the extent that such Lender is not otherwise indemnified (whether pursuant to the definition of the term Statutory Reserve Rate or otherwise) hereunder for same, the Borrower or Subsidiary Borrower, as applicable, shall pay such Lender such additional amount or amounts as will compensate such Lender for such increased costs or reduction in the amount received. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender setting forth in reasonable detail the basis for such amount and the allocation to the Borrower or the Subsidiary Borrower, as applicable, shall be delivered to the Borrower or the Subsidiary Borrower, as applicable, which shall be conclusive absent manifest error.

(g) For purposes of this Section 2.15, a notice to the Borrower or the Subsidiary Borrower, as applicable, by any Lender shall be effective as to each Loan made by such Lender, if lawful, on the last day of the Interest Period currently applicable to such Eurocurrency Loan; in all other cases such notice shall be effective on the date of receipt thereof by the Borrower or the Subsidiary Borrower, as applicable.

Section 2.16. Break Funding Payments . In the event of (a) the payment of any principal of any Eurocurrency Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurocurrency Loan other than on the last day of the Interest Period applicable thereto, (c) the conversion of an Alternative Currency Loan to a dollar denominated Loan pursuant to Section 2.14(i) or Section 2.15(e)(ii), (d) the failure to borrow, convert, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.10(b) and is revoked in accordance therewith), or (e) the assignment of any Eurocurrency Loan other than on the last day of the Interest Period applicable thereto, on the Effective Date or as a result of a request by the Borrower or the Subsidiary Borrower, as applicable, pursuant to Section 2.19, then, in any such event, the Borrower or the Subsidiary Borrower, as applicable, shall compensate each Lender for the reasonable, documented loss, cost and expense attributable to such event. In the case of a Eurocurrency Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan, had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for deposits of a comparable amount, in the same currency and for the same period from other banks in the Eurocurrency market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower or the Subsidiary Borrower, as applicable, shall set forth in reasonable detail the basis for such amount and shall be conclusive absent manifest error. The Borrower or the Subsidiary Borrower, as applicable, shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

Section 2.17. Taxes . (a) Any and all payments by or on account of any obligation of the Borrower or the Subsidiary Borrower, as applicable, hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower or the Subsidiary Borrower, as applicable, shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.17) the Administrative Agent, a Lender or the Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower or the Subsidiary Borrower, as applicable, shall make such deductions and (iii) the Borrower or the Subsidiary Borrower, as applicable, shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower or the Subsidiary Borrower, as applicable, shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower or the Subsidiary Borrower, as applicable, shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of such Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 2.17) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall set forth in reasonable detail the basis for such amount, shall be accompanied by applicable documentation and shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower or the Subsidiary Borrower, as applicable, to a Governmental Authority, the Borrower or the Subsidiary Borrower, as applicable, shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the Relevant Jurisdiction or any treaty to which such Relevant Jurisdiction is a party, with respect to payments under this Agreement shall, assuming reasonable prior written notification by the Borrower or the Subsidiary Borrower, as applicable, to such Foreign Lender of the existence of such law or treaty, deliver to the Borrower or the Subsidiary Borrower, as applicable, (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower or the Subsidiary Borrower, as applicable, as will permit such payments to be made without withholding or at a reduced rate of withholding.

(f) If a Lender, the Issuing Bank or the Administrative Agent receives a refund from a taxing authority in respect of any Indemnified Taxes or Other Taxes for which it has been indemnified by the Borrower or the Subsidiary Borrower, as applicable, or with respect to which the Borrower or the Subsidiary Borrower, as applicable, has paid additional amounts pursuant to this Section 2.17, it shall within 10 days from the date of such receipt pay over the amount of such refund to the Borrower or the Subsidiary Borrower, as applicable (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower or the Subsidiary Borrower, as applicable, under this Section 2.17 with respect to the Indemnified Taxes or Other Taxes giving rise to such refund), without interest (other than interest paid by the relevant taxing authority with respect to such refund); provided, however, that the Borrower or the Subsidiary Borrower, as applicable, upon the request of such Lender, the Issuing Bank or the Administrative Agent agrees to repay the amount paid over to the Borrower or the Subsidiary Borrower, as applicable (plus penalties, interest or other charges), to such Lender, the Issuing Bank or the Administrative Agent in the event such Lender, the Issuing Bank or the Administrative Agent is required to repay such refund to such taxing authority.

(g) Nothing contained in this Section 2.17 shall require any Lender, the Issuing Bank or the Administrative Agent to make available its tax returns or any other information relating to Taxes or Other Taxes that such Lender, the Issuing Bank or the Administrative Agent deems to be confidential; provided, however, that any Taxes or Other Taxes shall, to the extent resulting from such Lender’s, the Issuing Bank’s or the Administrative Agent’s failure to make available any such tax returns, be deemed to be Excluded Taxes.

Section 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-offs . (a) The Borrower and the Subsidiary Borrower, as applicable, shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) from (i) in the case of a Loan denominated in dollars, a payment location in New York City and (ii) in the case of a Loan denominated in an Alternative Currency, a payment location in London, England, in each case as designated by the Borrower or the Subsidiary Borrower (or such other payment location hereafter specified by the Borrower or the Subsidiary Borrower, as applicable) prior to 12:00 noon, New York City time (or 12:00 noon, London time, in respect of principal of or interest on any Loan denominated in an Alternative Currency), on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York (or (i) in the case of amounts due in an Alternative Currency, to the Administrative Agent at its offices in London, England or (ii) such other office as shall be specified for such Alternative Currency by the Administrative Agent), except payments to be made directly to the Issuing Bank or Swingline Lender as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 10.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension at the same

rate then in effect with respect thereto. All payments of principal and interest (but not fees, which shall be payable in dollars) hereunder shall be made in the applicable Committed Currency, except as otherwise expressly provided herein.

(b) In relation to the payment of any amount denominated in the euro, the Administrative Agent shall not be liable to the Borrower or the Subsidiary Borrower or any of the Lenders in any way whatsoever for any delay, or the consequences of any delay, in the crediting to any account of any amount required by this Agreement to be paid by the Administrative Agent if the Administrative Agent shall have taken all relevant steps to achieve, on the date required by this Agreement, the payment of such amount in immediately available, freely transferable, cleared funds (in the euro unit) to the account of any Lender in the principal financial center in the Participating Member State which the Borrower, the Subsidiary Borrower or, as the case may be, any Lender shall have specified for such purpose. In this paragraph (b), "all relevant steps" means all such steps as may be prescribed from time to time by the regulations or operating procedures of such clearing or settlement system as the Administrative Agent may from time to time determine for the purpose of clearing or settling payments of the euro.

(c) If the basis of accrual of interest or fees expressed in this Agreement with respect to the currency of any state that becomes a Participating Member State shall be inconsistent with any convention or practice in the London interbank market for the basis of accrual of interest or fees in respect of the euro, such convention or practice shall replace such expressed basis effective as of and from the date on which such state becomes a Participating Member State; provided , that if any Loan in the currency of such state is outstanding on such date, such replacement shall take effect, with respect to such Loan, at the end of the then current Interest Period.

(d) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(e) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or participations in LC Disbursements or Swingline Loans resulting in such Lender receiving payment of a greater proportion (based on the Credit Exposures of such Lender as a percentage of the aggregate Credit Exposures of all Lenders) of the aggregate amount of its Revolving Loans, Initial Term Loans, Second Term Loans and participations in LC Disbursements and Swingline Loans and accrued interest thereon than the proportion (based on the Credit Exposures of such Lender as a percentage of the aggregate Credit Exposures of all Lenders) received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans, Initial Term Loans and Second Term Loans and participations in LC Disbursements and Swingline Loans of other Lenders to the extent

necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans, Initial Term Loans and Second Term Loans and participations in LC Disbursements and Swingline Loans; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower or the Subsidiary Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). Each of the Borrower and the Subsidiary Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower or the Subsidiary Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower or the Subsidiary Borrower in the amount of such participation.

(f) Unless the Administrative Agent shall have received notice from the Borrower or the Subsidiary Borrower, as applicable, prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower or the Subsidiary Borrower, as applicable, will not make such payment, the Administrative Agent may assume that the Borrower or the Subsidiary Borrower, as applicable, has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower or the Subsidiary Borrower, as applicable, has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, (i) in the case of a Borrowing or an LC Disbursement in dollars, at the Federal Funds Effective Rate and (ii) in the case of a Borrowing in an Alternative Currency, at the rate reasonably determined by the Administrative Agent to be the cost to it of funding such amount.

(g) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(c), 2.05(d) or (e), 2.06(b) or 2.18(e), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Section 2.19. Mitigation Obligations; Replacement of Lenders . (a) If any Lender requests compensation under Section 2.15, or if the Borrower or the Subsidiary Borrower, as applicable, is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate

or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower or the Subsidiary Borrower, as applicable, is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, or if any Lender does not approve any Currency as an Alternative Currency, then the Borrower or the Subsidiary Borrower, as applicable, may, at its sole expense and effort (except in the case of a defaulting Lender in which case it shall be at the expense and effort of such defaulting Lender), upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 10.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower or the Subsidiary Borrower, as applicable, shall have received the prior written consent of the Administrative Agent (and, if a Revolving Credit Commitment is being assigned, the Issuing Bank and Swingline Lender), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower or the Subsidiary Borrower, as applicable, (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower or the Subsidiary Borrower, as applicable, to require such assignment and delegation cease to apply.

ARTICLE III
Representations and Warranties

The Borrower represents and warrants to the Lenders that:

Section 3.01. Organization; Powers . Each of the Borrower and the Significant Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to own or lease its property and to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required. Schedule 3.01 sets forth the correct and complete list of each Subsidiary indicating (a) its jurisdiction of organization, (b) its ownership (by holder and percentage interest) and (c) its business and primary geographic scope of operation.

Section 3.02. Authorization; Enforceability . The Transactions to be entered into by each Loan Party are within such Loan Party's corporate, partnership or limited liability company

powers and have been duly authorized by all necessary corporate, partnership or limited liability company and, if required, stockholder, partner or member action. Each Loan Document to which any Loan Party is a party has been duly executed and delivered by such Loan Party and constitutes a legal, valid and binding obligation of such Loan Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 3.03. Governmental Approvals; No Conflicts . (a) The Transactions (i) do not require the Borrower or any Subsidiary to obtain or make any consent or approval of, registration or filing with, or other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect or that, if not obtained or made, could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, (ii) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of any Loan Party, or any order of any Governmental Authority, except as to any law, regulation or order the violation of which could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, (iii) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any Significant Subsidiary or their respective assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any Significant Subsidiary, except for any such violations, defaults or rights to require payment that could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect and (iv) will not result in the creation or imposition of any Lien (other than a Permitted Encumbrance) on any asset of the Borrower or any Subsidiary.

(b) No exchange control law or regulation materially restricts the Borrower or the Subsidiary Borrower, as applicable, from complying with its obligations in respect of any Loan or Letter of Credit denominated in a Committed Currency. Neither the Borrower, the Subsidiary Borrower nor any of their respective assets are entitled to immunity from suit, execution, attachment or other legal process. To ensure the enforceability or admissibility in evidence of any Loan Document, it is not necessary that such Loan Document be filed or recorded with any Governmental Authority or that any stamp or similar tax be paid thereon or in respect thereof. No withholding tax or documentary stamp tax or intangible tax or any other tax is or will be due in connection with the Transactions or in relation to any enforcement proceedings in respect of the Loan Documents.

Section 3.04. Financial Condition; No Material Adverse Change . (a) The Borrower has heretofore furnished to the Lenders the consolidated and consolidating balance sheets of the Borrower and its consolidated Subsidiaries and the related statements of income, stockholders equity and cash flows (i) as of and for the fiscal years ended December 31, 1999, December 31, 2000, December 31, 2001 and December 31, 2002, such consolidated financial statements being reported on by Pricewaterhouse Coopers, LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended June 30, 2003, certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial condition and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP.

(b) Since June 30, 2003, there has been no change that could reasonably be expected to have a Material Adverse Effect.

Section 3.05. Properties . (a) Each of the Borrower and the Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business reflected in the financial statements described in Section 3.04, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Each of the Borrower and/or the Significant Subsidiaries owns, or is licensed to use, all trademarks, tradenames, service marks, copyrights, patents and other intellectual property material to its business, the use thereof, to the knowledge of the Borrower, by the Borrower and the Subsidiaries does not infringe upon the rights of any other Person, except any such infringements that could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, and, to the knowledge of the Borrower, no other Person has materially infringed upon the rights of the Borrower and the Significant Subsidiaries thereto.

Section 3.06. Litigation and Environmental Matters . (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than as set forth on Schedule 3.06) or (ii) that involve this Agreement, any other Loan Document or the Transactions.

(b) Except as set forth on Schedule 3.06 and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any Subsidiary (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the date of this Agreement, there has been no change in the status of the matters set forth on Schedule 3.06 that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

Section 3.07. Compliance with Laws and Agreements . Each of the Borrower and the Significant Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary is in default with respect to any such law, regulation, order, indenture, agreement or other instrument, except for any such default that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 3.08. Investment and Holding Company Status . Neither the Borrower nor any Subsidiary is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

Section 3.09. Taxes . Each of the Borrower and the Subsidiaries has filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves in conformity with GAAP or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

Section 3.10. ERISA . No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than $10,000,000, the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than $10,000,000, the fair market value of the assets of all such underfunded Plans.

Section 3.11. Disclosure . The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Significant Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the filings of the Borrower made with the Securities and Exchange Commission and, to the knowledge of the Borrower, the other reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of the Loan Documents or delivered thereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

Section 3.12. Federal Reserve Regulations . (a) Neither the Borrower nor any Subsidiary is engaged principally, or as one of its important activities, in the business of extending credit for the purposes of buying or carrying Margin Stock (as defined under Regulation U).

(b) No part of the proceeds of any Loan, and no Letter of Credit, will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including Regulation T, U or X.

Section 3.13. Solvency . Immediately after the consummation of the Transactions (a) the fair value of the assets of each Loan Party at a fair valuation will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured, considering all financing alternatives and potential asset sales reasonably available to such Loan Party; (c) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured, considering all financing alternatives and potential asset sales reasonably available to such Loan Party; and (d) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Effective Date.

ARTICLE IV
Conditions

Section 4.01. Effective Date . The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence reasonably satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent (or its counsel) shall have received from each of the Guarantors either (i) a counterpart of a Guarantee Agreement signed on behalf of such party or (ii) written evidence reasonably satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of the Guarantee Agreement) that such party has signed a counterpart of a Guarantee Agreement. Each Guarantor shall have reaffirmed all of its obligations under its respective Guarantee Agreement.

(c) The Administrative Agent (or its counsel) shall have received from each of the Borrower and the Subsidiaries, as applicable, either (i) a counterpart of each Security Document signed on behalf of such party or (ii) written evidence reasonably satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of such Security Document) that such party has signed a counterpart of such Security Document. The Administrative Agent shall have received stock certificates representing 65% of the outstanding voting Capital Stock of each of the Foreign Subsidiaries subject to a Pledge Agreement together with undated stock powers executed in blank. The delivery of stock certificates shall not be required to the extent that the shares in a Foreign Subsidiary cannot be evidenced by stock certificates according to applicable foreign law. The Administrative Agent for its benefit and the ratable benefit of the Lenders shall have a legal, valid and enforceable perfected first-priority Lien on the Collateral.

(d) The Administrative Agent shall have received favorable written opinions (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of Mary A. Tremblay and Linklaters, Oppenhoff & Radler, substantially in the form of Exhibit A-1 and Exhibit A-2, respectively, and covering such other matters relating to the Loan Parties, this Agreement or the Transactions as the parties shall agree. The Borrower and the Subsidiary Borrower hereby request such counsel to deliver such opinions.

(e) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Loan Parties, the authorization of the Transactions and any other legal matters relating to the Loan Parties, the Loan Documents or the Transactions.

(f) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President, General Counsel and Secretary or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(g) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(h) All consents and approvals necessary to be obtained from any Governmental Authority or other Person in connection with the financing contemplated hereby and the continuing operation of the Borrower and the Significant Subsidiaries shall have been obtained and be in full force and effect, and all applicable waiting periods and appeal periods shall have expired, in each case without the imposition of any burdensome conditions.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 10.02) at or prior to 3:00 p.m., New York City time, on September 15, 2003 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

Section 4.02. Each Credit Event . The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties set forth in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, except that any representation or warranty limited by its terms to a specific date shall be true and correct as of such specific date.

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing and there shall be no laws, rules, regulations or orders that would cause the making or maintaining of such Loan or such Letter of Credit to be unlawful or otherwise unenforceable.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section 4.02.

ARTICLE V
Affirmative Covenants

Until the Revolving Credit Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

Section 5.01. Financial Statements and Other Information . The Borrower will furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year of the Borrower, the audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries and related statements of income, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures as of the end of and for the previous fiscal year, such consolidated financial statements being reported on by PricewaterhouseCoopers LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries and related statements of income and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of such fiscal year, setting forth in each case in comparative form the figures for the corresponding date or period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) prior to the consummation of a Permitted Business Acquisition (or, if the aggregate consideration paid for such Permitted Business Acquisition is less than $7,000,000, within 60 days thereafter), the audited (or, if unavailable, the unaudited) balance sheets of the acquired Person (or part thereof) as of the most recently ended calendar quarter and related statements of income and cash flows for the most recently ended four calendar quarters and, to

the extent available, for the elapsed portion of the calendar quarter during which such Permitted Acquisition occurs, such financial statements to be acceptable to the Required Lenders in their sole discretion (not to be unreasonably withheld) being reported or reviewed by independent public accountants acceptable to the Required Lenders in their sole discretion (not to be unreasonably withheld);

(d) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.12, 6.13 and 6.14 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(e) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(f) concurrently with any delivery of financial statements under clause (a), a narrative explanation signed by a Financial Officer of the Borrower of any material variance from the Borrower's budget for the fiscal year that is reflected in such financial statements;

(g) within 90 days of the commencement of each fiscal year of the Borrower, (i) projected consolidated balance sheets of the Borrower and its consolidated Subsidiaries for such fiscal year and (ii) an operating plan for the Borrower and its consolidated Subsidiaries for such fiscal year, including budget, personnel, facilities, capital expenditure and research and development projections and projected consolidated income and cash flow statements for such fiscal year, incorporating the items detailed in such operating plan for such fiscal year, and accompanied by a description of the material assumptions used in making such operating plan;

(h) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements, registration statements and other materials filed by the Borrower with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be; and

(i) promptly following any request therefor, such other information in a form normally kept by the Borrower regarding the operations, business, affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

Section 5.02. Notices of Material Events . The Borrower will furnish to the Administrative Agent and each Lender written notice of the following:

(a) immediately upon knowledge of or otherwise promptly upon the occurrence of any Default;

(b) promptly upon the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) promptly upon the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and the Subsidiaries in an aggregate amount exceeding $4,000,000; and

(d) promptly upon any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 5.03. Existence; Conduct of Business . The Borrower will, and will cause each of the Significant Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation, dissolution or corporate reorganization permitted under Section 6.03.

Section 5.04. Payment of Obligations . The Borrower will, and will cause each of the Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

Section 5.05. Maintenance of Properties; Insurance . The Borrower will, and will cause each of the Significant Subsidiaries to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

Section 5.06. Books and Records; Inspection Rights . The Borrower will, and will cause each of the Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities; provided that, with respect to each of the Foreign Subsidiaries, such entries going forward may be made in accordance with generally accepted accounting principles in effect in its jurisdiction of organization until such time that such entries are consolidated with the entries of the Borrower

and the Domestic Subsidiaries. The Borrower will, and will cause each of the Significant Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

Section 5.07. Compliance with Laws . The Borrower will, and will cause each of the Significant Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property (including, without limitation, all Environmental Laws), except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 5.08. Use of Proceeds and Letters of Credit . The proceeds of the Loans (other than the Second Term Loans) will be used only for general corporate purposes of the Consolidated Entities (including working capital, capital expenditures and acquisitions). The proceeds of the Second Term Loans will be used for the repayment of Indebtedness owing by the Subsidiary Borrower or Lydall Gerhardi GmbH & Co. KG to Deutsche Bank. No part of the proceeds of any Loan, and no Letter of Credit, will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X. Letters of Credit will be issued only to support obligations of the Borrower incurred in the ordinary course of business.

Section 5.09. Additional Guarantors . (a) Promptly upon any Domestic Subsidiary becoming a Significant Subsidiary, the Borrower will (i) cause such Domestic Subsidiary to guarantee the obligations of the Borrower and the Subsidiary Borrower under the Loan Documents, pursuant to a Guarantee substantially in the form of the Guarantee Agreement and (ii) deliver such proof of corporate, partnership or limited liability company action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by a Guarantor pursuant to Article IV or as the Administrative Agent shall have reasonably requested.

(b) Promptly upon any Foreign Subsidiary becoming a Significant Subsidiary, the Borrower will (i) cause such Foreign Subsidiary to guarantee the obligations of the Subsidiary Borrower under the Loan Documents, pursuant to a Guarantee substantially in the form of the Guarantee Agreement, (ii) cause 65% of the voting Capital Stock of such Foreign Subsidiary to be pledged and delivered to the Administrative Agent for its benefit and the ratable benefit of the Lenders, pursuant to the Pledge Agreement and (iii) deliver such proof of corporate, partnership or limited liability company action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by a Guarantor pursuant to Article IV or as the Administrative Agent shall have reasonably requested.

ARTICLE VI
Negative Covenants

Until the Revolving Credit Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of

Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that:

Section 6.01. Indebtedness. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness of any Loan Party pursuant to any Loan Document;

(b) Indebtedness existing on the date hereof and set forth in Schedule 6.01, and any extensions, renewals or replacements of any such Indebtedness, provided that the principal amount does not increase;

(c) Indebtedness of the Borrower to any Wholly-Owned Subsidiary or of any Wholly-Owned Subsidiary to the Borrower or any other Wholly-Owned Subsidiary, in each case incurred in the ordinary course of business and either consistent with past practices or for cash management purposes; provided that, upon request of the Required Lenders, such Indebtedness shall be evidenced by a promissory note in form and substance reasonably acceptable to the Required Lenders;

(d) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations, obligations under Synthetic Leases and obligations under tax-advantaged financings, and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (i) such Indebtedness is incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement and (ii) the aggregate principal amount of Indebtedness permitted by this clause (d) shall not exceed $12,000,000 at any time outstanding;

(e) Indebtedness of the Borrower or any Subsidiary as an account party in respect of trade letters of credit; and

(f) Indebtedness of Lydall Filtration/Separation, S.A.S. incurred to finance its working capital requirements; provided that the aggregate principal amount of Indebtedness permitted by this clause (f) shall not exceed $2,000,000 at any time outstanding.

Section 6.02. Liens. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien on any property or asset of the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 6.02; provided that (i) such Lien(s) shall not apply to any other property or asset of the Borrower or any Subsidiary and (ii) such Lien shall secure only those obligations which it secures on the date hereof;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary; provided that (i) such Lien secures Indebtedness permitted by clause (d) of Section 6.01, (ii) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (iii) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary, and (iv) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be;

(d) any Lien on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary; provided that (i) such Lien secures Indebtedness permitted by clause (d) of Section 6.01, (ii) such Lien and the Indebtedness secured thereby are incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement, (iii) the Indebtedness secured thereby does not exceed 100% of the costs of acquiring, constructing or improving such fixed or capital assets and (iv) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary; and

(e) any Lien (regardless of whether such Lien has been granted before, on or after the date hereof) on any property or asset of Lydall Gerhardi GmbH & Co. KG securing obligations to Deutsche Bank existing on the date hereof as set forth in Schedule 6.01.

Section 6.03. Fundamental Changes . (a) Except as otherwise consented to by the Required Lenders, the Borrower will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or any substantial part of its assets, or (whether now owned or hereafter acquired) sell, transfer, lease or otherwise dispose of any Capital Stock of any Subsidiary, or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Person may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (ii) any Person may merge into any Wholly-Owned Subsidiary in a transaction in which the surviving entity is a Wholly-Owned Subsidiary, (iii) any Subsidiary may sell, transfer, lease or otherwise dispose of its assets to the Borrower or to a Wholly-Owned Subsidiary; provided that, upon request of the Required Lenders, any deferred purchase price shall be evidenced by a promissory note in form and substance reasonably acceptable to the Required Lenders, (iv) the Borrower or any Subsidiary may sell, transfer, lease or otherwise dispose of its assets to the extent permitted by Section 6.07(c) and (v) any Subsidiary other than the Subsidiary Borrower may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; provided that any such merger involving a Person that is not a Wholly-Owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(b) The Borrower will not, and will not permit any Subsidiary to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and the Subsidiaries on the date of execution of this Agreement and businesses at least a significant portion of which relates to businesses incidental, similar or complementary to existing

businesses of any Consolidated Entity or to the design and manufacture of engineered specialty products for thermal/electrical/insulation and filtration/separation applications.

Section 6.04. Investments, Loans, Advances, Guarantees and Acquisitions . The Borrower will not, and will not permit any Subsidiary to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a Wholly-Owned Subsidiary prior to such merger) any Capital Stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit (or material portion thereof), except:

(a) Permitted Investments;

(b) with respect to any Foreign Subsidiary, direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the government of the country in which such Foreign Subsidiary is organized or has its principal place of business, in each case maturing within one year from the date of acquisition thereof, so long as the aggregate amount of all such obligations for all Foreign Subsidiaries does not exceed $5,000,000 in the aggregate at any time outstanding;

(c) loans, advances or investments existing on the date hereof by the Borrower and the Subsidiaries to or in their respective subsidiaries;

(d) loans or advances made after the Effective Date by the Borrower to any Wholly-Owned Subsidiary or by any Wholly-Owned Subsidiary to the Borrower or any other Wholly-Owned Subsidiary; provided that, upon request of the Required Lenders, such loans or advances shall be evidenced by a promissory note in form and substance reasonably acceptable to the Required Lenders;

(e) Guarantees constituting Indebtedness permitted by Section 6.01;

(f) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(g) Permitted Business Acquisitions by any Consolidated Entity so long as (i) if the consideration for such Permitted Business Acquisition consists solely of Capital Stock of the Borrower, (A) the aggregate market value of such Capital Stock paid by the Borrower and the Subsidiaries in respect of such Permitted Business Acquisition does not exceed 50% of Consolidated Net Worth determined as of the end of the most recently ended fiscal quarter and (B) the Leverage Ratio after giving effect to such Permitted Business Acquisition does not exceed and is not projected to exceed 2.25 to 1.00, and (ii) in all other circumstances, unless otherwise approved by the Required Lenders, (A) the aggregate cash and non-cash consideration (including the concurrent repayment or assumption of any Indebtedness) paid by the Borrower and the Subsidiaries in respect of any such Permitted Business Acquisition does not exceed

$20,000,000 and (B) the Leverage Ratio after giving effect to such Permitted Business Acquisition does not exceed and is not projected to exceed 1.75 to 1.00;

(h) investments by the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 6.04;

(i) investments that do not exceed $500,000 in the aggregate at any time outstanding made in connection with a sale of assets permitted by Section 6.07 to the extent of the non-cash consideration received by the Borrower or any Subsidiary; and

(j) investments in addition to those permitted by (a) through (i) by the Borrower or any Subsidiary (including investments made to meet minimum capital requirements of foreign jurisdictions) that do not exceed $4,000,000 in the aggregate for the Borrower and all Subsidiaries at any time outstanding.

Section 6.05. Hedging Agreements . The Borrower will not, and will not permit any Subsidiary to, enter into any Hedging Agreement, other than Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

Section 6.06. Restricted Payments; Certain Payments of Indebtedness . (a) The Borrower will not, and will not permit any Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except (i) the Borrower may declare and pay dividends with respect to its Capital Stock payable solely in additional shares of its Capital Stock, (ii) Subsidiaries may declare and pay cash dividends to the Borrower or any Wholly-Owned Subsidiary with respect to its Capital Stock, and (iii) so long as at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing, the Borrower or any Subsidiary may make Restricted Payments in an aggregate amount not to exceed $8,000,000 for the Borrower and the Subsidiaries during any fiscal year of the Borrower.

(b) The Borrower will not, and will not permit any Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Indebtedness, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Indebtedness, except payment of Indebtedness created under the Loan Documents; payment of regularly scheduled interest and principal payments as and when due in respect of any Indebtedness (subject to any subordination provisions thereof); prepayment at the consummation of a Permitted Business Acquisition of Indebtedness assumed in connection with such Permitted Business Acquisition; and payment of secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness.

Section 6.07. Disposition of Assets . Except as otherwise consented to by the Required Lenders, the Borrower will not, and will not permit any Subsidiary to, sell, transfer, lease or otherwise dispose of any asset, including any Capital Stock, except:

(a) sales of inventory and used or surplus equipment in the ordinary course of business;

(b) sales, transfers and dispositions permitted by Section 6.03; and

(c) sales, transfers and dispositions of assets (other than Capital Stock of a Subsidiary) that are not permitted by any other clause of this Section 6.07 so long as the Borrower demonstrates to the Lenders that its performance on a pro forma basis, after giving effect to such sale, transfer or disposition, of the covenants contained in Sections 6.12, 6.13 and 6.14 (as of the last day of the most recently ended fiscal quarter of the Borrower) shall improve; provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance upon this clause (c) shall not exceed (i) $6,000,000 in any single transaction (which limit may be waived, subject to the fulfillment of the other requirements of this clause (c), in the reasonable discretion of the Required Lenders) or (ii) $15,000,000 in the aggregate from the Effective Date to the Maturity Date;

provided that all sales, transfers, leases and other dispositions permitted hereby shall be made for fair value as agreed to in an arm's length transaction.

Section 6.08. Transactions with Affiliates . The Borrower will not, and will not permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions in the ordinary course of business and at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) Indebtedness permitted by Sections 6.01(b) and 6.01(c), investments permitted by Section 6.04 and fundamental changes permitted by Section 6.03 so long as each such transaction is at a price and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (c) any Restricted Payment permitted by Section 6.06, (d) any merger, consolidation, liquidation, dissolution or corporate reorganization permitted under Section 6.03, (e) transactions existing on the date hereof and set forth in Schedule 6.08, and (f) any Affiliate who is an individual may serve as a director, officer or employee of the Borrower or such Subsidiary and receive compensation for his or her services in such capacity.

Section 6.09. Restrictive Agreements . The Borrower will not, and will not permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement (other than this Agreement) that prohibits, restricts or imposes any condition upon (a) the ability of the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its Capital Stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement, (ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 6.09 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition), (iii) the foregoing shall not apply to restrictions or conditions imposed

by any agreement relating to secured Indebtedness permitted by Section 6.01(d) if such restrictions or conditions apply only to the property or assets securing such Indebtedness or the Subsidiary owning such property or assets.

Section 6.10. Issuances of Capital Stock by Subsidiaries . The Borrower will not permit any Subsidiary to issue any additional shares of its Capital Stock or interest other than (a) to the Borrower or a Wholly-Owned Subsidiary, (b) any such issuance that does not change the Borrower’s direct or indirect percentage ownership interest in such Subsidiary and (c) any such issuance that is permitted pursuant to Section 6.03 or 6.04.

Section 6.11. Subsidiary Borrower . The Borrower will not cease to own, directly or indirectly, and Control 100% (other than directors’ qualifying shares) of the ordinary voting power of the Subsidiary Borrower.

Section 6.12. Fixed Charge Coverage Ratio . The Borrower will not permit the Fixed Charge Coverage Ratio as determined as of the end of each fiscal quarter of the Borrower to be less than 1.50 to 1.00

Section 6.13. Leverage Ratio . The Borrower will not permit the Levera g e Ratio as determined as of the end of each fiscal quarter of the Borrower to be greater than 2.50 to 1.00.

Section 6.14. Consolidated Net Worth . The Borrower will not permit Consolidated Net Worth at any time to be less than the sum of (a) $116,000,000 plus (b) the aggregate sum of the Fiscal Quarter Net Worth Increase Amounts calculated for each fiscal quarter of the Borrower.

Section 6.15. Consolidated Capital Expenditures . The Borrower will not permit the aggregate amount of Consolidated Capital Expenditures to exceed $30,000,000 during the then current fiscal quarter and the prior three fiscal quarters of the Borrower.

Section 6.16. Minimum EBITDA . The Borrower will not permit Consolidated EBITDA as determined as of the end of each fiscal quarter of the Borrower to be less than $22,000,000.

ARTICLE VII
Events of Default

If any of the following events (“Events of Default”) shall occur:

(a) the Borrower or the Subsidiary Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower or the Subsidiary Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement, when and as the same shall become due and payable;

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with this Agreement or any amendment or

modification hereof or waiver hereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any amendment or modification hereof or waiver hereunder, shall prove to have been incorrect when made or deemed made or furnished;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.03 (with respect to the Borrower's or the Subsidiary Borrower's existence) or 5.08 or in Article VI;

(e) the Borrower or any Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general

assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any Subsidiary shall admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of $3,000,000 in the aggregate shall be rendered against the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and the Subsidiaries in an aggregate amount exceeding $4,000,000;

(m) (i) any Security Document shall for any reason cease to create in favor of the Administrative Agent for its benefit and the ratable benefit of the Lenders a legal, valid and enforceable perfected first-priority Lien on the Collateral as security for the obligations of the Loan Parties under the Loan Documents; or (ii) any Loan Document executed by the Borrower or any Subsidiary shall at any time after its execution and delivery and for any reason cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by any party thereto or any party thereto shall deny in writing it has any further liability or obligation thereunder or shall fail to perform its obligations thereunder;

(n) the Required Lenders shall have determined in good faith that a change that could reasonably be expected to have a Material Adverse Effect has occurred in the business, assets, operations, or condition (financial or otherwise) of the enterprise comprised of the Borrower and the Subsidiaries taken as a whole; or

(o) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower or the Subsidiary Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, with the consent of the Required Lenders, and shall, at the request of the Required Lenders, by notice to the Borrower and the Subsidiary Borrower, take any or all of the following actions, at the same or different times: (i) terminate the Revolving Credit Commitments, and thereupon the Revolving Credit Commitments shall terminate immediately, (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable) and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower and the Subsidiary Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower and the Subsidiary Borrower, and (iii) enforce its

rights under each Guarantee Agreement and each Security Document on behalf of the Lenders and the Issuing Bank; and in case of any event with respect to the Borrower or the Subsidiary Borrower described in clause (h) or (i) of this Article, the Revolving Credit Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower and the Subsidiary Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower and the Subsidiary Borrower.

ARTICLE VIII
The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 10.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 10.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by a Loan Party or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or

document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for any Loan Party), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower and the Administrative Agent may be removed at any time with or without cause by the Required Lenders; provided that the other Lenders, the Issuing Bank and the Borrower shall be promptly notified thereof. Upon any such resignation or removal, the Required Lenders shall have the right, in consultation with the Borrower so long as no Default has occurred and is continuing, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation or the Required Lenders' removal of the Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 10.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

Subject to the foregoing provisions of this Article VIII, the Administrative Agent shall, on behalf of the Lenders, (i) execute each Loan Document on behalf of the Lenders, (ii) hold and apply the Collateral, and the proceeds thereof, at any time received by it in accordance with the provisions of the Loan Documents, (iii) exercise any and all rights, powers and remedies of the Lenders under the Loan Documents, including the giving of any consent or waiver or the entering into of any amendment, subject to the provisions of Section 10.02, (iv) execute, deliver and file financing statements, assignments and other such agreements, and possess instruments on behalf of the Lenders and (v) in the event of acceleration of the obligations of the Borrower and the Subsidiary Borrower hereunder, exercise the rights of the Lenders under the Loan Documents upon and at the direction of the Required Lenders.

Each party hereto agrees and acknowledges that the Documentation Agent, the arranger and the book manager do not have any duties or responsibilities in their capacities as Documentation Agent, arranger and book manager, respectively, hereunder and shall not have, or become subject to, any liability hereunder in such capacities.

ARTICLE IX
Guarantee

In order to induce the Lenders to extend credit hereunder, the Borrower hereby absolutely, irrevocably and unconditionally guarantees, as a primary obligor and not merely as a surety, the timely payment of any and all of the Obligations. The Borrower further agrees that the due and punctual payment of the Obligations may be extended or renewed, in whole or in part, without notice to or further assent from it, and that it will remain bound upon its Guarantee hereunder notwithstanding any such extension or renewal of any Obligation.

The Borrower waives presentment to, demand of payment from and protest to the Subsidiary Borrower of any of the Obligations, and also waives notice of acceptance of its obligations and notice of protest for nonpayment. The obligations of the Borrower hereunder shall not be affected by (a) the failure of any Lender or the Administrative Agent to assert any claim or demand or to enforce or exercise any right or remedy against any Loan Party under the provisions of this Agreement, of any other Loan Document or otherwise or (b) any rescission, waiver, amendment or modification of any of the terms or provisions of this Agreement, any other Loan Document or any other agreement or the release or other impairment of any Collateral or the release of the Subsidiary Borrower. The Borrower shall be obligated to keep informed of the financial condition of the Subsidiary Borrower; provided that the failure of the Borrower to keep so informed shall not affect its obligations hereunder.

The Borrower further agrees that its agreement under this Article IX constitutes a promise of payment when due (whether or not any bankruptcy or similar proceeding shall have stayed the accrual or collection of any of the Obligations or operated as a discharge thereof) and not merely of collection, and waives any right to require that any resort be had by any Lender to any balance of any deposit account or credit on the books of any Lender in favor of any Loan Party or any other Person or to any other remedy against any Loan Party.

The Administrative Agent and any Lender may at any time and from time to time without the consent of, or notice to, the Borrower, without incurring responsibility to the Borrower, without impairing or releasing the obligations of the Borrower hereunder or under any security provided by the Borrower for performance of its obligations hereunder, upon or without any terms or conditions and in whole or in part: (a) subject to Section 10.02(b), change the manner, place or terms of payment (including the currency thereof) of and/or change or extend the time of payment of, renew or alter any of the Obligations, any security therefor, or any liability incurred directly or indirectly in respect thereof, and the guarantee herein made shall apply to the Obligations as so changed, extended, renewed or altered; (b) sell, exchange, release, surrender, realize upon or otherwise deal with in any manner and in any order any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, the Obligations or any liabilities (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and/or any offset thereagainst; (c) fail to assert any claims or demand or exercise or refrain from exercising any rights or remedies against or release the Subsidiary Borrower or others or otherwise act or refrain from acting; (d) subject to Section 10.02(b), settle or compromise any of the Obligations, any security therefor or any liability (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and subordinate the payment of all or any part thereof to the payment of any liability (whether due or not) of the Subsidiary Borrower; (e) apply any sum by whomsoever paid or howsoever realized to any liability or liabilities of the Subsidiary Borrower or any other guarantor of any Obligations to the Lenders regardless of what liability or liabilities of the Subsidiary Borrower remain unpaid; and/or (f) consent to or waive any breach of, or any act, omission or default under, this Agreement or any other Loan Documents or otherwise amend, modify or supplement this Agreement, any other Loan Documents or any of such other instruments or agreements.

The obligations of the Borrower under this Article IX shall not be subject to any reduction, limitation, impairment or termination for any reason, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever, by reason of the invalidity, illegality or unenforceability of any of the Obligations, any impossibility in the performance of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of the Borrower under this Article IX shall not be discharged or impaired or otherwise affected by the failure of the Administrative Agent or any Lender to assert any claim or demand or to enforce any remedy under this Agreement or any other agreement, by any waiver or modification in respect of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or omission which may or might in any manner or to any extent vary the risk of the Borrower or otherwise operate as a discharge of the Borrower or any other Loan Party as a matter of law or equity.

The Borrower further agrees that its obligations under this Article IX shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of any

Obligation is rescinded or must otherwise be restored by the Administrative Agent or any Lender upon the bankruptcy or reorganization of any Loan Party or otherwise.

In furtherance of the foregoing and not in limitation of any other right which the Administrative Agent or any Lender may have at law or in equity against the Borrower by virtue of this Article IX, upon the failure of the Subsidiary Borrower to pay any Obligation when and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, the Borrower hereby promises to and will, upon receipt of written demand by the Administrative Agent, forthwith pay, or cause to be paid, in cash the amount of such unpaid Obligation. The Borrower further agrees that if payment in respect of any Obligation shall be due in a currency other than dollars and/or at a place of payment other than New York and if, by reason of any Change in Law, disruption of currency or foreign exchange markets, war or civil disturbance or similar event, payment of such Obligation in such currency or at such place of payment shall be impossible or, in the reasonable judgment of any applicable Lender, not consistent with the protection of its rights or interests, then, at the election of any applicable Lender, the Borrower shall make payment of such Obligation in dollars (based upon the applicable Exchange Rate in effect on the date of payment) and/or in New York, and shall indemnify such Lender against any losses or expenses that it shall sustain as a result of such alternative payment.

Upon payment by the Borrower of any sums as provided above, all rights of the Borrower against the Subsidiary Borrower arising as a result thereof by way of right of subrogation, contribution, indemnity or otherwise shall in all respects by subordinated and junior in right of payment to the prior indefeasible payment in full in cash of all the Obligations owed by the Subsidiary Borrower to the Lenders and the Borrower shall not exercise any such rights until such payment in full and the Revolving Credit Commitments are terminated.

The Guarantee of the Borrower under this Article IX is a continuing guarantee and all liabilities to which it applies or may apply under the terms hereof shall be conclusively presumed to have been created in reliance hereon.

ARTICLE X
Miscellaneous

Section 10.01. Notices . Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at Lydall, Inc., One Colonial Road, Manchester, Connecticut 06045, Attention of David Jacoboski (Telecopy No. (860) 646-4917), with a copy to Mary A. Tremblay;

(b) if to the Subsidiary Borrower, to it at Lydall Deutschland Holding GmbH, c/o Lydall, Inc., One Colonial Road, Manchester, Connecticut 06045, Attention of Christopher R. Skomorowski (Telecopy No. (860) 646-4917) with a copy to David Jacoboski and Mary A. Tremblay;

(c) if to the Administrative Agent, to it at JPMorgan Chase Bank, Loan and Agency Services Group, 1111 Fannin, 10th Floor, Houston, Texas 77002, Attention of Candace Grayson (Telecopy No. (713) 750-2938) with a copy to JPMorgan Chase Bank, Two Corporate Drive, 7th Floor, Shelton, Connecticut 06484, Attention of John A. Francis (Telecopy No. (203) 944-8495) and, in the case of notices with respect to any Loan denominated in an Alternative Currency, to JPMorgan Chase Bank, 9 Thomas Moore Street, London, E19YT, London, United Kingdom, Attention of Steve Clarke (Telecopy No. 44-171-777-2360);

(d) if to the Issuing Bank or to the Swingline Lender (if JPMorgan Chase Bank), to it at JPMorgan Chase Bank, Loan and Agency Services Group, 1111 Fannin, 10th Floor, Houston, Texas 77002, Attention of Candace Grayson (Telecopy No. (713) 750-2938) with a copy to JPMorgan Chase Bank, Two Corporate Drive, 7th Floor, Shelton, Connecticut 06484, Attention of John A. Francis (Telecopy No. (203) 944-8495);

(e) if to the Swingline Lender (if Fleet National Bank), to it at Fleet National Bank, One Federal Street, Boston, Massachusetts 02110, Attention of Nicole Lovejoy, MAFDO7K (Telecopy No. (617) 346-0595); and

(f) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 10.02. Waivers; Amendments . (a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Subsidiaries that are parties thereto and the Required Lenders or by the Borrower and the Subsidiaries that are parties thereto and the Administrative Agent with the consent of the Required Lenders; provided that no such

agreement shall (i) increase any Revolving Credit Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or obligation to reimburse any LC Disbursement or reduce the rate of interest on any Loan or LC Disbursement, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the date fixed for the payment or prepayment of the principal amount of any Loan or the reimbursement of any LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Revolving Credit Commitment, or amend or waive the application of Section 2.19(b), or postpone or extend the expiration date of any Letter of Credit to a date after the date specified in Section 2.05(c)(ii), without the written consent of each Lender affected thereby, (iv) release the Borrower from its Guarantee under Article IX, or limit its liability in respect of such Guarantee, without the written consent of each Lender, (v) release any Subsidiary from its Guarantee under a Guarantee Agreement or limit its liability in respect of such Guarantee or such Guarantee Agreement or its obligation to enter into and provide a Guarantee pursuant to a Guarantee Agreement, without the written consent of each Lender, (vi) release all or any part of the Collateral or permit the creation of any Lien on the Collateral, without the written consent of each Lender, (vii) change Section 2.18(b), (c) or (d) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (viii) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender, (ix) modify or amend Section 2.17, without the written consent of each Lender, (x) consent to the assignment or transfer by any Loan Party of its rights or obligations hereunder or under any other Loan Document, without the written consent of each Lender, or (xi) waive any of the conditions precedent set forth in Article IV, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Issuing Bank or the Swingline Lender hereunder without the prior written consent of the Administrative Agent, the Issuing Bank or the Swingline Lender, as the case may be.

Section 10.03. Expenses; Indemnity; Damage Waiver . (a) The Borrower (including, insofar as it is responsible for such expenses, the Subsidiary Borrower) shall pay (i) all reasonable, documented out-of-pocket expenses incurred by the Administrative Agent, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights with respect to any Loan Party in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower (including, insofar as it is responsible for such expenses, the Subsidiary Borrower) shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from any third party claims resulting in, any and all losses, claims, damages, liabilities and related expenses (without duplication), including the reasonable fees, charges and disbursements of one counsel for all Indemnitees, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent that the Borrower or the Subsidiary Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Issuing Bank or a Swingline Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Issuing Bank or such Swingline Lender, as the case may be, such Lender's Applicable RC Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Issuing Bank or such Swingline Lender in its capacity as such. To the extent that the Administrative Agent, the Issuing Bank or a Swingline Lender subsequently receives reimbursement of such unpaid amount from the Borrower, the Administrative Agent, the Issuing Bank or such Swingline Lender will distribute the amount of such reimbursement to the Lenders who paid the Administrative Agent, the Issuing Bank or such Swingline Lender.

(d) To the extent permitted by applicable law and except in the case of willful misconduct by such Indemnitee (as determined by a court of competent jurisdiction by a final and nonappealable judgment), neither the Borrower nor the Subsidiary Borrower shall assert, and each of the Borrower and the Subsidiary Borrower hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any other Loan Document or any agreement or instrument contemplated hereby or thereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section 10.03 shall be payable promptly after written demand therefor (subject to reimbursement, together with interest thereon from the date of payment, if there is a determination that such Indemnitee was not entitled in whole or in part to such amount).

Section 10.04. Successors and Assigns . (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that neither the Borrower nor the Subsidiary Borrower may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower or the Subsidiary Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and the Loans at the time owing to it); provided that (i) each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Revolving Credit Commitment or any Lender’s obligations in respect of its LC Exposure or Swingline Exposure, the Issuing Bank and the Swingline Lenders) must give their prior written consent to such assignment (which consent, in each case, shall not be unreasonably withheld), except in the case of an assignment to a Lender or an Affiliate of a Lender having at least $500,000,000 in combined capital and surplus and undivided profits, (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender’s Revolving Credit Commitment, the amount of the Revolving Credit Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $10,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender’s rights and obligations under this Agreement, (iv) the Lender and assignee to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of $2,500, and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; and provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under clause (h) or (i) of Article VII has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender’s rights and obligations under this Agreement, such Lender shall

cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17, 10.03 and 10.14). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower and the Subsidiary Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Credit Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Subsidiary Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Subsidiary Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section 10.04 and any written consent to such assignment required by paragraph (b) of this Section 10.04, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower or the Subsidiary Borrower (subject to paragraph (f) of this Section), the Administrative Agent, the Issuing Bank or the Swingline Lenders, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Subsidiary Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 10.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower and the Subsidiary Borrower agree that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section 10.04. To the extent permitted by law, each Participant

also shall be entitled to the benefits of Section 10.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.17 (c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15, 2.16 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower and the Subsidiary Borrower, to comply with Sections 2.17(e) and (f) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section 10.04 shall not apply to any such pledge or assignment of a security interest (provided that, other than in connection with a pledge to a Federal Reserve Bank, this Section 10.04 shall apply to any transferee (including the pledgee or assignee) upon the exercise of rights under such pledge or assignment); provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(h) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC") of such Granting Lender, identified as such in writing from time to time by such Granting Lender to the Administrative Agent, the Borrower and the Subsidiary Borrower, the option to provide to the Borrower or the Subsidiary Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower or the Subsidiary Borrower pursuant to Section 2.01, provided that (i) nothing herein shall constitute a commitment to make any Loan by any SPC, (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Loan, such Granting Lender shall be obligated to make such Loan pursuant to the terms hereof and (iii) all credit decisions (including without limitation any decisions with respect to amendments and waivers) will continue to be made by such Granting Lender. The making of a Loan by an SPC hereunder shall utilize the Revolving Credit Commitment of the applicable Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any payment under this Agreement for which a Lender would otherwise be liable, for so long as, and to the extent, the related Granting Lender makes such payment. In furtherance of the foregoing, each party hereto hereby agrees that, prior to the date that is one year and one day after the payment in full of all outstanding senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or similar proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section, any SPC may (i) with notice to, but without the prior written consent of, the Borrower, the Subsidiary Borrower or the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to its Granting Lender in connection with liquidity and/or credit facilities to or for the account of such SPC to fund such Loans and (ii) subject to the

provisions of Section 10.12, disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of a surety, guarantee or credit or liquidity enhancement to such SPC.

Section 10.05. Survival . All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Revolving Credit Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17, 10.03, and 10.14 and Article VIII and the seventh paragraph of Article IX shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Revolving Credit Commitments or the termination of this Agreement or any provision hereof.

Section 10.06. Counterparts; Integration; Effectiveness . This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. The Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter thereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof and thereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 10.07. Severability . Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 10.08. Right of Setoff . If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final), in any currency, at any time held and other obligations at any time owing by such Lender or Affiliate, in any currency, to or for the credit or the account of the Borrower or the Subsidiary Borrower against any of and all the obligations of

the Borrower or the Subsidiary Borrower, in any currency, now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured or denominated in a different currency. The amount of any setoff involving obligations denominated in different currencies shall be determined by the Administrative Agent utilizing the Exchange Rate in effect on the date of such setoff. The rights of each Lender under this Section 10.08 are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

Section 10.09. Governing Law; Jurisdiction; Consent to Service of Process . (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each of the Borrower and the Subsidiary Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court for the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower, the Subsidiary Borrower, or their respective properties in the courts of any jurisdiction.

(c) Each of the Borrower and the Subsidiary Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section 10.09. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. The Subsidiary Borrower hereby appoints the Borrower as its agent to receive on its behalf service of proceedings arising out of or relating to this Agreement or any other Loan Document in any court, such service being hereby acknowledged by the Subsidiary Borrower to be effective and binding service in every respect. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

(e) To the extent that the Subsidiary Borrower has or hereafter acquires any immunity from suit, execution, attachment or other legal process under German law, the

Subsidiary Borrower hereby waives such immunity in respect of its obligations under the Loan Documents.

Section 10.10. WAIVER OF JURY TRIAL . EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.10.

Section 10.11. Headings . Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 10.12. Confidentiality . Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies under any Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder or to which the Administrative Agent, the Issuing Bank or such Lender is a party, (f) subject to an agreement containing provisions substantially the same as those of this Section 10.12, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 10.12 or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than a Loan Party. For the purposes of this Section 10.12, "Information" means all information received from a Loan Party relating to a Loan Party or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by a Loan Party. Any Person required to maintain the confidentiality of Information as provided in this Section 10.12 shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. Notwithstanding anything herein to the contrary, "Information" shall not include, and the Administrative Agent, the Issuing Bank and each Lender (and each employee, representative or other agent of the Administrative Agent, the

Issuing Bank and each Lender) may disclose to any and all Persons, without limitation of any kind, any information with respect to the income tax treatment and the income tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Administrative Agent, the Issuing Bank or such Lender relating to such tax treatment and tax structure.

Section 10.13. Interest Rate Limitation . Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon to the date of repayment, shall have been received by such Lender.

Section 10.14. Conversion of Currencies . (a) If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum owing hereunder in one currency into another currency, each party hereto agrees, to the fullest extent that it may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures in the relevant jurisdiction the first currency could be purchased with such other currency on the Business Day immediately preceding the day on which such judgment is given.

(b) The obligations of the Borrower and the Subsidiary Borrower in respect of any sum due to any party hereto or any holder of the obligations owing hereunder (the "Applicable Creditor") shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than the currency in which such sum is stated to be due hereunder (the "Agreement Currency"), be discharged only to the extent that, on the Business Day following receipt by the Applicable Creditor of any sum adjudged to be so due in the Judgment Currency, the Applicable Creditor may in accordance with normal banking procedures in the relevant jurisdiction purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to the Applicable Creditor in the Agreement Currency, the Borrower or the Subsidiary Borrower, as applicable, agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Applicable Creditor against such loss. The obligations of the Borrower and the Subsidiary Borrower contained in this Section 10.14 shall survive the termination of this Agreement and the payment of all other amounts owing hereunder.

Section 10.15. Reaffirmation . The Borrower acknowledges that the Liens granted to the Administrative Agent under the Security Documents in the Collateral secure all obligations of the Borrower under this Agreement and the other Loan Documents, including, without limitation, all liabilities and obligations in respect of the Second Term Loans, the other Loans as herein modified and the Letters of Credit. All references to "Loans" in any other Loan Document shall be deemed to include, without limitation, the Second Term Loans. All

references to “Obligations”, “Secured Rights”, or “Secured Obligations” in any other Loan Document shall be deemed to include, without limitation, all liabilities and obligations in respect of the Second Term Loans, the other Loans as herein modified and all Letters of Credit. All references to “Credit Agreement” in any other Loan Document shall be to this Agreement, as amended or supplemented from time to time. Each of the Borrower and the Subsidiary Borrower further acknowledges and reaffirms all of its other respective obligations and duties under the Loan Documents to which it is a party.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

LYDALL, INC., a Delaware corporation

By *\/s/ David Freeman*

Name: David Freeman
Title: President and Chief Executive Officer

LYDALL DEUTSCHLAND HOLDING GMBH
a German limited liability company

By */s/ Raymond S. Grupinski*

Name: Raymond S. Grupinski
Title: Thermal/Acoustical Group President

JPMORGAN CHASE BANK, individually and as Administrative Agent

By */s/ John A. Francis*

Name: John A. Francis
Title: Vice President

FLEET NATIONAL BANK, individually and as Documentation Agent

By */s/ Irene Bertozzi-Batenstein*

Name: Irene Bertozzi-Batenstein
Title: Vice President

THE BANK OF NEW YORK

By */s/ Scott Bogner*

Name: Scott Bogner
Title: Vice President

[SIGNATURE PAGE TO CREDIT AGREEMENT]

WEBSTER BANK

By */s/ Matthew O. Riley*

Name: Matthew O. Riley
Title: Senior Vice President

BROWN BROTHERS HARRIMAN & CO.

By */s/ Jared S. Keyes*

Name: Jared S. Keyes
Title: Managing Director

[SIGNATURE PAGE TO CREDIT AGREEMENT]

Exhibit 10.2

CONTRACT
for a Consortium Credit in the Amount of
EUR 6,000,000*

between

Lydall Gerhardi GmbH & Co. KG

as Borrower
(the **“ *Borrower* ”** or **“ *Lydall Gerhardi* ”**)

and

Lydall Holding Deutschland GmbH
as Co-Debtor
(the **“ *Co-Debtor* ”**)

and

Deutsche Bank AG
as Mandated Lead Arranger and Agent
(the **“ *Agent* ”**)

and

the herein named banks
as Lenders
(the **“ *Lenders* ”**)

* Original agreement is executed in German. This document has been translated to English.

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PREAMBLE

Lydall Gerhardi is a mid-size company in the automobile accessories sector. The company specializes in the development and production of devices for thermal insulation made of aluminum (“heat shields”). Its customers include many well-known automobile manufacturers in Europe, which principally buy directly, and to a lesser extent indirectly, through other automobile suppliers. After the takeover by Lydall Inc., Manchester, Ct., USA, in 1999 and the spin-off of the plastic and galvanic division with two plants in the business year 2000, Lydall Gerhardi currently has a production facility in Meinerzhagen.

Lydall Gerhardi intends to increase its production capacity in order to fill the volume of orders obtained in the meantime. This is to be achieved through broad investments, both in the existing location in Meinerzhagen and for the erection of a new plant in St. Nazaire, France.

The investments necessary to increase production capacities amount to a total of approximately 15 million Euros and are distributed essentially over the business year 2003 and 2004. The overwhelming part of the investment program is provided for St. Nazaire and is financed using assets of Lydall Inc., USA. The investments to be made in Meinerzhagen will be made from the cash flow generated there.

The debt of Lydall Gerhardi is to be reduced through further pay-ins by the parent company. Therefore, only a cash line in the amount of EUR 6,000,000 is needed for financing of the company, which is to be presented to two further banks for cooperative financing. Lydall Gerhardi’s intention in this regard is to establish a circle of house banks in order to be able to approach them in the future on a broader, local financing basis, as soon as further large projects – for example, investments or the acquisition of a company – should arise.

This being said, the parties agree to the following Contract:

§ 1 - DEFINITIONS

In this Contract, the following terms, when printed in italics, have the following meanings:

"Completion of Syndication" is achieved on the date that the credit institutions joining the herein documented consortium credit in connection with the general syndication have joined this Contract as *Banks* .

"Agent" is Deutsche Bank AG, Hagen Branch, Bahnhofstrasse 1-3, 58095 Hagen. Hereafter, the Deutsche Bank Hagen Branch, even in its function as *Mandated Lead Arranger,* will be called the *Agent* .

"Bank" is each of the banks listed in Annex I.

"Bank Days" are (i) with respect to the determination of the *EURIBOR* or *EONIA* as well as payments in *EUR TARGET Days* and otherwise (ii) days on which the credit institutions are open for the business required in this Contract.

"Availability Commission" is 0.50% per annum of the unused parts of the credit line, payable at the end of each month.

"Existing Collateral " is the collateral listed in Annex ***III*** .

"Definitive Due Date" is September 30, 2007.

"EONIA" (Euro Overnight Index Average) is the average of interest rates, calculated by the European Central Bank in percent per annum, given to two decimal places and weighted by volume, at which the banks selected as EURIBOR Panel Banks make disbursements in Euros to other banks on the target date up to the following target date, as published after 6:30 p.m. Brussels time on the target date in question, currently on the Bridge Telerate Page 247.

"Permitted Drawing of Funds" are *Drawings* by the *Borrower* wherethese do not exceed the credit granted, existing bank commitments at the Volksbank Meinerzhagen and bank commitments that are assumed with the consent of all lenders, as well as the supplier

commitments usual to the industry incurred in connection with the regular conduct of business.

"EURIBOR" is the per annum interest rate for interbank deposits in *EUROS* determined by the *Agent* at 11:00 a.m., Central European Time, two banking days before the first day of each interest period, with a time corresponding to the interest period involved, which is shown on page *EURIBOR* 01 of the Reuters Information Service (or a page replacing this page) for "spot value" (D + 2) on the basis of the calculations method "current/360 days" and determined on the basis of the *Euribor - FBE* Agreement.

"Due Date" is the day on which the credit lineis scheduled for repayment, entirely or in part.

"FBE" is the Fédération Bancaire Européenne [European Banking Federation] with headquarters in Brussels.

"Financing Documents" are this Credit Contract, including annexes, as well as all other contracts connected herewith, especially collateral agreements.

"Interbank Rate" is *EONIA* . However, if:

(i) due to a different beginning or end point on the relevant Reuters page, no rate is given for a running time corresponding to the interest period, or

(ii) at the time specified for the determination of the *Interbank Rate,* there is no indication on the Reuters page in question for deposits in that currency, or

(iii) the determination of the *Interbank Rate* is impossible in this manner for other reasons,

then the *Interbank Rate* will be the rate that the *Agent* calculates as the arithmetic mean of the quotations of the *Reference Banks* (rounded, if necessary, to the next higher 1/32% per annum), which these deposits, in the currency involved for the duration of this interest period from the first bank addresses on the European Interbank market at

approximately 11:00 a.m., Central European Time, two *Banking Days* before the first day of the interest period in question, could receive. If such an interest rate is not quoted by a reference bank, then the *Interbank Rate* will be determined on the basis of the interest rate stated by the other *Reference Banks.*

"Credit" is the total amount of all *Draws.* In § 8, a reference to the " *Credit* " includes, at the same time, a reference to the *Credit Granted* .

"Lender" is each of the banks listed in Annex I.

"Borrower" is Lydall Gerhardi GmbH & Co. KG, Auf der Koppel 9, 58540 Meinerzhagen.

"Credit Granted" is the existing credit granted in accordance with § 2 (1).

"Grounds for Cancellation" is an event described in § 11.

"Cancellation Situation" is an event described in § 11, which immediately or after the expiration of a period, the providing of a warning or on the basis of a decision or a notification of the *Majority Banks,* confers the right to cancel in accordance with § 11.

"Lydall Group" is Lydall Inc., Manchester, Connecticut (hereinafter: "Ct."), USA, and those Companies in which Lydall Inc. directly or indirectly holds majority equity.

"Lydall Inc." is the principal company of the *Lydall Group* with its headquarters in Manchester, Ct., USA.

"Mandated Lead Arranger" is Deutsche Bank AG, Hagen Branch, 58095 Hagen; hereinafter, the *Mandated Lead Arranger* will also be referred to as the *Agent* .

"Margin" is 2.90% per annum on the currently applicable EONIA.

"Majority Banks" are *Banks* that participate together with at least 66 $^{2}/_{3}$ % in the *Credit Granted* .

“Co-Debtor” is Lydall Deutschland Holding GmbH, Auf der Koppel 9, 58540 Meinerzhagen. It is jointly and severally liable for all claims from the *Credit* , however it does not have its own right to claim the credits.

“Net Revenue from Sale” is the gross revenue from the sale of a capital asset less the legal sales tax, fees, expenses and other costs arising from the sale.

“Reference Banks” are Deutsche Bank AG and every *Bank* that is listed in Annex I.

“TARGET Date” is a date on which payments in *EUROS* are carried in the Trans-European Automated Real-time Gross Settlement Express Transfer System.

“Subsidiary” is a company, the majority of which is owned by another company, so that the other company holds the majority of voting rights (dependent company). The shares or voting rights may be held directly or indirectly through another dependent company.

“Substantial Disadvantages” are all facts or developments that have or could have substantial negative effects on:

(i) the financial conditions or the capital or income situation of the *Borrower,* the *Co-Debtor* , *Lydall Inc.,* and therefore the ability of the *Borrower* to meet its payment commitments under this Contract, or

(ii) the effectiveness, legal validity or enforceability of the commitments of the *Borrower* hereunder or of another *Financing Document.*

“Commercial Internal Capital ” is the total of the subordinated shareholders’ loans in the consolidated balance sheet of the *Co-Debtor* and in the balance sheet of the *Borrower* as well as the internal capital shown there in each case. The internal capital is the sum of general partners’ or founding capital, reserves, loss carried forward and annual surplus/deficit.

"Draw" is each disbursement of credit funds to the *Borrower* completed under this Contract.

"Interest Collateral" is an instrument for the collateralization of interest that serves to remove the risk of interest changes. Especially suitable for this are interest caps or interest swaps.

§ 2 - CREDIT

(1) The *Banks* hereby give the *Borrower* a *Credit Granted* in the amount of a maximum overall total of *EUR 6,* 000,000 (*Euros* six million) **.** This *Credit Granting* can be drawn only by the *Borrower* . The funds will be made available by each Bank corresponding to its quota of the account held by it (see Annex I).

(2) The *Borrower* will use the funds to finance the general need for funds of the *Borrower* and for the financing of interest and commissions that come due under this contract.

The *Agent* and the *Banks* are not required to verify the use of the credit funds.

(3) The *Banks* are neither joint and several debtors nor joint and several creditors. The formation of a joint tenancy is excluded. Each *Bank* is the sole holder of the credit claim in the amount of its quota. To the extent that this Contract does not specify to the contrary, each *Bank* can enforce its rights under this Contract independently, without the need for cooperation of another *Bank* or of the *Agent* . If a *Bank* fails to perform its duties under this Contract, then the *Borrower* affected may make claims only against this *Bank* .

(4) In the case of a cancellation/repayment in accordance with § 11 or an early repayment in accordance with § 7 (1) or § 8 (2) or (8), the *Credit Granted* and/or the *Credit* is decreased by the share of the *Bank(s)* concerned.

<u>§ 3 – USE OF CREDIT</u>

(1) The *Banks* are not (any longer) required to permit *Draws* , if

(i) the *Definitive Due Date* has passed, or

(ii) one of the guarantees and assurances provideaccording to § 9 is not (any longer) true or is inapplicable, or

(iii) a *Cancellation Situation* exists.

§ 4 – INTEREST PAYMENT/INTEREST PERIODS

(i) Uses in continuous accounting will be subject to interest on the basis of the corresponding EONIA rates on the 25th of each month, plus margin.

(ii) The interest for variable uses is due in each case at the end of each calendar month.

§ 5 – INTEREST RATE

(1) The interest rate is set according to the *Interbank Rate* plus the *Margin* .

(2) The interest will be calculated according to the exact number of days lapsed, referred to a year of 360 days.

(3) Interest collateral will be provided in the amount of at least 75% of the credit granted.

§ 6 - REPAYMENT

(1) Every *Draw* is to be paid back on the D *ue Date* specified and in the amount there specified, but at the latest on the *Definitive Due Date* .

(2) If the date indicated in paragraph (1) is not a *Banking Day* , then the payment must be made on the next earliest *Banking Day* .

§ 7 – EARLY REPAYMENT/CANCELLATION

(1) If the *Borrower* outside the normal business operation should sell capital items of fixed capital, whose net sale proceeds within one year reach a total of *EUR* 500,000, then the *Borrower* will make a payment, subject to the agreement in paragraph 2, of (an) early repayment (s) in the amount of 50% of the *Net Sale Proceeds* . If the *Borrower* notifies the *Agent* with respect to the *Net Sale Proceeds* so obtained, that these *Net Sale Proceeds* will, entirely or in part, be used within a short time for the financing of the acquisition of articles of fixed assets of the *Borrower* , then this commitment does not exist to the extent of the amount provided for reinvestment.

(2) The *Banks* will release their collateral rights to articles of the fixed assets that are scheduled for sale for the purposes of such a sale. The Banks will receive first rank collateral rights to the newly acquired objects of fixed assets arising from the *Net Sale Proceeds* at the time of acquisition of title by the *Borrower.*

§ 8 – CHANGE IN CONDITIONS/CHARGES/ILLEGALITY

(1) If, due to a change that occurs after the execution of this Contract in legal or other provisions or their interpretation or application by an official, a court or other competent office (**"Change in Law"**),

(i) capital, deposits or credits of a *Bank* are affected by reserve or deposit holding requirements or comparable measures, or

(ii) if legal or other sovereign determinations regulations are made with respect to a bank's internal capital in relation to its liabilities, or

(iii) any other regulations with respect to credit are imposed on a bank, or

(iv) principal and interest payments or the payments of other amounts to a bank are subjected to taxation or the basis of taxation of a bank is changed and it is not simply a general taxation of its overall income, or

(v) changes are made in the above-named conditions or in another manner regulations are imposed on a bank with respect to its participation in this Contract, or generally in relation to such participation or granting of credit of this type,

and as a result the costs of the *Bank* affected are increased for granting, continuation or refinancing of *Draws* or making available of the *Credit* under this Contract, or amounts which this *Bank* receives or would have received according to this Contract are decreased, then this *Bank* will inform the *Borrower* (through the *Agent*) without delay upon obtaining such knowledge of the change in the law and the *Borrower* of the *Draw* affected will reimburse such amount to this *Bank* at its request through the *Agent* , as this *Bank* would have to expend, as a result of this changing law, as a result of higher costs or the decrease in income that it has undergone as a result thereof. This requirement, however, does not exist if the change in law is based on a supervisory measure directed against an individual *Bank* due to its individual conditions.

(2) The *Borrower* can cancel this Contract with respect to a *Bank* that demands reimbursement in accordance with paragraph 1 on the basis of a written declaration through the *Agent,* which the *Agent* must receive within 45 days after being informed of the change in law or after a demand for reimbursement, through a written declaration with immediate effect. With respect to the portion of the affected *Bank* , the cancellation will take effect only at the end of the current interest period. When the cancellation of outstanding *Draws* of this affected *Bank,* the outstanding *Draws* are to be repaid. Such a cancellation will result in a corresponding decrease in the *Credit.*

(3) The *Borrower* will bear all taxes and similar public law charges of a *Bank* that are imposed upon it due to its participation in this Contract, now or in the future, and that do not represent a general taxation of the overall income of this *Bank.*

(4) All payments of the *Borrower* under this Contract are to be made net, without any withholding or deduction of taxes, imposts and/or governmental fees of any type, unless the *Borrower* is required by law to undertake such withholdings or deductions.

(5) If the *Borrower* is legally required to undertake a deduction in the sense of paragraph 3 with respect to amounts that are to be paid to *Banks* or to the *Agent* under this Contract, then it will pay to the *Agent* the supplementary amounts that are necessary, so that the net amount remaining after the deduction in the sense of paragraph 3 corresponds to the amounts that would have been payable without such deduction.

(6) In the case of payment of a tax, impost and/or governmental fee of any type or with respect to a tax, impost and/or a governmental fee of any type, the *Borrower* is required to provide proof to the *Agent* of the payment having been made within 30 days after payment for each *Bank* affected.

(7) If conditions arise that give a *Bank* the right to demand a reimbursement in accordance with paragraphs 1, 3 or 5, this *Bank* will provide the *Borrower* , without delay, with suggestions as to how the *Credit* can be continued while avoiding such reimbursements. Especially, it will make an effort, if the *Borrower* so wishes, to transfer its portion of the *Credit* to a credit institution associated with the Consortium that is not affected, or affected to a smaller scope, by the above-mentioned change. The *Bank* is, however, under no circumstances required to undertake corresponding actions if this would, in its opinion, which must correspond to reasonable estimates, be connected to disadvantages that cannot be compensated for through additional payments that the *Borrower* involved hereunder is committed or for which it has assumed a legally binding commitment in a separate document.

(8) If, during the life of this *Credit* , due to a change in law, the binding nature of commitments arising out of this Contract become illegal for a *Bank* , then this *Bank* will inform the *Borrower,* through the *Agent,* of this fact without delay. The

Bank concerned in this case has the right to refuse to disburse a *Draw* and to demand the repayment of outstanding *Draws* at the end of the current interest payment (or earlier, if this is necessary due to the above-mentioned change in law) plus interest and other amounts to be paid under this Contract.

§ 9 – GUARANTEES AND ASSURANCES

The *Borrower* and the *Co-Debtor* assure that, with respect to themselves as well as Lydall Inc.:

(i) the *Borrower* and the *Co-Debtor,* as well as *Lydall Inc.* , were regularly founded and exist in the legal form shown by their firm name, each above-mentioned entity has the legal right to fulfill its obligations under the *Financing Documents* and each *Financing Document* to which such an entity is a party is legally binding upon it;

(ii) no insolvency or similar proceeding has been initiated, neither against the *Borrower,* the *Co-Debtor,* nor – to its best knowledge – *Lydall Inc* ., or, according to its best knowledge, is the initiation of such a proceeding pending;

(iii) neither the *Borrower* nor the *Co-Debtor* nor – according to its best knowledge – *Lydall Inc.* has infringed contractual or legal duties or commitments whose infringement could be expected to give rise to *Substantial Disadvantages* , and the decision, execution and performance of this Contract will not result in an infringement of any of the above-mentioned duties or commitments;

(iv) there is no court proceeding (before State courts or courts of arbitration) or administrative proceedings or is, to its best knowledge, imminent, either against the *Borrower* or against the *Co-Debtor* or – according to its best knowledge – *Lydall Inc* . in which, according to reasonable consideration of the evidence, there exists a non-negligible risk of a disadvantageous outcome and in which such an outcome would result in *Substantial Disadvantages* ;

(v) the last Annual Report together with the Situation Report of the *Borrower* , the last Annual Report of the *Co-Debtor,* as well as the last consolidated Annual Report – Form 10K - of *Lydall Inc* ., provide a picture of the capital, financial and income situation of the *Borrower* as well as *Lydall Inc* . that corresponds to actual conditions. The Annual Report of the *Borrower* was issued in accordance with the accounting regulations of the Commercial Law Book, the applicable tax laws and generally accepted principles of orderly bookkeeping and balance sheets currently in effect in the Federal Republic of Germany that were applied on a consistent basis (exception: recent information on changes with respect to the *Agent* and the *Banks*), and, on the date of issuance of its last Annual Report, there existed no substantial liabilities and no substantial unrealized losses or losses to be expected to which reference was not made in the Annual Report in Question.

The Annual Report of the *Co-Debtor,* as well as the Consolidated Balance Sheet of *Lydall Inc.* , are issued in accordance with US Generally Accepted Accounting Principles; as of the date of the last issued Annual Report, there were no substantial liabilities and no substantial unrealized or expected losses and no changes in the Balance Sheet recording and appraisal to which reference is not made in the Annual Report in question;

(vi) Since December 31, 2002, neither the *Borrower* nor the *Co-Debtor* nor in *Lydall Inc.* has there occurred a substantial decline in financial conditions or the capital, finance and income positions that have *Substantial Disadvantages* as a consequence;

(vii) the execution and fulfillment of the *Financing Documents* will not result in the *Borrower* or the *Co-Debtor* being required to post collateral or such collateral coming into existence unless the posting or the creation of collateral does not conflict with § 10 (4) (ii);

(viii) no *Cancellation Situation* exists;

(ix) – to its best knowledge - its payment commitments under this Contract stand at least equal in rank - *pari passu* - to all other current and future unsecured and not lower ranked payment commitments unless a preferred satisfaction of other

payment commitments arise forcibly from applicable regulations of the Insolvency Law or other generally applicable laws;

(x) neither it nor the *Co-Debtor* has posted or allowed to be posted collateral encumbering current or future capital assets to other *lenders* (to the extent not otherwise permitted in § 10 (4) (i));

(xi) all other information provided to the *Agent* and the *Banks* with respect to the *Borrower* , the *Co-Debtor* as well as *Lydall Inc.,* are correct and complete in all substantial aspects, all plan figures provided to the *Banks* by the *Borrower* and/or discussed with them were prepared with the necessary care and are based on plausible and comprehensible initial data and that all substantial information in connection with general future developments has been revealed.

§ 10 – PAYOUT PRECONDITIONS, OTHER COMMITMENTS

(1) The *Borrower* commits itself before the first *Draw* , to transmit to the *Agent*

(i) a table with sample signatures of persons who can represent the *Borrower* in connection with this Contract, certified by the number of members of its business management/attorneys-in-fact sufficient to represent the *Borrower* ,

(ii) certified copies of the Bylaws as well as a current extract from the Commercial Registry.

(2) The *Borrower* further commits itself, at the latest two weeks before the first use, to submit to the *Agent*

(i) an updated business plan , signed by the business management of the *Borrower* , covering the *Borrower* and the *Co-Debtor* , which may not substantially deviate from the submitted consolidated business plan of the *Borrower* and the *Co-Debtor* ;

(ii) an Annual Report signed by a member of the business management of Lydall Deutschland Holding GmbH for the business year 2002 on a consolidated basis issued according to the US-GAAP regulations, which may not deviate substantially from the preliminary Annual Report of Lydall Deutschland Holding GmbH for the business year 2002 on a consolidated basis to the extent that the deviations are not attributable to differences in the balance sheet creation and appraisal regulations according to HGB and US-GAAP comprehensibly to the *Banks* ;

(iii) an Annual Report signed by a member of the business management of Lydall Deutschland Holding GmbH for the business year 2002 , issued according to the US-GAAP regulations, which may not deviate substantially from the preliminary Annual Report of Lydall Deutschland Holding GmbH for the business year 2002 – to the extent that the deviations are not attributable to differences in the balance sheet creation and appraisal regulations according to HGB and US-GAAP comprehensibly to the *Banks* ;

(iv) the Consolidated Annual Report, audited and tested by independent auditors for the business years 2000 and 2001 as well as the Consolidated Balance Sheet and Profit and Loss Statement – Form 10K - for the business year 2002 of Lydall Inc.;

(v) the definitive Annual Report of Lydall Gerhardi GmbH & Co. KG for the business year 2002, issued according to HGB principles, as soon as it is prepared;

(vi) the current interim figures of the *Borrower,* in the format previously used by the *Borrower* ;

(vii) the current interim figures of Lydall Deutschland Holding on a consolidated basis, in the format previously used;

(3) The *Borrower* further agrees to make certain that, before use, on the basis of the separate collateral pool contract, the collateral listed therein has been provided to the *Banks* in an orderly fashion as surety for all their claims arising out of this Credit Contract.

(4) The *Borrower* and the *Co-Debtor* agree, during the life of this Contract,

(i) for its other current or future financial commitments not based on this Contract, to issue no sureties encumbering current or future capital assets and not to tolerate the existence of such sureties, unless this involves

(a) collateral of which the *Agent* was informed before the execution of the Credit Contract – as has already been done with respect to the collateral for a credit of the Volksbank Meinerzhagen to the benefit of the Volksbank Meinerzhagen on the real estate debt recorded on the building acquired by Hilba for *EUR* 2,000,000, as well as the guarantee from the *Borrower* in favor of the *Co-Debtor,* according to the repayment plan represented in Annex V, as collateral for two loans of Lydall Deutschland Holding GmbH to finance the acquisition of the Company as well as business operations, provided the Credit amount that is guaranteed thereby is not increased;

(b) collateral which, in the normal course of business, on the basis of usual contractual agreements, becomes surety for liabilities (aside from credit liabilities) with respect to suppliers or other service providers (for example, reservation of title, AGB pledge rights);

(c) labor and other legal lien rights;

(d) collateral to which the *Majority Banks* have consented;

(ii) not to extend or guarantee any credits without the consent of the Majority Banks, to assume guarantees or other liability for credits of other persons unless this involves

(a) Credits to or liability assumption for other companies of the *Lydall Group* up to a cumulative threshold value of *EUR* 500,000; or

(b) Credits or assumption of liability in connection with the usual course of business with third parties outside the Lydall Group.

(iii) to maintain insurance policies currently in existence and to contract for new insurance policies as they become necessary, to the extent of the standards of the industry;

(iv) to notify the *Agent* immediately of the existence of a *Cancellation Situation* known to exist or that will occur after the expiration of a time period and/or upon the occurrence of another condition, and of any matters that appear to be substantial, which might lead to the endangering of the orderly fulfillment of the *Financing Document* ; and

(v) always to act in accordance with all applicable laws, official regulations, permits, licenses, to the extent that this is relevant to avoiding *Substantial Disadvantages* .

(5) The *Borrower* also agrees,

(a) to ensure that it incurs no credit liabilities (including those from guarantee credits and lease agreements) or undertakes other fund acquisitions, unless it is *Permitted Funds Acquisitions* that are involved;

(b) to ensure that, to the extent this might endanger the fulfillment of commitments by the *Borrower* under this Credit Contract, no substantial change takes place in the business activities of the *Borrowers* ;

(c) to undertake no distributions or capital repayments, as long as the *commercial internal capital* in the consolidated balance sheet of the *Co-Debtor* and the *Borrower* do not exceed 25% of the current balance sheet total. If the balance sheet creation and appraisal methods used in the calculation of the *commercial internal capital* change (see paragraph 7a), then the *Banks* have the right to adjust the above balance sheet ratio, taking the change into account.

(6) The *Borrower* further commits itself to provide to the *Agent* for the *Banks* , until all claims of the *Banks* based on this Contract have been fulfilled, in a sufficient number of copies for the *Banks* :

(a) within 180 days after the closing of each business year (x) its Annual Report according to HGB, audited and tested by independent auditors, as well as (y) the Consolidated and Non-consolidated Annual Reports of the *Co-Debtor* , signed by the management of the *Co-Debtor,* according to US-GAAP *, and* (z) the Consolidated Annual Report of *Lydall Inc.* – Form 10K - audited and tested by independent auditors, where the Annual Reports are to be issued in accordance, as the case may be, with the accounting regulations in effect in the Federal Republic of Germany or in the USA and with generally accepted and applied principles of orderly bookkeeping and balance sheet issuance and to inform promptly the *Agents* and the *Banks* concerning any changes from previously applied balance sheet generation and appraisal methods;

(b) within 60 days after the end of the first, second and third quarters of the business year, (x) its Quarterly Figures signed by the management, (y) the Consolidated Quarterly Figures of the *Co - Debtor* signed by the management of the *Co-Debtor* and (z) the Consolidated Quarterly Figures – Form 10Q - of *Lydall Inc.* ;

(c) within 60 days after the end of a half-calendar year, the consolidated, updated budget of the *Co-Debtor,* signed by the managers of the *Co-Debtor;*

(d) upon demand, giving the reasons of the *Agent* or a *Bank* through the *Agent* in connection with what is legally permissible, to provide information concerning (x) its economic conditions and its Annual Report, (y) the economic conditions and the Annual Report of the *Co-Debtor,* as well as (z) the economic conditions and the Consolidated Annual Report of *Lydall Inc.*

(7) The *Borrower* agrees to use *Draws* only for the purposes listed in § 2 (3).

(8) Furthermore, the *Borrower* agrees to carry out financial transactions with other companies of the *Lydall Group* – especially with the affiliate with the same business purpose as the *Borrower* now under construction in St. Nazaire, France – only on the basis of conditions comparable to the market ("at arm's length").

§ 11 – CANCELLATION FOR IMPORTANT REASON

The *Agent* has the right or, on the basis of an instruction from the *Majority Banks,* the duty (i) to cancel the *Credit Granted* and/or (ii) to demand the immediate repayment of the *Credit* (entirely or in part) together with accrued interest and other amounts due hereunder, if

(i) the *Borrower* fails to pay one or more amounts owed under this Contract when due and, if the payment was not made on time solely due to a technical delay or an administrative oversight, fails to make the payment within ten *Banking Days* after a reminder by the *Agent* , or

(ii) the *Borrower* violates one of its other substantial duties under this Contract, especially one of its commitments in accordance with § 10 and this violation, if it is correctable, is not corrected within ten *Banking Days* after the *Borrower* has obtained positive knowledge of the conditions on which the violation of duty is based, or

(iii) at any time at which one of the guarantees and assurances that are given or repeated in § 9 is in a substantial respect not, or no longer, accurate and this violation, to the extent that it is correctable, has not been corrected within ten *Banking Days* after the *Borrower* has obtained positive knowledge of the conditions on which the violation of duty is based, or

(iv) the *Borrower* , the *Co-Debtor* or another company of the *Lydall Group* fails to meet its financing obligations with respect to third parties when due, or third parties call due early or are entitled to call due such financial commitments, provided these exceed an amount of *EUR* 500,000 (if appropriate after conversion to *EUROS*) and this condition is not corrected within 10 *Banking Days,* and as a result endangers the ability of the *Borrower* to meet its payment obligations, or

(v) the *Borrower,* the *Co-Debtor* or another company of the *Lydall Group* suggests or agrees to an out-of-court settlement for the benefit of its creditors in order to prevent an insolvency proceeding or a similar agreement, and as a result endangers the ability of the *Borrower* to meet its payment obligations, or

(vi) the *Borrower,* the *Co-Debtor* or another company of the *Lydall Group* is unable to meet its obligations, the *Borrower,* the *Co-Debtor* or another company of the *Lydall Group* applies for the opening of an insolvency proceeding according to §§ 17 through 19 of the Insolvency Law, its managers or other entities are required by law to make such an application or the competent court orders a measure in accordance with § 21 of the Insolvency Law concerning such a company or opens an insolvency proceeding against such a company or, in the case of a company of the *Lydall Group* with headquarters outside the Federal Republic of Germany, an analogous situation arises, especially a request for the initiation of an insolvency, debt reduction, debtor protection or similar proceeding or the appointment of a Receiver, Trustee, Custodian or similar administrator for the company or (a part of) its capital is ordered or such an administrator is appointed by a competent court or a competent authority with the exception of abusive or other obviously unfounded requests, and as a result, the ability of the *Borrower* to meet its payment obligations is endangered, or

(vii) a liquidation proceeding is initiated with respect to the *Borrower* or the *Co-Debtor,* or

(viii) one or more outside persons obtain the majority of votes and/or the majority of capital in the *Borrower,* the *Co-Debtor* or Lydall Inc. A person is considered to be an outside person if, before the acquisition, he has held neither a direct nor an indirect equity in the *Borrower* , the Co-Debtor or Lydall Inc., and does not belong to the *Lydall Group* .

(ix) the *Borrower,* the *Co-Debtor* or another company of the *Lydall Group* has violated contractual or legal commitments or duties whose violation leads to the expectation of initiation of *Substantial Disadvantages* , or a court proceeding (before State courts or courts of arbitration) is pending or about to be filed against one of the above-mentioned companies in which, according to a reasonable consideration, a non-negligible risk of a disadvantageous outcome exists and in which such an outcome would result in *Substantial Disadvantages* , or

(x) the economic conditions of the *Borrowers,* the *Co-Debtor* or another company of the *Lydall Group* have declined substantially overall or other circumstances arise if the decline or the arising of the other circumstances endangers or substantially delays the fulfillment of the *Borrower's* commitments under this Contract.

(xi) the *Borrower* or the *Co-Debtor* has purposely made materially significant incorrect statements concerning the economic conditions of the *Borrower* or of the *Co-Debtor* or concerning *Lydall Inc.*

(xii) a surety is or has become invalid.

§ 12 – DELAY/INDEMNITY FOR DAMAGES

(1) If any amount payable according to this Contract is not paid when due, then delay begins independently of a reminder. As a result of the unpaid amounts, each *Bank* has the right to refinance daily or for any other period that seems reasonable to it

and to payment from the *Borrower* or the *Co-Debtor* of its refinancing costs plus (except in the case of nonpayment of interest) the *Margin,* but as a minimum the payment of delay interest in the amount of the interest rate applicable before the beginning of the delay. These refinancing costs plus (except in the case of nonpayment of interest) the *Margin* are due at the end of the period for which the *Bank* has obtained refinancing.

(2) The *Borrower* must, in addition, assume liability upon request by the *Agent* for any material damage the *Bank* suffers as a result of the fact that any amounts payable according to this Contract (including interest) are not paid when due or *Draws* are not disbursed because not all disbursement preconditions have been met.

§ 13 - PAYMENTS BY THE BORROWER

(1) All payments by the *Borrower* are payable net on the due date, without being requested, with no deduction for taxes or similar deductions of any type. Payment commitments of the *Borrower* in connection with this Contract are considered to be fulfilled with debt-free effect (with respect to all (creditors)) only if and to the extent the amounts involved have been actually paid and credited without reservation to the account specified in each case by the *Agent.*

(2) The *Borrower* does not have the right to offset amounts owed to it against claims by the *Agent* or the *Bank* arising from this Contract or to assert a withholding right unless the counterclaim is undisputed or has been legally determined.

(3) If the *Borrower* should pay amounts that are insufficient to fulfill debts due under this Contract, the *Agent* will apply these payments in the following order to the debts due under this Contract corresponding to the quotas of the *Banks* :

(a) first – to fees, commissions, costs and other expenses of the *Agent* ;

(b) second – to interest payments due and not made;

(c) third – to outstanding *Draws* ; and

(d) fourth – to all further debts due.

§ 14 – BALANCE SETTLEMENT

The Borrower will, if possible, use the Banks evenly in proportion to their credit ratios. In case of the cancellation of all or part of the Credit, a balance compensation will be completed between the Banks in proportion to their credit quotas according to Annex I. The surety pool agreement to be executed separately will regulate the details.

§ 15 - COMMISSIONS

The *Borrower* commits itself to pay to the *Agent* the Commissions specified in the Mandate Agreement of October 23, 2002 at the times stated therein.

The *Borrower* further agrees to pay to the *Banks* a *Readiness Commission* on the unused and un-cancelled part . The *Readiness Commission* is to be paid in *EUROS* at the end of the month. It is calculated on a daily basis based on the number of actual days expired and a 360-day year.

§ 16 – REIMBURSEMENT OF COSTS

(1) The *Borrower* will, upon request, reimburse Deutsche Bank AG all documented reasonable and necessary expenses that Deutsche Bank AG incurs in connection with the syndication of this *Credit* and the preparation, negotiation, documentation and execution of this Contract.

(2) The *Borrower* will reimburse the *Agent* and the *Banks* on demand all documented reasonable and necessary expenses in connection with the court or out-of-court defense or prosecution of existing rights against it.

§ 17 – CONFIDENTIALITY

The *Agent* and the *Banks* commit themselves to the *Borrower* , to maintain strict confidentiality and silence concerning all confidential information concerning the *Borrower,* the *Co-Debtor* and other companies of the *Lydall Group* obtained in connection with these *Financing Documents* and to make this information inaccessible to a third party outside the consortium of each *Bank,* unless a revelation is required by law, by action of authorities or on the basis of a court order or if information is divulged to third parties of whom confidentiality is required by civil law.

Confidential information in the sense of this provision is such information that is not publicly known or accessible (with the exception of such information that has become publicly known or accessible due to a violation of this § 17).

§ 18 – THE AGENT AND THE BANKS

(1) The *Banks* hereby empower the *Agent* to take all legal actions provided in the *Financing Documents* . The *Agent* has, with respect to the *Banks,* no other commitments than those that it has expressly assumed in the *Financing Documents* . Paragraph (4) is unaffected. The *Agent* is released from the limitations of § 181 of the Civil Law Book.

(2) The *Agent* assumes, with respect to the *Banks,* no liability for the legal validity, effectiveness and enforceability of the *Financing Documents* , for the correctness of the certifications and assurances of the *Borrower* and of the *Co-Debtor* in connection with this Contract, for the correctness, completeness and suitability of the documents submitted by the *Borrower* in accordance with this Contract, to the *Agent* or the *Banks* and other notifications as well as for the good faith of the *Borrower,* the *Co-Debtor* or other companies of the *Lydall Group* .

Similarly, the *Agent* has no liability to the *Banks* for actions or omissions of its employees or departments, except in the case of gross negligence or intentional actions.

Each *Bank* assures the *Agent* and the other *Banks* that it has examined the *Financing Documents* on its own responsibility, reached its own credit decision and remains responsible for their further examination. With the exception of cases expressly provided herein, the *Agent* is not required to give the *Banks,* during the life of this Contract or the development of the credit relationship, credit information concerning the *Borrower,* the *Co-Debtor* or any other company of the *Lydall Group* that it has not received on the basis of this agreement. The *Agent* may, without limitation, receive deposits from the *Borrower* , grant credit to the *Borrower* or carry out other banking business with the *Borrower* .

(3) The *Banks* will hold the *Agent* harmless corresponding to their share of the outstanding *Draws* or, if no *Draw* is outstanding, of the *Credit Granted* , for the costs, expenses (with the exception of normal administrative costs) and damages which the *Agent* suffers in the exercise of its rights and fulfillment of its duties arising from the *Financing Documents* (to the extent that these are not reimbursed by a *Borrower*), unless the *Agent* in the exercise of these rights and fulfillment of these duties has not applied the care it applies in its own affairs. Claims by the *Banks* against the *Borrower* remain unaffected.

(4) In the relationship with the *Banks,* the *Agent* has the right not to exercise rights or not to perform tasks that are assigned to it in this Contract or that are necessarily connected to such rights or tasks if it has received no instructions from the *Banks* or the *Majority Banks* as to whether and how such a right is to be exercised or such a task is to be performed. Unless otherwise provided in this Contract, the Agent will act in accordance with the instructions received from the *Majority Banks,* which are binding for all *Banks* . If the *Agent* has been instructed correspondingly by the *Majority Banks,* it will not exercise rights or perform tasks that are assigned to it in this Contract.

Instructions from the *Banks* or *Majority Banks* to undertake legal enforcement measures need not be followed by the *Agent* , unless it is released to its own satisfaction from the costs and expenses (including court and attorneys' costs), which might arise in connection with such legal enforcement measures. The *Agent*

will not undertake legal enforcement measures in the name of the *Bank* without its consent.

(5) In the exercise and performance of its rights and duties under this Contract, the *Agent* will use, with respect to the Banks, the care that it uses in its own affairs. In relation to the *Banks,* the *Agent* has the right to trust all notifications that it considers genuine and in its opinion come from the person who is designated in such a notification as the originator. The *Agent* has the right to obtain opinions and information from attorneys, auditors and similar professional counselors that appear to be necessary or appropriate and to trust in these opinions and information.

(6) The *Agent* will acknowledge, without delay, receipt of the documents listed in § 10 (1), (2) and (6) of this Contract and forward to the *Banks* copies of all documents it receives from the *Borrower* under this Contract in its capacity as *Agent* , especially in accordance with § 10, as well as informing the *Banks* without delay of the content of other notifications of the *Borrower* directed to it in its capacity as *Agent* (with the exception of purely administrative notifications that do not affect the rights and duties of the banks).

Similarly, the *Agent* will forward any notifications or questions of the *Banks* to the *Borrower* , which are made under this agreement without delay.

(7) The *Agent* will inform the *Banks* of the existence of a *Cancellation Situation* , if and as soon as it has gained knowledge thereof in its function as *Agent* from a *Bank* or has actually gained knowledge of a *Cancellation Situation* in accordance with § 11 (i).

§ 19 – ASSIGNMENTS/TRANSFERS

The *Borrower* cannot assign or transfer its rights and duties arising from this Contract, either entirely or in part.

§ 20 - NOTIFICATIONS

(1) All notifications under this Contract must, unless otherwise stipulated in this Contract, be made by letter, by Fax or by e-mail (with confirmation by subsequent letter, the lack of which does not affect the effectiveness of the notification).

(2) All notifications to the *Borrower* are to be directed to the following address of the *Borrower* :

Lydall Gerhardi GmbH & Co. KG
Auf der Koppel 9
D – 58540 Meinerzhagen
Telephone: [+49] 2354 / 709-0
Fax: [+ 49] 2354 / 709-116

or to another address, of which the *Borrower* has notified the *Agent* in good time.

(3) All notifications to the *Agent* are to be directed to the following address:

Deutsche Bank AG
Hagen Branch
Bahnhofstrasse 1-3
D – 58095 Hagen
Telephone: [+49] 2331 / 394-163
Fax: [+49] 2331 / 394-160

§ 21 – CONTRACTUAL AMENDMENTS

(1) The *Agent* has the right, subject to the provisions of the following clauses, with the prior consent of the *Majority Banks* , to waive rights of the *Banks* or of the *Agent* under this Contract or to agree with the *Borrower* to amendments of this Contract. Waivers or amendments,

(a) which lead to an increase in credit funds approved or to a reduction of the repayment, interest or commission amounts to be paid, by the *Borrower*

(b) whose purpose is to grant deferments of payment or the extension of the payment periods concerning amounts to be paid by the *Borrower* or an extension of a *Draw Period* ,

(c) which refer to a clause that expressly provides for the consent of all *Banks* , and which lead to a cancellation of this consent requirement, or

(d) which refer to the definition of the “ *Majority Banks* ”, § 2, § 3 (2), § 13, § 14, § 19 (1) as well as this § 21,

require the consent of all *Banks* .

Waivers of rights of the *Agent* and contractual amendments that affect the rights and duties of the *Agent* and/or the *Mandated Arrangers* require the consent of the *Agent* and, if appropriate, of the *Mandated Arrangers* .

(2) Amendments to this Credit Contract, including this written form clause, must be in written form.

§ 22 - MISCELLANEOUS

(1) The general business conditions of the *Agent* , which are attached as Annex VI to this Contract and which are an integral part of this Contract, shall apply as a supplement.

(2) If individual provisions of this Contract should be or become legally ineffective or impracticable, entirely or in part, then the remaining provisions are not affected thereby. The parties agree to replace an ineffective or impracticable provision with such an effective or practicable provision that comes as close as possible to the economic purpose of the ineffective or impracticable provision. This applies correspondingly to loopholes.

(3) The delay or (even partial) failure to exercise rights does not constitute a waiver of such rights and will not lead to a forfeiture of these rights.

(4) Annexes I - VI are an integral part of this Contract.

§ 23 – APPLICABLE LAW AND COURT JURISDICTION

(1) This Contract and all rights and duties arising therefrom will be determined exclusively according to the laws of the Federal Republic of Germany.

(2) Non-exclusive court jurisdiction is Cologne.

The *Borrower*

Lydall Gerhardi GmbH & Co. KG
Auf der Koppel 9
D – 58540 Meinerzhagen
Telephone: [+49] 2354 / 709-0
Fax: [+ 49] 2354 / 709-116

/s/ Bertrand Ploquin	*/s/ Klaus Ritschel*
Bertrand Ploquin	Klaus Ritschel

The *Co-Debtor*

Lydall Deutschland Holding GmbH
Auf der Koppel 9
D – 58540 Meinerzhagen
Telephone: [+49] 2354 / 709-0
Fax: [+ 49] 2354 / 709-116

/s/ Raymond S. Grupinski

Raymond S. Grupinski

The *Agent*

Deutsche Bank AG

Hagen Branch
Bahnhofstrasse 1-3
D – 58095 Hagen
Telephone: [+49] 2331 / 394-163
Fax: [+49] 2331 / 394-160

/s/ Torben Kahlbaum

Torben Kahlbaum

The *Banks*

Deutsche Bank AG
Hagen Branch
Bahnhofstrasse 1-3
D – 58095 Hagen
Telephone [+49] 2331 / 394-163
Fax: [+49] 2331 / 394-160

/s/ Torben Kahlbaum

Torben Kahlbaum

Volksbank Meinerzhagen eG
Hauptstraße 12
58540 Meinerzhagen
Telephone (+49) 2354 / 916-190
Fax: (+49) 2354 / 916-188

/s/ Roland Krebs

Roland Krebs

ANNEX I

The *Banks*

Bank	**Amount**
Deutsche Bank AG.	*EUR* 3,000,000.00
Volksbank Meinerzhagen eG	*EUR* 3,000,000.00

ANNEX II

To:

1. Deutsche Bank AG
   Hagen Branch
   Bahnhofstrasse 1-3

   D – 58095 Hagen

GUARANTEE

Under an agreement dated … (as the same may be amended from time to time, the "Agreement"), with which we are familiar, you have agreed, subject to certain terms and conditions, to make available credit facilities or other financial accommodation to *Lydall Gerhardi GmbH & Co. KG, Auf der Koppel 9, 58540 Meinerzhagen, Germany,* (the "Borrower") up to the amount of *6.000.000,— Euro* against our first demand guarantee. Accordingly, we issue this Guarantee in order to ensure that you shall receive payment of all amounts expressed to be payable by the Borrower under the Agreement (the "Indebtedness") in the currency and at the place provided therein at its stated or accelerated maturity, net of any deduction or withholding whatsoever and irrespective of the factual or legal circumstances and motives by reason of which the Borrower may fail to pay the Indebtedness.

1. Guarantee and Guaranteed Amount

We hereby irrevocably and unconditionally guarantee the payment to you, in Hagen and in effective EURO, of the Indebtedness up to *6.000.000,— Euro (six million)* . In addition to such amount, we hereby irrevocably and unconditionally guarantee the payment to you of such further amounts as correspond to interest, cost, expenses, fees and all other amounts expressed to be payable by the Borrower under the Agreement. Payment hereunder will be made net of any deduction or withholding whatsoever.

2. Payment upon First Demand

We shall effect payment hereunder immediately upon your first demand and confirmation in writing or by teletransmission that the amount claimed from us equals the Indebtedness (or part thereof) which the Borrower has not paid when due and under the condition that the Borrower is in arrears with his payments for 10 days.

3. Primary, Independent Obligation

This Guarantee constitutes our primary and independent obligation to make payment to you in accordance with the terms hereof, under any and all circumstances, regardless of the validity, legality or enforceability of the Agreement and irrespective of all objections, exceptions or defences from the Borrower or third parties.

4. Guarantee for Payment

You shall not be required first to claim payment from, to proceed against, or enforce any claims on or security given by, the Borrower or any other person before making demand from us hereunder.

5. Exclusion of Specific Defences

This Guarantee and our obligations hereunder shall not be contingent upon the legal relationship between you and the Borrower and shall be independent of any enforceable notwithstanding (a) any defect in any provision of the Agreement, (b) any absence or insufficiency of corporate resolutions relating to the Indebtedness, (c) any inadequate representation of the Borrower, (d) any absence of licences or other authorisations or any factual or legal restrictions or limitations existing or introduced in the country of the Borrower, (e) any agreement made between you and the Borrower concerning the Indebtedness, including any extension of the term of payment and any rescheduling or restructuring of the Indebtedness, whether or not we shall have given our consent thereto, (f) the taking, existence, variation or release of any other collateral provided to you for the Indebtedness, and your legal relationship with any provider of such other collateral, (g) any right of the Borrower to rescind the Agreement, and (h) any right that you may have to set-off the Indebtedness against a counterclaim of the Borrower.

6. Taxes

Any amount payable by us hereunder will be paid free and clear of and without deduction of any withholding taxes. Withholding taxes are taxes, duties or governmental charges of any kind whatsoever which are imposed or levied in, by or on behalf of the country in which we are/or the Borrower is situated, and which are deducted from any payment hereunder and/or under the Agreement. If the deduction of withholding taxes is required by law, then we shall pay such additional amounts as may be necessary in order that the net amounts received by you after such deduction shall equal the amount that would have been receivable had no such deduction been required.

7. Currency Indemnity

Payments made by us to you pursuant to a judgement or order of a court or tribunal in a currency other than that of the Guarantee (the "Guarantee Currency") shall constitute a discharge of our obligation hereunder only to the extent of the amount of the Guarantee Currency that you, immediately after receipt of such payment in such other currency, would be able to purchase with the amount so received on a recognised foreign exchange market. If the amount so received should be less than the amount due in the Guarantee Currency under this Guarantee, then as a separate and independent obligation, which gives rise to a separate cause of action, we are obliged to pay the difference.

8. Limitation of Subrogation

So long as any sum remains payable under the Agreement, we undertake not to assert any claim we may have against the Borrower by reason of the performance of our obligations under this Guarantee, whether on contractual grounds or on any other legal basis, until all amounts payable to you under the Agreement have been fully and irrevocably received or recovered. Any amount received or recovered by us from the Borrower shall be held in trust for and immediately paid to you. If we make any payment to you hereunder, we shall only be subrogated in your rights against the Borrower once all amounts payable to you under the Agreement have been fully and irrevocably received or recovered by you.

9. Dissolution/Change of Structure

The obligations under this Guarantee shall remain in force notwithstanding any dissolution or change in the structure or legal form of the Borrower.

10. Restructuring

You shall without our consent be entitled to reschedule or restructure principal, interest and other amounts payable under the Agreement, to release the Borrower from its obligations and/or to accept a new debtor if, for reasons which you deem important, you or other companies of the Deutsche Bank group and / or the ....agree to similar measures also with respect to you or their other credits extended to entities in the country of the Borrower. Our liability under this Guarantee shall not be affected by such measures, and we undertake to pay to you upon first demand, in accordance with the terms hereof, all such amounts in full and at such time as they would have become due and payable had the Agreement and the Indebtedness remained effective and unaltered. Our consent to the terms and documentation of such rescheduling, restructuring, release or debt assumption shall not be required.

11. New Money

Should you agree, in connection with a debt restructuring or in order to avoid such restructuring, to extend new credits (“New Money”) to the Borrower or other entities in the country of the Borrower and should your participation in such New Money be calculated on the basis of credits extended by you and/or other companies of the Deutsche Bank group and/or the ....to the Borrower or such other entities, we hereby irrevocably and unconditionally guarantee, in accordance with the terms hereof, that portion of the claims for principal, interest, cost, expenses, fees and other amounts payable in respect of the New Money by which your participation in the New Money is increased by virtue of the Indebtedness, regardless of whether you are legally obliged to take part in the restructuring of the New Money. Our consent to the terms and documentation of the New Money shall not be required.

12. Miscellaneous

We represent and warrant that this Guarantee is binding, valid and enforceable against us in accordance with its terms. We waive any express acceptance of this Guarantee by you. We confirm that we have taken, and will continue to take, all necessary steps to ensure that any amount claimed by you from us hereunder can be transferred to you immediately, free of any deduction, cost or charges whatsoever. We waive any right to require information from you in respect of the Agreement and the Indebtedness.

13. Term

This Guarantee is effective as of its date of issuance and shall expire once all amounts expressed to be payable by the Borrower to you under the Agreement have been fully and irrevocably received by you. However, should you thereafter become liable to return monies received in payment of the Indebtedness as a result of any bankruptcy, composition or similar proceedings affecting the Borrower, this Guarantee shall be reinstated and become effective again notwithstanding such expiration.

14. Partial Invalidity

Should any provision of this Guarantee be unenforceable or invalid, the other provisions hereof shall remain in force.

15. Applicable Law, Jurisdiction

This Guarantee and all rights and obligations arising hereunder shall in all respects be governed by German law. We hereby submit to the jurisdiction of the competent courts of Cologne, Germany, and, at your option, of the competent courts of our domicile. We hereby irrevocably appoint <*name of guarantor´s process agent with domicile at the place of the stated jurisdiction*> as our agent for service of process or other legal summons in connection with any action or proceedings in Germany arising under this Guarantee.

Manchester, Ct., (date)
Guarantor:
Lydall Inc.

/s/ David Freeman

David Freeman
(Company and legally binding signature)

ANNEX III

Surety Pool Agreement

Surety Pool Agreement

Between

1. Deutsche Bank AG, Hagen Branch,
   Bahnhofstrasse 1-3, 58095 Hagen,

   - hereinafter also called "Pool Leader"

2. Volksbank Meinerzhagen eG
   Hauptstraße 12, 58540 Meinerzhagen

   - hereinafter called "Banks" as a group or each of them called "Bank"– as a civil law company and the company

Lydall Gerhardi GmbH & Co. KG
Auf der Koppel 9, 58540 Meinerzhagen

- hereinafter called the "Firm"–

as well as the firms

1.) Lydall Holding Deutschland GmbH
Auf der Koppel 9, 58540 Meinerzhagen

2.) Lydall Inc.
Manchester, Connecticut, USA

- hereinafter called "the Third Party Surety Providers" as a group and each of them called "a Third Party Surety Provider"–

the following Agreement is reached:

§ 1 Credits

(1) The Banks have a business relationship with the Firm and have granted to it, upon execution of this Agreement, on the basis of the Consortium Credit Agreement of under with joint and several liability of the Firm Lydall Holding Deutschland GmbH, the credit lines listed below:

Cash credits (Current Account Credit)

1. Deutsche Bank AG	€3,000,000.00
2. Volksbank Meinerzhagen eG	€3,000,000.00
	€6,000,000.00

(2) To the extent that the credit agreements so provide, the cash credits in accordance with Paragraph (1) B) can also be used as surety, discount and acceptance credit, as well as for derivative business/Swaps.

(3) The Firm can control credit lines and credits independently. Each bank is solely and directly entitled to the claims arising from the credits awarded to it.

(4) The Banks agree with each other to maintain the credit lines in accordance with Paragraph (1) for the duration of this Agreement and to undertake reductions or deletions only by common agreement. This does not apply to credits granted outside the Pool.

§ 2 Sureties

(1) The Firm has provided the following sureties to the Pool Leader:

a) Surety transfer of all current and future commercial and technical operating and business equipment in accordance with the Space Surety Transfer Agreement of 11/24/1999;

b) A land charge of DM 11,000,000.00 on the operating building at 58540 Meinerzhagen, Auf der Koppel 9, registered at the District Court of Meinerzhagen in the Land Registry of Meinerzhagen, Page 2918, No. 2.

(2) The Third Party Surety Providers have provided to the Pool Leader the following sureties or will provide the sureties listed without delay:

a) Credit surety guarantee of €6,000,000.00 of
of the Third Party Surety Provider: Lydall Inc.;

b) Declaration of abandonment of loan and subordination of loans with respect to the shareholders' loan to Lydall Holding Deutschland GmbH according to the declaration of
of the Third Party Surety Provider: Lydall Inc.;

c) Declaration of abandonment of loan and subordination of loans with respect to the shareholders' loan to Lydall Gerhardi GmbH & o. KG according to the declaration of
of the Third Party Surety Provider: Lydall Holding Deutschland GmbH.

§ 3 Purpose of the Surety

(1) The sureties included in this Pool Agreement of the Firm and of Third Party Surety Providers serve to secure all existing future and conditional claims to which the Banks are entitled – with all their domestic and foreign offices – from the granting of credits in accordance with § 1 (1) and (2) against the Firm.

(2) The Surety Purpose Agreements contained in the individual Surety Agreements are amended and supplemented for the duration of the Pool Agreement by the above Agreements.

§ 4 Return Transfer / Release of Surety

(1) After the satisfaction of all claims is secured in accordance with § 3, the Banks must transfer back to the Firm or to the appropriate Third Party Surety Provider the sureties included in this Pool Agreement, to the extent that advantage has not been taken of them. This shall not apply if the Banks are committed to transfer surety or any over-payment to a third party (e.g., a guarantor who has satisfied one or more Banks).

(2) The Banks are required, upon demand *a priori* to release the Pool Sureties entirely or in part, at their option, when and to the extent that the realizable value of the Pool Sureties exceed, not just temporarily, **110%** of the claims according to § 3. To the extent that the Banks are subjected to the value added tax on the sale, this percentage rate will be increased by the legal value added tax rate. The realizable value of the sureties is determined according to the rules of the individual Surety Agreements or, if no express agreement is reached covering this, from the type of surety in each case.

(3) The arrangements included in the original Surety Agreements concerning limits of coverage and release requirements are amended and supplemented by the above agreements for the duration of this Pool Agreement.

§ 5 Fiduciary Relationship / Surety Administration

(1) The Pool Leader will administer the sureties covered in this Agreement simultaneously for the other Banks in a fiduciary capacity.

(2) The Pool Leader will send the other Banks, upon demand, copies of the Agreements of the sureties held by it for their own auditing. The other Bank will, without delay, make any objections to the Pool Leader, so that a mutually acceptable agreement can be reached among the Banks.

(3) The Banks also authorize the Pool Leader to issue and accept all necessary declarations and to undertake all necessary or useful actions for the providing, administration and sale of the sureties. The Pool Leader is released from the limitations of § 181 BGB for all measures taken by it on the basis of this Agreement.

(4) The total or partial release of sureties requires the consent of all Banks. In connection with a release requirement in accordance with § 4 (2), this consent is necessary only for the selection of the sureties to be released.

(5) The Pool Leader will transfer the surety administration to another fiduciary only with the consent of the other Banks. In each case, the fiduciary is released from the limitations of § 181 BGB.

(6) To the extent that sureties are held by a Bank other than the Pool Leader, the above agreements apply correspondingly. In addition, the Pool Leader has the right, but not the duty, to undertake the monitoring and administration rights arising from the Surety Agreements in its own name.

§ 6 Sale

(1) The Pool Leader will sell the sureties named in § 2 in its own name but for the account of the Banks. To the extent that sureties are not held by the Pool Leader, these are to be sold in concert with the Pool Leader by the Bank in question in its own name, but for the account of the Banks.

(2) Concerning the question of whether or when sureties are to be sold, the Banks will decide by common agreement among themselves. In urgent cases, the Pool Leader alone will make this decision, according to its own duty-bound judgment; in this case, the Pool Leader will notify the other Banks without delay of the measures taken.

(3) The Pool Leader and the Banks will comply with the preconditions for sale contained in the individual Surety Agreements and in the Consortium Credit Agreement.

§ 7 Balance Equalization

(1) To the extent possible, the Firm will use the Banks equally with respect to the credit lines mentioned in § 1 (1).

(2) The Banks agree, in an irrevocable order to the Firm and also among themselves, in case of sale in accordance with § 6 or at any time upon demand by one Bank, to bring their credit receivables not exceeding the credit lines according to § 1 (1), through corresponding transfers, to a condition such that there comes into existence for all Banks a credit utilization according to the ratio of the stated cash credit lines. In this connection, the individual Banks must first offset any credits in non-appropriated accounts with their credit receivables which move in connection with the cash credit lines mentioned in § 1 (1).

Charges arising from debit notes and returned checks to be accepted are to be added to the receivables to be considered in connection with the equalization of balances. This shall not apply if and to the extent that the cash credit line mentioned in § 1 (1) is exceeded.

(3) To the extent that a mixed cash line is granted, exchange discounts credited to it will be taken into account during the balance equalization only when a deficiency is determined. Letters of Credit and sureties, to the extent that payment is made under them. *[sic]*

Claims from derivatives/Swaps concluded as credits to the cash credit lines in accordance with § 1 (1) will be included in the balance equalization when a liquidation of the transaction in question has occurred. For the liquidation, the following is agreed:

The Banks commit themselves, in an irrevocable order of each Firm, to cancel and liquidate derivative transactions/Swaps that are still open, in case of sale in accordance with § 6. The liquidation must take place at the latest two days after a case of sale in accordance with § 6 arises. The profits or losses resulting from the liquidation transaction are to be included in the balance equalization, to the extent that the cash credit lines mentioned in § 1 (1) are not exceeded.

(4) The reference date for the balance equalization is the date on which a decision is made for the initiation of sale measures in accordance with § 6 (2) Clause 1 or, in

urgent cases, the earliest receipt of notification by the Pool Leader concerning the initiation of sales measures in accordance with § 6 (2) Clause 2 at one of the other Banks or the written demand to the Pool Leader that a balance equalization be carried out. To the extent that the demand for a balance equalization is made by the Pool Leader, then the reference date will be the earliest receipt of a corresponding letter at one of the other Banks.

(5) If, after a balance equalization is carried out, the calculation basis changes (e.g., through the offset of credits or payments from guarantees), the balances will be re-equalized.

(6) If a balance equalization cannot be undertaken for legal reasons that are effective against the Firm or third parties, the Banks are required to obtain a corresponding result in their internal relationship.

§ 8 Distribution of Receipts

(1) The receipts from the sale of the sureties is to be applied according to the following ranking order:

a) to pay off costs, any taxes and other expenses, which arise through the administration of the sureties, as well as the compensation to the Pool Leader (§9) and to the fees, commissions, easts *[sic]* [1], and other expenses of the Pool Leader in its capacity as Agent in connection with the Consortium Credit Agreement.

b) for settlement of the amounts owed to the Banks from interest owed that is due or not paid, which are the result of the credits in accordance with § 1 (1) and indeed of the same rank as the credit used resulting from the interest owed;

c) for the settlement of amounts owed to the Banks from the credit granted in accordance with § 1 (1) and indeed of the same rank as the credit used after the balance equalization in accordance with § 7, where only those amounts owed are to be taken as a basis for calculation of the distribution key, which do not exceed the credit lines mentioned in § 1 (1).

(2) Discount credits are deemed to have been used only if a deficiency is determined; guarantees, acceptance credits and Letters of Credit, to the extent that payment has been made under them. Claims from derivative transactions/Swaps are included if a liquidation of each transaction has been completed in accordance with § 7.

(3) If the amount of the monies owed that is to be taken into account has not yet been determined at the time of distribution of the receipts, then they will at first not be taken into account in the determination of the ratio of participation in the receipts from the sale. Only when these amounts have definitively been determined will there be a conclusive calculation of the ratio of participation. The changes arising from this or from further balance equalizations performed according to § 7 (5) in the receipts to be distributed to the individual parties to the Agreement are to be equalized among themselves – even where payments have already been made.

(4) The Banks have the right to change the above-mentioned distribution key at any time.

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[1] Translator’s Note: Should probably be “costs”

(5) Any receipts no longer needed are to be paid to the firm or to the Third Party Surety Providers in each case, unless the Banks are required to transfer these receipts to a third party who has satisfied one or more Banks (e.g., a guarantor).

§ 9 Costs

(1) All costs and taxes incurred by the Pool Leader or any Bank holding a surety under this Surety Pool Agreement, especially in connection with the administration and with any sale of the sureties, are for the account of the Firm. In addition, the Pool Leader will receive a one-time compensation of EUR 9,000.00 for the issuance of this Agreement, which is due upon execution of the Agreement.

(2) To the extent that the costs and taxes or compensation are not paid by the Firm, they will be the responsibility of the Banks in proportion to the credit lines mentioned in § 1 (1).

§ 10 Notifications

(1) The Pool Leader will notify the other Banks according to its duty-bound judgment concerning the status of the activities. The Banks will make available the information necessary for this purpose.

(2) The Banks will keep each other informed, if facts become known that might later endanger the repayment of the credits mentioned in § 1.

(3) Each Bank is required, upon demand by the other Banks, to provide information to the other Banks concerning the amounts owed them by the Firm and the sureties, to the extent that these involve this Agreement and its implementation.

(4) The Firm and the Third Party Surety Providers release the Banks from banking secrecy requirements to this extent.

§ 11 Scheduling and Cancellation

(1) This Pool Agreement is made for a indefinite time.

(2) Each Bank has the right to cancel the Agreement, complying with a notice period of three months, at the end of a calendar quarter, where the determining factor for meeting the notice period is the receipt of the cancellation notice by the Pool Leader. If the Pool Leader cancels it, then the determining factor for meeting the notice period is the earliest receipt of the cancellation letter by one of the other banks. When the cancellation takes effect, the Bank involved exits the Pool Agreement. The Agreement will be continued among the other Banks.

(3) In case of cancellation according to Paragraph 2, the distribution of the sureties is reserved for special agreements among the Banks. The Firm and every Third Party Surety Provider are required to cooperate in such a transfer of sureties, to the extent that this is necessary. Upon demand to be made without delay by even one of the Banks, at the time of departure of the canceling Bank, a balance equalization is to be carried out corresponding to the agreement in § 7, including the participation of the canceling Bank.

(4) The Firm and the Third Party Surety Providers can cancel this Agreement only when all commitments arising from the credits mentioned in § 1 have been met.

§ 12 Place of Fulfillment, Court Jurisdiction and Applicable Law

(1) Hagen is agreed as the place of fulfillment and court jurisdiction for all commitments arising from this Agreement.

(2) This Agreement is subject to the law of the Federal Republic of Germany.

§ 13 Amendments and Supplements to the Agreement

Amendments and supplements to this Agreement must be in writing in order to be effective. The same applies to the waiving of this form requirement. No subsidiary agreements are made.

§ 14 Salvation Clause

If one or more provisions of this Agreement should be shown to be not legally effective or not performable, the efficacy of the other provisions is not affected thereby. The parties to the Agreement will replace any invalid or unperformable provisions by an agreement that corresponds to what was economically preferred and that is similar to the content of the provisions to be replaced. This applies correspondingly if loopholes requiring a supplement arise.

	/s/ Torben Kahlbaum
Hagen, on	Torben Kahlbaum Deutsche Bank AG Hagen Branch
	/s/ Roland Krebs
Meinerzhagen, on	Roland Krebs Volksbank Meinerzhagen eG
	/s/ Bertrand Ploquin
	/s/ Klaus Ritschel
Meinerzhagen, on	Bertrand Ploquin Klaus Ritschel Lydall Gerhardi GmbH & Co. KG

We assume all commitments of this contract that affect us, especially the agreements in the §§ 3 (Purpose of Collateral), 7 (Balance Compensation), 9 (Costs) and 10 (Notifications). In other respects, we agree to the contract.

	/s/ Raymond S. Grupinski
Meinerzhagen, on	Lydall Holding Deutschland GmbH
	/s/ David Freeman
Manchester, on	Lydall Inc.

ANNEX IV

Declaration of Reduction in Rank and Non-Assertion of Claims

1. Deutsche Bank Aktiengesellschaft

2. *Volksbank Meinerzhagen eG*
   Hauptstraße 12, 58540 Meinerzhagen

- hereinafter called the "Banks" -

versus

The Company Lydall Deutschland Holding GmbH, Auf der Koppel 9, 58540 Meinerzhagen

- hereinafter called the "Holding company –

We, Lydall Inc., One Colonial Road, Manchester, Connecticut, USA

are entitled to, according to the Balance Sheet as at 12/31/2001, claims from loans in the amount of Euros 26,407,000 plus interest. These claims against the Holding Company may increase further.

As a creditor of the Holding Company, we hereby place ourselves, together with our above-mentioned current and future claims and all rights associated therewith, behind all existing future and conditional claims of the Banks, together with those of all their domestic and foreign subsidiaries, against the Holding Company arising from the banking relationship, regardless of what legal form the Holding Company currently has and who its current owners are.

As long as the Banks are not fully satisfied with respect to the above-mentioned claims, we commit ourselves to leave our assets as described above in the Holding Company, not to dispose of our claims against the Holding Company without the prior consent of the Banks, especially not to call them in, not to waive them, not to have them collateralized, and not to assign them to a third party, pledge them, offset and also not to assume a lesser rank with these claims behind the claims of another creditor of the Holding Company.

At the same time, we assure that we have made no previous commitments concerning the claims, so that no third party rights with respect to the claims exist.

To the benefit of the Holding Company, it is hereby agreed that our claims are postponed until the banks have declared in writing this postponement agreement with respect to the Holding Company to be completed or cancelled in its entirety.

The Banks have, however, declared that they are in agreement – until the cancellation at any time – that we may at any time dispose of the above-mentioned claims without the

prior consent of the Banks, as long as the commercial internal capital in the Consolidated Balance Sheet of the Holding Company and the Balance Sheet of Lydall Gerhardi GmbH & Co. KG, 58540 Meinerzhagen, does not fall below 25% of the current balance sheet total. The commercial capital is determined from the total of the last-ranked partner's loans and the internal capital. The internal capital is determined to be the total of the limited partner or founding capital, reserves, losses carried forward and the annual surplus/deficit.

During the duration of this agreement, we commit ourselves with respect to the Banks to notify them quickly of any change in our previously used balance sheet and evaluation methods. In this case, the Banks will have the right to adjust the above-mentioned balance sheet ratio of 25% to take the changes into account.

Upon request by the Banks, we will enforce our claims against the Holding Company in our own name but for the account of the Banks and to pass on to the Banks payments we receive therefrom. The Banks have the right to make such a request if the Holding Company is in default with respect to them in the fulfillment of the above claims, the Holding Company ceases payments or an insolvency proceeding is undertaken in the courts, the insolvency proceeding is opened or its opening is declined due to lack of substance.

Upon request of the Banks, we will assign our claims to the Banks. The Banks are entitled to make such a request if our economic conditions threaten to change for the worse.

This agreement will remain in force until it is cancelled in writing by common agreement. The Banks are required to consent to the cancellation if the Holding Company has covered all its commitments and will definitively retain all amounts paid to them.

German Law applies.

Court jurisdiction is Cologne.

Manchester, on

/s/ David Freeman

David Freeman
(Lydall Inc.)

Accompanying Declaration

1. Deutsche Bank Aktiengesellschaft

2. *Volksbank Meinerzhagen eG*
   Hauptstraße 12, 58540 Meinerzhagen

- hereinafter called the "Banks" -

Lydall Inc. (Creditor) has provided us with a copy of the Declaration of Reduction in Rank and Non-Assertion of Claims agreed with the Banks, dated ___________, and asked us to provide the corresponding accompanying Declaration.

This having been stated, we confirm to the Banks that we are in agreement with the declaration of our creditor, including the agreed postponement. We expressly assure that we do not collateralize the claims in question from company assets, will make no payments against the claims to the creditor, its legal successors or other parties with the right to order them without prior consent of the Banks, provided the commercial internal capital in the Consolidate Balance Sheet of the Holding Company and the Balance Sheet of Lydall GmbH & Co. KG, 58540 Meinerzhagen, does not fall below 25% of the current balance sheet total. The commercial capital is determined from the total of the last-ranked partner's loans and the internal capital. The internal capital is determined to be the total of limited partner or founding capital, reserves, losses carried forward and the annual surplus/deficit.

If necessary, we will raise the objection of the postponement in the case of a demand for payment. This commitment will remain in effect until the Banks have declared to us, in writing, that the postponement agreement has been completed or the rank reduction and non-assertion agreement has been completely cancelled. Furthermore, we commit ourselves not to offset any of your claims against any claims we may have against the creditor. This will apply in case of its insolvency.

Meinerzhagen, on

Lydall Holding Deutschland GmbH

/s/ Raymond S. Grupinski

Raymond S. Grupinski
(Company name and legally binding signature)

Declaration of Reduction in Rank and Non-Assertion Claims

1. Deutsche Bank Aktiengesellschaft

2. *Volksbank Meinerzhagen eG*
   Hauptstraße 12, 58540 Meinerzhagen

- hereinafter called the "Banks" -

versus

The Company Lydall Gerhardi GmbH & Co. KG, Auf der Koppel 9, 58540 Meinerzhagen

- hereinafter called the "Firm" –

We, Lydall Deutschland Holding GmbH, Auf der Koppel 9, 58540 Meinerzhagen

are entitled to, according to the Balance Sheet as at 12/31/2001, claims from loans in the amount of Euros 15,685,000 plus interest. These claims against the Firm may increase further.

As a creditor of the Firm, we hereby place ourselves, together with our above-mentioned current and future claims and all rights associated therewith, behind all existing future and conditional claims of the Banks, together with those of all their domestic and foreign subsidiaries, against the Firm arising from the banking relationship, regardless of what legal form the Firm currently has and who its current owners are.

As long as the Banks are not fully satisfied with respect to the above-mentioned claims, we commit ourselves to leave our assets as described above in the Firm, not to dispose of our claims against the Firm without the prior consent of the Banks, especially not to call them in, not to waive them, not to have them collateralized, and not to assign them to a third party, pledge them, offset and also not to assume a lesser rank with these claims behind the claims of another creditor of the Firm.

At the same time, we assure that we have made no previous commitments concerning the claims, so that no third party rights with respect to the claims exist.

To the benefit of the Firm, it is hereby agreed that our claims are postponed until the banks have declared in writing this postponement agreement with respect to the Firm to be completed or cancelled in its entirety.

The Banks have, however, declared that they are in agreement – until the cancellation at any time – that we may at any time dispose of the above-mentioned claims without the prior consent of the Banks, as long as the commercial internal capital in the Consolidated Balance Sheet of our Company and the Balance Sheet of the Firm, does not fall below 25% of the current balance sheet total. The commercial capital is determined from the total of the last-ranked partner's loans and the internal capital. The internal capital is determined to be the total of the limited partner or founding capital, reserves, losses carried forward and the annual surplus/deficit.

During the duration of this agreement, we commit ourselves with respect to the Banks to notify them quickly of any change in our previously used balance sheet and evaluation methods. In this case, the Banks will have the right to adjust the above-mentioned balance sheet ratio of 25% to take the changes into account.

Upon request by the Banks, we will enforce our claims against the Firm in our own name but for the account of the Banks and to pass on to the Banks payments we receive therefrom. The Banks have the right to make such a request if the Firm is in default with respect to them in the fulfillment of the above claims, the Firm ceases payments or an insolvency proceeding is undertaken in the courts, the insolvency proceeding is opened or its opening is declined due to lack of substance.

Upon request of the Banks, we will assign our claims to the Banks. The Banks are entitled to make such a request if our economic conditions threaten to change for the worse.

This agreement will remain in force until it is cancelled in writing by common agreement. The Banks are required to consent to the cancellation if the Firm has covered all its commitments and will definitively retain all amounts paid to them.

Meinerzhagen, on

/s/ Raymond S. Grupinski

Raymond S. Grupinski
(Lydall Deutschland Holding GmbH)

Accompanying Declaration

1. Deutsche Bank Aktiengesellschaft

2. *Volksbank Meinerzhagen eG*
   Hauptstraße 12, 58540 Meinerzhagen

- hereinafter called the "Banks" -

Lydall Deutschland Holding GmbH (Creditor) has provided us with a copy of the Declaration of Reduction in Rank and Non-Assertion of Claims agreed with the Banks, dated ___________, and asked us to provide the corresponding accompanying Declaration.

This having been stated, we confirm to the Banks that we are in agreement with the declaration of our creditor, including the agreed postponement. We assure expressly that we do not collateralize the claims in question from company assets, will make no payments against the claims to the creditor, its legal successors or other parties with the right to order them without prior consent of the Banks, provided the commercial internal capital in the Consolidated Balance Sheet of our Company and the Creditor does not fall below 25% of the current balance sheet total. The commercial capital is determined from the total of the last-ranked partner's loans and the internal capital. The internal capital is determined to be the total of limited partner or founding capital, reserves, losses carried forward and the annual surplus/deficit.

If necessary, we will raise the objection of the postponement in the case of a demand for payment. This commitment will remain in effect until the Banks have declared to us, in writing, that the postponement agreement has been completed or the rank reduction and non-assertion agreement has been completely cancelled. Furthermore, we commit ourselves not to offset any of your claims against any claims we may have against the creditor. This will apply in case of its insolvency.

Meinerzhagen, on

Lydall Gerhardi GmbH & Co. KG

\/s/ Bertrand Ploquin	*\/s/ Klaus Ritschel*
Bertrand Ploquin	Klaus Ritschel

(Company name and legally binding signature)

ANNEX V

Repayment Plan

(Amounts in Euros)

Due Date		Repayment Amount
Sept. 30, 2003	€	1,156,250
Dec. 31, 2003	€	1,156,250
Mar. 31, 2004	€	1,156,250
June 30, 2004	€	1,156,250
Sept. 1, 2004	€	750,000
Dec. 1, 2004	€	750,000
Mar. 1, 2005	€	750,000
June 1, 2005	€	750,000
Sept. 1, 2005	€	750,000
Dec. 1, 2005	€	750,000
Mar. 1, 2006	€	750,000
June 1, 2006	€	750,000
Sept. 1, 2006	€	750,000
Dec. 1, 2006	€	750,000
Mar. 1, 2007	€	750,000
June 1, 2007	€	750,000
Total	€	13,625,000

Annex VI

General Business Conditions

Basic Rules Governing the Relationship Between the Customer and the Bank

1. Scope of application and amendments of these Business Conditions and the Special Conditions for particular business relations

(1) Scope of application
The General Business Conditions govern the entire business relationship between the customer and the bank's domestic offices (hereinafter referred to as the "Bank"). In addition, particular business relations (such as securities transactions, card-based payments, use of checks, savings accounts, credit transfers) are governed by Special Conditions, which contain deviations from, or complements to, these General Business Conditions; they are agreed with the customer when the account is opened or an order is given. If the customer also maintains business relations with foreign offices, the Bank's lien (No. 14 of these Business Conditions) also secures the claims of such foreign offices.

(2) Amendments
Any amendments of these Business Conditions and the Special Conditions will be notified to the customer in writing. If the customer has agreed to an electronic communication channel (e.g. home banking) with the Bank within the framework of the business relationship, the amendments may also be communicated through this channel if the type of communication allows the customer to store or print out the amendments in legible form. They shall be deemed to have been approved unless the customer objects thereto in writing or through the agreed electronic channel. Upon notification of such amendments, the Bank shall expressly draw the customer's attention to this consequence. The customer's objection must be dispatched to the Bank within six weeks from the notification of the amendments.

2. Banking secrecy and disclosure of banking affairs

(1) Banking secrecy
The Bank has the duty to maintain secrecy about any customer-related facts and evaluations of which it may have knowledge (banking secrecy). The Bank may only disclose information concerning the customer if it is legally required to do so or if the customer has consented thereto or if the Bank is authorized to disclose banking affairs.

(2) Disclosure of banking affairs
Any disclosure of details of banking affairs comprises statements and comments of a general nature concerning the economic status, the creditworthiness and solvency of the customer; no information will be disclosed as to amounts of balances of accounts, of savings deposits, of securities deposits or of other assets entrusted to the Bank or as to amounts drawn under a credit facility.

(3) Prerequisites for the disclosure of banking affairs
The Bank is entitled to disclose banking affairs concerning legal entities and on businesspersons registered in the Commercial Register, provided that the inquiry relates to their business activities. The Bank does not, however, disclose any information if it has received instructions to the contrary from the customer. Details of banking affairs concerning other persons, in particular private customers and associations, are disclosed by the Bank only if such persons have expressly agreed thereto, either generally or in an individual case. Details of banking affairs are disclosed only if the requesting party has substantiated its justified interest in the information requested and there is no reason to assume that the disclosure of such information would be contrary to the customer's legitimate concerns.

(4) Recipients of disclosed banking affairs
The Bank discloses details of banking affairs only to its own customers as well as to other credit institutions for their own purposes or those of their customers.

3. Liability of the Bank; contributory negligence of the customer

(1) Principles of liability
In performing its obligations, the Bank shall be liable for any negligence on the part of its staff and of those persons whom it may call in for the performance of its obligations. If the Special Conditions for particular business relations or other agreements contain provisions inconsistent herewith such provisions shall prevail. In the event that the customer has contributed to the occurrence of the loss by any own fault (e.g. by violating the duties to cooperate as mentioned in No. 11 of these Business Conditions), the principles of contributory negligence shall determine the extent to which the Bank and the customer shall have to bear the loss.

(2) Orders passed on to third parties
If the contents of an order are such that the Bank typically entrusts a third party with its further execution, the Bank performs the order by passing it on to the third party in its own name (order passed on to a third party). This applies, for example, to obtaining information on banking affairs from other credit institutions or to the custody and administration of securities in other countries. In such cases, the liability of the Bank shall be limited to the careful selection and instruction of the third party.

(3) Disturbance of business
The Bank shall not be liable for any losses caused by force majeure, riot, war or natural events or due to other occurrences for which the Bank is not responsible (e.g. strike, lock-out, traffic hold-ups, administrative acts of domestic or foreign high authorities).

4. Set-off limitations on the part of the customer

The customer may only set off claims against those of the Bank if the customer's claims are undisputed or have been confirmed by a final court decision.

5. Right of disposal upon the death of the customer

Upon the death of the customer, the Bank may, in order to clarify the right of disposal, demand the production of a certificate of inheritance, a certificate of executorship or further documents required for such purpose; any documents in a foreign language must, if the Bank so requests, be submitted in a German translation. The Bank may waive the production of a certificate of inheritance or a certificate of executorship if an official or certified copy of the testamentary disposition (last will or contract of inheritance) together with the relevant record of probate proceedings is presented. The Bank may consider any person designated therein as heir or executor as the entitled person, allow this person to dispose of any assets and, in particular, make payment or delivery to this person, thereby discharging its obligations. This shall not apply if the Bank is aware that the person designated therein is not entitled to dispose (e.g. following challenge or invalidity of the will) or if this has not come to the knowledge of the Bank due to its own negligence.

6. Applicable law and place of jurisdiction for customers who are businesspersons or public-law entities

(1) Applicability of German law
German law shall apply to the business relationship between the customer and the Bank.

(2) Place of jurisdiction for domestic customers
If the customer is a businessperson and if the business relation in dispute is attributable to the conducting of such businessperson's trade, the Bank may sue such customer before the court having jurisdiction for the bank office keeping the account or before any other competent court; the same applies to legal entities under public law and separate funds under public law. The Bank itself may be sued by such customers only before the court having jurisdiction for the bank office keeping the account.

(3) Place of jurisdiction for foreign customers
The agreement upon the place of jurisdiction shall also apply to customers who conduct a comparable trade or business abroad and to foreign institutions which are comparable with domestic legal entities under public law or a domestic separate fund under public law.

Keeping of Accounts

7. Periodic balance statements for current accounts; approval of debit entries resulting from direct debits

(1) Issue of periodic balance statements
Unless otherwise agreed upon, the Bank issues a periodic balance statement for a current account at the end of each calendar quarter, thereby clearing the claims accrued by both parties during this period (including interest and charges imposed by the Bank). The Bank may charge interest on the balance arising there from in accordance with No. 12 of these Business Conditions or any other agreements entered into with the customer.

(2) Time allowed for objections; approval by silence

Any objections a customer may have concerning the incorrectness or incompleteness of a periodic balance statement must be raised not later than six weeks after its receipt; if the objections are made in writing, it is sufficient to dispatch these within the period of six weeks. Failure to make objections in due time will be considered as approval. When issuing the periodic balance statement, the Bank will expressly draw the customer's attention to this consequence. The customer may demand a correction of the periodic balance statement even after expiry of this period, but must then prove that the account was either wrongly debited or mistakenly not credited.

(3) Approval of debit entries resulting from direct debits

Unless the customer has already approved a debit entry resulting from a direct debit for which the customer gave the creditor "collection authorization" (Einzugsermächtigung), any objections the customer may have to this debit entry, which is included in the balance of the next periodic balance statement, must be raised not later than six weeks after receipt of the periodic balance statement. If the objections are made in writing, it is sufficient to dispatch these within the period of six weeks. Failure to make objections in due time will be considered as approval of the debit entry. When issuing the periodic balance statement, the Bank will expressly draw the customer's attention to this consequence.

8. Reverse entries and correction entries made by the Bank

(1) Prior to issuing a periodic balance statement

Incorrect credit entries on current accounts (e.g. due to a wrong account number) may be reversed by the Bank through a debit entry prior to the issue of the next periodic balance statement to the extent that the Bank has a repayment claim against the customer (reverse entry); in this case, the customer may not object to the debit entry on the grounds that a disposal of an amount equivalent to the credit entry has already been made.

(2) After issuing a periodic balance statement

If the Bank ascertains an incorrect credit entry after a periodic balance statement has been issued and if the Bank has a repayment claim against the customer, it will debit the account of the customer with the amount of its claim (correction entry). If the customer objects to the correction entry, the Bank will re-credit the account with the amount in dispute and assert its repayment claim separately.

(3) Notification to the customer; calculation of interest

The Bank will immediately notify the customer of any reverse entries and correction entries made. With respect to the calculation of interest, the Bank shall effect the entries retroactively as of the day on which the incorrect entry was made.

9. Collection orders

(1) Conditional credit entries effected upon presentation of documents
If the Bank credits the counter value of checks and direct debits prior to their payment, this is done on condition of payment, even if these items are payable at the Bank itself. If the customer surrenders other items, instructing the Bank to collect an amount due from a debtor (e.g. interest coupons), and if the Bank effects a credit entry for such amount, this is done under the reserve that the Bank will obtain the amount. This reserve shall also apply if the items are payable at the Bank itself. If checks or direct debits are not paid or if the Bank does not obtain the amount under the collection order, the Bank will cancel the conditional credit entry regardless of whether or not a periodic balance statement has been issued in the meantime.

(2) Payment of direct debits and of checks made out by the customer
Direct debits and checks are paid if the debit entry has not been cancelled prior to the end of the second bank working day after it was made. Checks payable in cash are deemed to have been paid once their amount has been paid to the presenting party. Checks are also deemed to have been paid as soon as the Bank dispatches an advice of payment. Direct debits and checks presented through the clearing office of a “Landeszentralbank” are paid if they are not returned to the clearing office by the time stipulated by the Landeszentralbank.

10. Foreign currency transactions and risks inherent in foreign currency accounts

(1) Execution of orders relating to foreign currency accounts
Foreign currency accounts of the customer serve to effect the cashless settlement of payments to and disposals by the customer in foreign currency. Disposals of credit balances on foreign currency accounts (e.g. by means of credit transfers to the debit of the foreign currency credit balance) are settled through or by banks in the home country of the currency unless the Bank executes them entirely within its own organization.

(2) Credit entries for foreign currency transactions with the customer
If the Bank concludes a transaction with the customer (e.g. a forward exchange transaction) under which it owes the provision of an amount in a foreign currency, it will discharge its foreign currency obligation by crediting the account of the customer in the respective currency, unless otherwise agreed upon.

(3) Temporary limitation of performance by the Bank
The Bank’s duty to execute a disposal order to the debit of a foreign currency credit balance (paragraph 1) or to discharge a foreign currency obligation (paragraph 2) shall be suspended to the extent that and for as long as the Bank cannot or can only restrictedly dispose of the currency in which the foreign currency credit balance or the obligation is denominated, due to political measures or events in the country of the respective currency. To the extent that and for as long as such measures or events persist, the Bank is not obligated either to perform at some other place outside the country of the respective currency, in some other currency (including euros) or by providing cash. However, the Bank’s duty to execute a disposal order to the debit of a foreign currency credit balance shall not be suspended if the Bank can execute it entirely within its own

organization. The right of the customer and of the Bank to set off mutual claims due in the same currency against each other shall not be affected by the above provisions.

(4) Conversion rate
The conversion rate for foreign currency transactions shall be determined on the basis of the “List of Prices and Services” (Preis- und Leistungsverzeichnis).

Duties of the customer to cooperate

11. Duties of the customer to cooperate

(1) Change in the customer’s name, address or powers of representation towards the Bank
A proper settlement of business requires that the customer notify the Bank without delay of any changes in the customer’s name and address, as well as the termination of, or amendment to, any powers of representation towards the Bank conferred to any person (in particular, a power of attorney). This notification duty also exists where the powers of representation are recorded in a public register (e.g. the Commercial Register) and any termination thereof or any amendments thereto are entered in that register.

(2) Clarity of orders and credit transfers
Orders and credit transfers must unequivocally show their contents. Orders and credit transfers that are not worded clearly may lead to queries, which may result in delays. In particular, when giving orders to credit an account (e.g. direct debit and check presentations) and making credit transfers, the customer must ensure the correctness and completeness of the name of the payee, as well as of the account number, the bank code number and the currency stated. Amendments, confirmations or repetitions of orders and credit transfers must be designated as such.

(3) Special reference to urgency in connection with the execution of an order or a credit transfer
If the customer feels that an order or a credit transfer requires particularly prompt execution, the customer shall notify the Bank of this fact separately. For orders or credit transfers issued on a printed form, this must be done separately from the form.

(4) Examination of, and objections to, notification received from the Bank
The customer must immediately examine statements of account, security transaction statements, statements of securities and of investment income, other statements, advices of execution of orders and credit transfers, as well as information on expected payments and consignments (advices) as to their correctness and completeness and immediately raise any objections relating thereto.

(5) Notice to the Bank in case of non-receipt of statements
The customer must notify the Bank immediately if periodic balance statements and securities statements are not received. The duty to notify the Bank also exists if other advices are expected by the customer (e.g. security transaction statements, statements of account after execution of customer orders and credit transfers or payments expected by the customer).

Cost of Bank Services

12. Interest, charges and out-of-pocket expenses

(1) Interest and charges in private banking
Interest and charges for loans and services customary in private banking are set out in the “Price Display – Standard rates for private banking” (Preisaushang) and, in addition, in the “List of Prices and Services” (Preis- und Leistungsverzeichnis). If a customer makes use of a loan or service listed therein and unless otherwise agreed between the Bank and the customer, the interest and charges stated in the then valid Price Display or List of Prices and Services are applicable. For any services not stated therein which are provided following the instructions of the customer, or which are believed to be in the interests of the customer and which can, in the given circumstances, only be expected to be provided against remuneration, the Bank may at its reasonable discretion determine the charges (Section 315 of the German Civil Code – Bürgerliches Gesetzbuch).

(2) Interest and charges other than for private banking
The amount of interest and charges other than for private banking shall, in the absence of any other agreement, be determined by the Bank at its reasonable discretion (Section 315 of the German Civil Code).

(3) Changes in interest and charges
In the case of variable interest rate loans, the interest rate will be adjusted in accordance with the terms of the respective loan agreement. The charges for services which the customer typically makes use of on a permanent basis, within the framework of the business relationship (e.g. account/securities account management) may be altered by the Bank at its reasonable discretion (Section 315 of the German Civil Code).

(4) Customer’s right of termination in case of increases in interest and charges
The Bank will notify the customer of interest adjustments and changes in charges according to paragraph 3. If charges are increased, the customer may, unless otherwise agreed, terminate with immediate effect the business relationship affected thereby within six weeks from the notification of the change. If the customer terminates the business relationship, any such increased interest and charges shall not be applied to the terminated business relationship. The Bank will allow an adequate period of time for the settlement.

(5) Out-of-pocket expenses
The Bank is entitled to charge to the customer out-of-pocket expenses which are incurred when the Bank carries out the instructions or acts in the presumed interests of the customer (in particular, telephone costs, postage) or when credit security is furnished, administered, released or realized (in particular, notarial fees, storage charges, cost of guarding items serving as collateral).

(6) Peculiarities relating to consumer loan agreements
The interest and costs (charges, out-of-pocket expenses) for those loan agreements which require the written form pursuant to Section 492 of the German Civil Code are determined by the provisions of such contract documentation. If an interest rate is not stated therein, the legal interest rate shall apply; costs not stated therein are not owed (Section 494 (2) of the German Civil Code). For overdraft credits pursuant to Section 493 of the German Civil Code, the interest rate shall be determined by the Price Display and the information provided by the Bank to the customer.

Security for the Bank's Claims Against the Customer

13. Providing or increasing of security

(1) Right of the Bank to request security
The Bank may demand that the customer provide the usual forms of security for any claims that may arise from the banking relationship, even if such claims are conditional (e.g. indemnity for amounts paid under a guarantee issued on behalf of the customer). If the customer has assumed a liability for another customer's obligations towards the Bank (e.g. as a surety), the Bank is, however, not entitled to demand that security be provided or increased for the debt resulting from such liability incurred before the maturity of the debt.

(2) Changes in the risk
If the Bank, upon the creation of claims against the customer, has initially dispensed wholly or partly with demanding that security be provided or increased, it may nonetheless make such a demand at a later time, provided, however, that circumstances occur or become known which justify a higher risk assessment of the claims against the customer. This may, in particular, be the case if

– The economic status of the customer has changed or threatens to change in a negative manner
or
– The value of the existing security has deteriorated or threatens to deteriorate.

The Bank has no right to demand security if it has been expressly agreed that the customer either does not have to provide any security or must only provide that security which has been specified. For consumer loan agreements, the Bank is entitled to demand that security be provided or increased only to the extent that such security is mentioned in the loan agreement; when, however, the net loan amount exceeds 50,000 euros, the Bank may demand that security be provided or increased even if the loan agreement does not contain any or any exhaustive indications as to security.

(3) Establishing a time period for providing or increasing security
The Bank will allow adequate time to provide or increase security. If the Bank intends to make use of its right of termination without notice according to No. 19 (3) of these Business Conditions, should the customer fail to comply with the obligation to provide or increase security

within such time period, it will draw the customer's attention to this consequence before doing so.

14. Lien in favor of the Bank

(1) Agreement on the lien
The customer and the Bank agree that the Bank acquires a lien on the securities and chattels which, within the scope of banking business, have come or may come into the possession of a domestic office of the Bank. The Bank also acquires a lien on any claims which the customer has or may in the future have against the Bank arising from the banking relationship (e.g. credit balances).

(2) Secured claims
The lien serves to secure all existing, future and contingent claims arising from the banking relationship which the Bank with all its domestic and foreign offices is entitled to against the customer. If the customer has assumed a liability for another customer's obligation towards the Bank (e.g. as a surety), the lien shall not secure the debt resulting from the liability incurred before the maturity of the debt.

(3) Exemptions from the lien
If funds or other assets come into the power of disposal of the Bank under the reserve that they may only be used for a specified purpose (e.g. deposit of cash for payment of a bill of exchange), the Bank's lien does not extend to these assets. The same applies to shares issued by the Bank itself (own shares) and to securities which the Bank keeps in safe custody abroad for the customer's account. Moreover, the lien extends neither to the profit-participation rights/profit-participation certificates (Genussrechte/Genussscheine) issued by the Bank itself nor to the Bank's subordinated obligations confirmed by document or unconfirmed.

(4) Interest and dividend coupons
If securities are subject to the Bank's lien, the customer is not entitled to demand the delivery of the interest and dividend coupons pertaining to such securities.

15. Security interests in the case of items for collection and discounted bills of exchange

(1) Transfer of ownership by way of security
The Bank acquires ownership by way of security of any checks and bills of exchange deposited for collection at the time such items are deposited. The Bank acquires absolute ownership of discounted bills of exchange at the time of the purchase of such items; if it re-debits discounted bills of exchange to the account, it retains the ownership by way of security in such bills of exchange.

(2) Assignment by way of security
The claims underlying the checks and bills of exchange shall pass to the Bank simultaneously with the acquisition of ownership in the checks and bills of exchange; the claims also pass to the Bank if other items are deposited for collection (e.g. direct debits, documents of commercial trading).

(3) Special-purpose items for collection
If items for collection are deposited with the Bank under the reserve that their counter value may only be used for a specified purpose, the transfer or assignment of ownership by way of security does not extend to these items.

(4) Secured claims of the Bank
The ownership transferred or assigned by way of security serves to secure any claims which the Bank may be entitled to against the customer arising from the customer's current account when items are deposited for collection or arising as a consequence of the re-debiting of unpaid items for collection or discounted bills of exchange. Upon request of the customer, the Bank retransfers to the customer the ownership by way of security of such items and of the claims that have passed to it if it does not, at the time of such request, have any claims against the customer that need to be secured or if it does not permit the customer to dispose of the counter value of such items prior to their final payment.

16. Limitation of the claim to security and obligation to release

(1) Cover limit
The Bank may demand that security be provided or increased until the realizable value of all security corresponds to the total amount of all claims arising from the banking business relationship (cover limit).

(2) Release
If the realizable value of all security exceeds the cover limit on a more than temporary basis, the Bank shall, at the customer's request, release security items as it may choose in the amount exceeding the cover limit; when selecting the security items to be released, the Bank will take into account the legitimate concerns of the customer or of any third party having provided security for the customer's obligations. To this extent, the Bank is also obliged to execute orders of the customer relating to the items subject to the lien (e.g. sale of securities, repayment of savings deposits).

(3) Special agreements
If assessment criteria for a specific security item other than the realizable value or another cover limit or another limit for the release of security have been agreed, these other criteria or limits shall apply.

17. Realization of security

(1) Option of the Bank
If the Bank realizes security, it may choose between several security items. When realizing security and selecting the items to be realized, the Bank will take into account the legitimate concerns of the customer and any third party who may have provided security for the obligations of the customer.

(2) Credit entry for proceeds under turnover tax law
If the transaction of realization is subject to turnover tax, the Bank will provide the customer with a credit entry for the proceeds, such entry being deemed to serve as invoice for the supply of the item given as security and meeting the requirements of turnover tax law (Umsatz-steuerrecht).

Termination

18. Termination rights of the customer

(1) Right of termination at any time
Unless the Bank and the customer have otherwise agreed to a term or a termination provision, the customer may at any time, without notice, terminate the business relationship as a whole or particular business relationships (e.g. the use of checks).

(2) Termination for reasonable cause
If the Bank and the customer have agreed upon a term or a contrary provision for a particular business relationship, such relationship may only be terminated without notice if there is reasonable cause therefore which makes it unacceptable to the customer to continue the business relationship, after giving consideration to the legitimate concerns of the Bank.

(3) Legal termination rights
Legal termination rights shall not be affected.

19. Termination rights of the Bank

(1) Termination upon notice
Upon observing an adequate notice period, the Bank may at any time terminate the business relationship as a whole or particular relationships for which neither a term nor a diverging termination provision has been agreed (e.g. the checking agreement authorizing the use of check forms). In determining the notice period, the Bank will take into account the legitimate concerns of the customer. The minimum termination notice for keeping of current accounts and securities accounts is six weeks.

(2) Termination of loans with no fixed term
Loans and loan commitments for which neither a fixed term nor a diverging termination provision has been agreed upon may be terminated at any time by the Bank without notice. When exercising this right of termination, the Bank will give due consideration to the legitimate concerns of the customer.

(3) Termination for reasonable cause without notice
Termination of the business relationship as a whole or of particular relationships without notice is permitted if there is reasonable cause which makes it unacceptable to the Bank to continue the business relationship, after having given consideration to the legitimate concerns of the customer. Reasonable cause is given in particular

- if the customer has made incorrect statements as to the customer's financial status, provided such statements were of significant importance for the Bank's decision concerning the granting of credit or other operations involving risks for the Bank (e.g. the delivery of a payment card), or

- if a substantial deterioration in the customer's financial status or in the value of security occurs or threatens to occur, jeopardizing the repayment of a loan or the discharge of any other obligation towards the Bank even if security provided therefore is realized, or

- if the customer fails to comply, within the required time period allowed by the Bank, with the obligation to provide or increase security according to No. 13 (2) of these Business Conditions or to the provisions of some other agreement.

If reasonable cause is given due to the breach of a contractual obligation, termination shall only be permitted after expiry, without result, of a reasonable period fixed for corrective action by the customer or after a warning to the customer has proved unsuccessful, unless this proviso can be dispensed with owing to the special features of a particular case (Section 323 (2) and (3) of the German Civil Code).

(4) Termination of consumer loan agreements in the event of default
Where the German Civil Code contains specific provisions for the termination of a consumer loan agreement subsequent to a payment default, the Bank may only terminate the business relationship as provided therein.

(5) Settlement following termination
The Bank shall allow the customer a reasonable time period for the settlement, in particular for the repayment of a loan, unless it is necessary to attend immediately thereto (e.g. the return of the check forms in the event of termination of a checking agreement).

Protection of Deposits

20. Deposit Protection Fund

(1) Scope of protection
The Bank is a member of the Deposit Protection Fund of the Association of German Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken e.V.), hereinafter referred to as "Deposit Protection Fund". The Deposit Protection Fund protects all liabilities which are required to be shown in the balance sheet item "Liabilities to customers". Among these are demand, term and savings deposits, including registered savings certificates. The protection ceiling for each creditor is 30 % of the liable capital relevant for deposit protection. The Bank shall notify the customer of this protection ceiling upon request. It is also available on the Internet at www.bdb.de.

(2) Exemptions from deposit protection
Not protected are claims in respect of which the Bank has issued bearer instruments, e.g. bearer bonds and bearer certificates of deposit, as well as liabilities to banks.

(3) Additional validity of the By-laws of the Deposit Protection Fund
Further details of the scope of protection are contained in Section 6 of the By-laws of the Deposit Protection Fund, which are available on request.

(4) Transfer of claims
To the extent that the Deposit Protection Fund or its mandatory makes payments to a customer, the respective amount of the customer's claims against the Bank together with all subsidiary rights shall be transferred simultaneously to the Deposit Protection Fund.

(5) Disclosure of information
The Bank shall be entitled to disclose to the Deposit Protection Fund or to its mandatory all relevant information and to place necessary documents at their disposal.

Exhibit 10.3

RESTRICTED STOCK AGREEMENT
(Under the Lydall, Inc.
2003 Stock Incentive Compensation Plan)

THIS AGREEMENT, made and entered into as of the 1st day of July, 2003, by and between Lydall, Inc., a Delaware corporation, with its principal office in Manchester, Connecticut (the "Corporation"), and David Freeman ("Participant");

W I T N E S S E T H:

WHEREAS, it has been determined that the Participant is an Eligible Person under the Corporation's 2003 Stock Incentive Compensation Plan (the "Plan"); and

WHEREAS, effective July 1, 2003, the Corporation desires to grant a Restricted Stock Award to the Participant pursuant to the Plan and subject to the terms and conditions set forth in this Agreement;

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements herein contained, the parties agree as follows:

1. Restricted Stock Award .

(a) Subject to the terms and conditions of this Agreement, 100,000 shares of the Common Stock of the Corporation (the "Restricted Shares") shall be transferred to the Participant as additional compensation for services rendered to the Corporation or one of its Subsidiaries. The Restricted Shares are subject to forfeiture during a specified time period, as more particularly described in Sections 2 and 3 of this Agreement.

(b) In order for the transfer of Restricted Shares to occur, the Participant must execute and deliver the attached stock powers (in accordance with Section 3(f) hereof) and a copy of this Agreement to the Chairman of the Corporation at its offices in Manchester, Connecticut within sixty (60) days of the date of this Agreement. Promptly thereafter, certificates representing the Restricted Shares shall be issued and held for the Participant by the Vice President of Investor Relations of the Corporation (the "Custodian") until the end of the applicable Installment Restriction Period described in Section 2. Certificates issued under this Section 2 shall bear a legend to the effect that ownership of the Restricted Shares (and any Retained Distributions), and the enjoyment of all rights of a shareholder appurtenant thereto, are subject to the restrictions, terms and conditions provided in the Plan and in this Agreement.

(c) Effective upon the date of delivery to the Custodian of certificates for the Restricted Shares registered in the Participant's name, the Participant will be a holder of record of the Restricted Shares and will have, subject to the terms and conditions of this Agreement, all rights of a shareholder with respect to such shares including the right to vote such shares at any meeting of shareholders of the Corporation at which such shares are entitled to vote and the right to receive all distributions (including regular cash dividends and other cash equivalent distributions) of any kind made or declared with respect to such shares. As provided under the Plan, The Company will retain custody of all such distributions as "Retained Distributions" until the Restriction Period shall have expired under Section 2 hereof. If any such Retained Distributions are paid in the form of Common Stock, any such shares will be delivered to and held by the Custodian and will also be considered "Restricted Shares".

2. Lapse of Restrictions .

(a) All restrictions set forth in section 3 below will lapse in their entirety with respect to twenty percent (20%) of the Restricted Shares on each of the following dates:

July 1, 2004
July 1, 2005
July 1, 2006
July 1, 2007
July 1, 2008

Each such period is called an "Installment Restriction Period". Installment Restriction Periods are collectively referred to as the "Restriction Period".

(b) As soon as reasonably practicable after the end of an Installment Restriction Period, the Custodian will deliver to the Participant the certificate or certificates for the Restricted Shares subject to that Installment Restriction Period free of further restrictions; provided, however, that the Custodian shall not issue such shares to the Participant until the Participant has either (i) paid, or (ii) made provisions satisfactory to the Committee for the payment of, all applicable tax withholding obligations.

(c) If the Participant's employment with the Corporation or a Subsidiary terminates during the Restriction Period because of death or Disability, effective on the date of that event all restrictions set forth in Section 3 will lapse in their entirety with respect to all of the then Restricted Shares and certificates for the Restricted Shares will be delivered in accordance with section 2(b).

3. Restrictions .

(a) Except as provided in Section 2(c) and 3(b), if the Participant's employment with the Corporation or a Subsidiary terminates during the Restriction

Period, then effective upon the date of termination all then Restricted Shares shall automatically be forfeited to the Corporation. Employment will not be deemed to have terminated for this purpose by reason of a leave of absence approved by the Committee.

(b) If the Participant retires from active service with the Corporation or a Subsidiary under the terms of the Lydall, Inc. Defined Benefit Pension Plan during the Restriction Period, effective upon retirement the then Restricted Shares will automatically be forfeited to the Corporation; except that, the Committee may, in its sole discretion, allow all restrictions set forth in this Section 3 to lapse in their entirety with respect to the then Restricted Shares. If the restrictions are allowed to lapse, certificates for the Restricted Shares will be delivered to the Participant in accordance with section 2(b).

(c) None of the Restricted Shares, nor the Participant's interest in any of the Restricted Shares, may be encumbered, sold, assigned, transferred, pledged or otherwise disposed of at any time during the Restricted Period. In the event of any such action, all then Restricted Shares (and all Retained Distributions with respect thereto) shall automatically be forfeited to the Corporation effective upon the date of such event.

(d) If the Participant at any time forfeits Restricted Shares pursuant to this Agreement, the certificate or certificates for such Restricted Shares will be delivered by the Custodian to the Corporation. All of the Participant's rights to and interest in the Restricted Shares shall terminate upon forfeiture without payment of consideration.

(e) The Participant shall sign and deliver to the Corporation the stock powers attached hereto relating to the Restricted Shares (in accordance with Section 1(b) hereof). If Restricted Shares are forfeited under this Agreement, the Corporation shall direct the Transfer Agent and Registrar of the Corporation's Common Stock to make appropriate entries upon their records showing the cancellation of the certificate or certificates for the Restricted Shares and to return the shares represented thereby to the Corporation's treasury. The stock power gives the Custodian the authority to take any action necessary to effect the transfer of shares to the Corporation. The stock power or powers will be returned to the Participant upon expiration of the applicable Installment Restriction Period.

(f) The Committee shall make all determinations in connection with this Agreement, including determinations as to whether an event has occurred resulting in the forfeiture of or lapse of restrictions on Restricted Shares and all such determinations of the Committee shall be final and conclusive.

4. Appointment Of Agent . By executing this Agreement, the Participant irrevocably nominates, constitutes and appoints the Custodian as his agent and attorney-in-fact for purposes of surrendering or transferring the Restricted Shares to the

Corporation upon any forfeiture required or authorized by this Agreement. This power is intended as a power coupled with an interest and shall survive the Participant's death. In addition, it is intended as a durable power and shall survive the Participant's Disability.

5. No Employment Rights . No provision of this Agreement shall:

(a) confer or be deemed to confer upon the Participant any right to continue in the employ of the Corporation or any Subsidiary or shall in any way affect the right of the Corporation or any Subsidiary to dismiss or otherwise terminate the Participant's employment at any time for any reason with or without cause, or

(b) be construed to impose upon the Corporation or any Subsidiary any liability for any forfeiture of Restricted Shares which may result under this Agreement if the Participant's employment is so terminated, or

(c) affect the Corporation's right to terminate or modify any contractual relationship with a Participant who is not an employee of the Corporation or a Subsidiary.

6. No Liability For Business Acts Or Omissions . The Participant recognizes and agrees that the Board of Directors or the officers, agents or employees of the Corporation, including the Custodian, in their conduct of the business and affairs of the Corporation, may cause the Corporation to act, or to omit to act, in a manner that may, directly or indirectly, prevent the Restricted Shares from vesting under this Agreement. No provision of this Agreement shall be interpreted or construed to impose any liability upon the Corporation, the Board of Directors or any officer, agent or employee of the Corporation, including the Custodian, for any forfeiture of Restricted Shares that may result, directly or indirectly, from any such action or omission.

7. Changes in Capitalization .

(a) This Agreement and the issuance of the Restricted Shares shall not affect in any way the right or power of the Corporation or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Corporation's capital structure or its business, or any merger or consolidation of the Corporation, or any issue of bonds, debentures, preferred or prior preference stocks ahead of or affecting the Common Stock or the rights therefor, or the dissolution or liquidation of the Corporation, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceedings, whether of a similar character or otherwise.

(b) In the event of recapitalization, stock split, stock dividend, divisive reorganization or other change in capitalization affecting the Corporation's shares of Common Stock, an appropriate adjustment will be made in respect of the Restricted Shares. Any new or additional or different shares or securities issued as the result of such an adjustment will be delivered to and held by the Custodian and will be deemed included within the term "Restricted Shares".

8. Capitalized Terms . All capitalized terms not defined herein shall have the meaning ascribed to them in the Plan.

9. Interpretation . This Agreement shall at all times be interpreted, administered and applied in a manner consistent with the provisions of the Plan. In the event of any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control and the Plan is incorporated herein by reference.

10. Amendment; Modification; Waiver . No provision of this Agreement may be amended, modified or waived unless such amendment, modification or waiver shall be authorized by the Committee and shall be agreed to in writing by the Participant.

11. Complete Agreement . This Agreement contains the entire Agreement of the parties relating to the subject matter of this Agreement and supersedes any prior agreements or understandings with respect thereto.

12. Agreement Binding . This Agreement shall be binding upon and inure to the benefit of the Corporation, its successors and assigns and the Participant, his heirs, devisees and legal representatives.

13. Legal Representative . In the event of the Participant’s death or a judicial determination of his incompetence, reference in this Agreement to the Participant shall be deemed to refer to his legal representative, heirs or devisees, as the case may be.

14. Business Day . If any event provided for in this Agreement is scheduled to take place on a day on which the Corporation’s corporate offices are not open for business, such event shall take place on the next succeeding day on which the Corporation’s corporate offices are open for business.

15. Titles . The titles to sections or paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the title of any section or paragraph.

16. Notices .

(a) Any notice to the Corporation pursuant to any provision of this Agreement will be deemed to have been delivered when delivered in person to the Custodian or when deposited in the United States mail, addressed to the Custodian at the Corporation’s corporate offices, or such other address as the Corporation may from time to time designate in writing.

(b) Any notice to the Participant pursuant to any provision of this Agreement will be deemed to have been delivered when delivered to the Participant in person or when deposited in the United States mail, addressed to the Participant at his address on the shareholder records of the Corporation or such other address as he may from time to time designate in writing.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above.

Participant	LYDALL, INC.
/s/ DAVID FREEMAN	By: /s/ ROGER M. WIDMANN
David Freeman	Roger M. Widmann Its Chairman

Exhibit 10.4

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and entered into as of the 1st day of July, 2003, by and between LYDALL, INC., a Delaware corporation (the "Company"), and CHRISTOPHER R. SKOMOROWSKI (the "Executive").

W I T N E S S E T H

WHEREAS, the Company and the Executive (the "Parties") have agreed to enter into this agreement (the "Agreement) relating to the employment of the Executive by the Company;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the Parties, intending to be legally bound, agree as follows:

1. Term of Employment; Termination of Prior Agreement .

(a) The Company agrees to continue to employ the Executive, and the Executive agrees to remain in the employment of the Company, in accordance with the terms and provisions of this Agreement.

(b) The Employment Period under this Agreement shall be the period commencing as of the date of this Agreement and ending on the date of termination of the Executive's employment pursuant to Section 5, 6 or 7 below, whichever is applicable.

(c) Immediately upon the commencement of the Executive's employment pursuant to the terms of this Agreement, that certain Agreements by and between the Executive and the Company dated as of March 1, 2000, February 1, 2000 and February 1, 1999, as amended, shall terminate and shall be of no further force or effect.

2. Duties . It is the intention of the Parties that during the term of his employment under this Agreement, the Executive will serve as Chief Operating Officer of the Company. During the Employment Period, the Executive will devote his full business time and attention and best efforts to the affairs of the Company and his duties as its Chief Operating Officer. The Executive will have such duties as are appropriate to his position as Chief Operating Officer, and will have such authority as required to enable him to perform these duties. Consistent with the foregoing, the Executive shall comply with all reasonable instructions of the Board of Directors of the Company (the "Board").

3. Compensation and Benefits .

3.1 Salary . During the Employment Period, the Company will pay the Executive a base salary at an initial annual rate of Four Hundred Twenty Thousand Dollars ($420,000). The Board may, in its sole and absolute discretion, increase the Executive's base salary in light of the Executive's performance, inflation, changes in the cost of living and other factors deemed relevant by the Board. The Executive's base salary may not be decreased during the term of this Agreement. The Chief Executive Officer of the Company shall meet with the Executive annually to review the Executive's performance, objectives and compensation, including salary, bonus and stock options, and the Chief Executive Officer shall then meet with the Compensation and Stock Option Committee of the Board (the

“Compensation Committee”) to discuss the same. If the Compensation Committee determines that any adjustments thereto are appropriate, such committee shall make a recommendation to the full Board and the Board shall make such adjustments, if any, as the Board deems appropriate and consistent with this Agreement. The Executive’s base salary will be paid in accordance with the standard practices for other corporate executives of the Company.

3.2 Bonuses . During the Employment Period, the Executive will be eligible to receive annually or otherwise such bonus awards, if any, as shall be determined by the Board in its sole and absolute discretion after receiving the recommendation of the Compensation Committee.

3.3 Benefit Programs . During the Employment Period, the Executive will be entitled to participate on substantially the same terms as other senior executives of the Company in all employee benefit plans and programs of the Company from time to time in effect for the benefit of senior executives of the Company, including, but not limited to, pension and other retirement plans, profit sharing plans, stock incentive and individual performance award plans, group life insurance, hospitalization and surgical and major medical coverages (excluding the Lydall, Inc. Executive Medical Plan), short-term and long-term disability, and such other benefits as are or may be made available from time to time to senior executives of the Company.

3.4 Vacations and Holidays . During the Employment Period, the Executive will be entitled to vacation leave of five (5) weeks per year at full pay or such greater vacation benefits as may be provided for by the Company’s vacation policies applicable to senior executives. The Executive will be entitled to such holidays as are established by the Company for all employees.

3.5 Automobile . During the Employment Period, the Company will provide the Executive with an automobile allowance of no less than $500 per month.

4. Business Expenses . The Executive will be entitled to prompt reimbursement for all reasonable, documented and necessary expenses incurred by him in performing his services hereunder, provided he properly accounts therefor in accordance with the policies and procedures established by the Company.

5. Termination of Employment by the Company .

5.1 Involuntary Termination by the Company Other Than For Permanent and Total Disability, Cause, or Following Change of Control . The Company may terminate the Executive’s employment at any time other than (i) by reason of the Executive’s Permanent and Total Disability (as defined in Section 5.2) or (ii) for Cause (as defined in Section 5.3), by giving him a written notice of termination at least 30 days before the date of termination (or such lesser notice period as the Executive may agree to). In the event of such a termination of employment pursuant to this Section 5.1, the Executive shall be entitled to receive (i) the benefits described in Section 8 if such termination of employment does not occur within 12 months following a “Change of Control” (as defined in Section 10), or (ii) the benefits described in Section 9 if such termination of employment occurs within 12 months following a “Change of Control” (as defined in Section 10).

5.2 Termination Due to Permanent and Total Disability . If the Executive incurs a Permanent and Total Disability, as defined below, the Company may terminate the Executive’s employment by giving him written notice of termination at least 30 days before the date of such termination (or such lesser notice period as the Executive may agree to). In the event of such termination of the Executive’s employment because of Permanent and Total Disability, the Executive shall be entitled to receive (i) his base salary pursuant to Section 3.1 through the date which is twenty-four months following

the date of such termination of employment, reduced by any amounts paid to the Executive under any disability program maintained by the Company, such base salary to be paid at the normal time for the payment of such base salary; (ii) a bonus for the year of termination of employment and for the next succeeding year (to be paid at the normal time for payment of such bonuses) in an amount equal to the average of the three highest annual bonuses earned by the Executive under the Company's annual incentive bonus plan for any of the five calendar years preceding the calendar year of his termination of employment (or, if he was not eligible for a bonus for at least three calendar years in such five-year period, then the average of such bonuses for all of the calendar years in such five-year period for which he was eligible), with any deferred bonuses counting for the year earned rather than the year paid; (iii) any other compensation and benefits to the extent actually earned by the Executive under any other benefit plan or program of the Company as of the date of such termination of employment, such compensation and benefits to be paid at the normal time for payment of such compensation and benefits; and (iv) any reimbursement amounts owing under Section 4. In addition, if the Executive elects to continue coverage under the Company's health plan pursuant to COBRA, the Company for a period of eighteen months following termination of the Executive's employment by reason of Permanent and Total Disability will pay the same percentage of the Executive's premium for COBRA coverage for the Executive and, if applicable, his spouse and dependent children, as the Company paid at the applicable time for coverage under such plan for actively employed senior executives generally. For the period of eighteen months following the termination of the Executive's employment by reason of Permanent and Total Disability, the Company will continue to provide the life insurance benefits that the Company would have provided to the Executive if the Executive had continued in employment with the Company for such period, but only if the Executive timely pays the portion of the premium for such coverage that senior executives of the Company generally are required to pay for such coverage. For purposes of this Agreement, the Executive shall be considered to have incurred a Permanent and Total Disability if he is unable to substantially carry out his duties under this Agreement by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. The existence of such Permanent and Total Disability shall be evidenced by such medical certification as the Secretary of the Company shall require and shall be subject to the approval of the Compensation Committee.

5.3 Termination for Cause . The Company may terminate the Executive's employment immediately for Cause for any of the following reasons: (i) an act or acts of dishonesty or fraud on the part of the Executive resulting or intended to result directly or indirectly in substantial gain or personal enrichment to which the Executive was not legally entitled at the expense of the Company; (ii) a willful material breach by the Executive of his duties or responsibilities under this Agreement resulting in demonstrably material injury to the Company; (iii) the Executive's conviction of a felony or any crime involving moral turpitude; (iv) habitual neglect or insubordination (defined as refusal to execute or carry out directions from the Board or its duly appointed designees) where the Executive has been given written notice of the acts or omissions constituting such neglect or insubordination and the Executive has failed to cure such conduct, where susceptible to cure, within thirty days following such notice; or (v) a material breach by the Executive of any of his obligations under the Lydall Employee Agreement executed by the Executive and attached hereto as Exhibit A. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Executive a written notice of termination from the Compensation Committee after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Compensation Committee, finding that, in the good faith opinion of the Compensation Committee, the Executive was guilty of conduct set forth above in clause (i), (ii), (iii), (iv) or (v) of the first sentence of this Section 5.3 and specifying the particulars in detail. In the event of such termination of the Executive's employment for Cause, the Executive shall be entitled to receive only (i) his base salary pursuant to Section 3.1 earned through the date of such termination of employment

plus his base salary for the period of any vacation time earned but not taken for the year of termination of employment, such base salary to be paid at the normal time for payment of such base salary; (ii) any other compensation and benefits to the extent actually earned by the Executive under any other benefit plan or program of the Company as of the date of such termination of employment, such compensation and benefits to be paid and at the normal time for payment of such compensation and benefits; and (iii) any reimbursement amounts owing under Section 4.

6. Termination of Employment by the Executive .

(a) Good Reason . The Executive may terminate his employment for Good Reason by giving the Company a written notice of termination at least 30 days before the date of such termination (or such lesser notice period as the Company may agree to) specifying in reasonable detail the circumstances constituting such Good Reason. In the event of the Executive's termination of his employment for Good Reason, the Executive shall be entitled to receive (i) the benefits described in Section 8 if such termination of employment does not occur within 12 months following a "Change of Control" (as defined in Section 10) or (ii) the benefits described in Section 9 if such termination of employment occurs within 12 months following a "Change of Control" (as defined in Section 10). For purposes of this Agreement, Good Reason shall mean (i) a significant reduction in the scope of the Executive's authority, functions, duties or responsibilities from that which is contemplated by this Agreement; (ii) any reduction in the Executive's base salary; (iii) a significant reduction in the employee benefits provided to the Executive (excluding the Lydall, Inc. Executive Medical Plan) other than in connection with an across-the-board reduction similarly affecting substantially all senior executives of the Company; or (iv) any material breach by the Company of any provision of this Agreement without the Executive having committed any material breach of the Executive's obligations hereunder or under the Lydall Employee Agreement, which breach is not cured within thirty days following written notice thereof to the Company of such breach. In addition, in the case of a termination of employment within 12 months following a "Change of Control" (as defined in Section 10), Good Reason shall also include the relocation of the Executive's office location to a location more than 50 miles away from the Executive's then current principal place of employment. If an event constituting a ground for termination of employment for Good Reason occurs, and the Executive fails to give notice of termination within 90 days after the occurrence of such event, the Executive shall be deemed to have waived his right to terminate employment for Good Reason in connection with such event (but not for any other event for which the 90-day period has not expired).

(b) Other . The Executive may terminate his employment at any time and for any reason, other than pursuant to subsection (a) above, by giving the Company a written notice of termination to that effect at least 30 days before the date of termination (or such lesser notice period as the Company may agree to). In the event of the Executive's termination of his employment pursuant to this subsection (b), the Executive shall be entitled to receive only (i) his base salary pursuant to Section 3.1 earned through the date of such termination of employment plus his base salary for the period of vacation time earned but not taken for the year of termination of employment, such base salary to be paid at the normal time for payment of such base salary; (ii) any other compensation and benefits to the extent actually earned by the Executive under any other benefit plan or program of the Company as of the date of such termination of employment, such compensation and benefits to be paid at the normal time for payment of such compensation and benefits; and (iii) any reimbursement amounts owing under Section 4.

7. Termination of Employment By Death . In the event of the death of the Executive during the course of his employment hereunder, the Executive's estate (or other person or entity having such entitlement pursuant to the terms of the applicable plan or program) shall be entitled to receive (i) the Executive's base salary pursuant to Section 3.1 earned through the date of the Executive's

death plus the Executive's base salary for the period of vacation time earned but not taken for the year of the Executive's death, such base salary to be paid at the normal time for payment of such base salary; (ii) a bonus for the year of the Executive's death (to be paid within 90 days after the Executive's death) in an amount equal to a pro rata portion of the average of the three highest annual bonuses earned by the Executive under the Company's annual incentive bonus plan for any of the five calendar years preceding the calendar year of the Executive's death (or, if the Executive was not eligible for a bonus for at least three calendar years in such five-year period, then the average of such bonuses for all of the calendar years in such five-year period for which the Executive was eligible), with any deferred bonuses counting for the year earned rather than the year paid and with the pro rata portion being determined by dividing the number of days of the Executive's employment during such calendar year up to his death by 365 (366 if a leap year);(iii) any other compensation and benefits to the extent actually earned by the Executive under any other benefit plan or program of the Company as of the date of such termination of employment, such compensation and benefits to be paid at the normal time for payment of such compensation and benefits; and (iv) any reimbursement amounts owing under Section 4. In addition, in the event of such death, the Executive's beneficiaries shall receive any death benefits owed to them under the Company's employee benefit plans. If the Executive's spouse and/or dependent children elect to continue coverage under the Company's health plan following the Executive's death pursuant to COBRA, the Company for a period of 18 months following the Executive's death will pay the same percentage of the premium for COBRA coverage for the Executive's spouse and/or dependent children, as applicable, as the Company would have paid in respect of the Executive's coverage under such plan if the Executive had continued in employment with the Company for such period.

8. Benefits Upon Termination Without Cause or For Good Reason (No Change of Control) . If (a) the Executive's employment with the Company shall terminate (i) because of termination by the Company other than for Cause or Permanent and Total Disability pursuant to Section 5.1 or (ii) because of termination by the Employee for Good Reason pursuant to Section 6(a), and (b) such termination of employment does not occur within 12 months following a "Change of Control" of the Company (as defined in Section 10), the Executive shall be entitled to the following:

(a) The Company shall pay to the Executive his base salary pursuant to Section 3.1 earned through the date of such termination of employment and any other compensation and benefits to the extent actually earned by the Executive under any benefit plan or program of the Company as of the date of such termination of employment, such base salary, compensation and benefit to be paid at the normal time for payment of such base salary, compensation and benefits.

(b) The Company shall pay the Executive any reimbursement amounts owing under Section 4.

(c) The Company shall pay to the Executive as a severance benefit an amount equal to two (2) times the sum of (i) his annual rate of base salary immediately preceding his termination of employment and (ii) the average of his annual bonuses earned under the Company's annual incentive bonus plan for the three calendar years preceding his termination of employment (or, if he was not eligible for a bonus in each of those three calendar years, then the average of such bonuses for all of the calendar years in such three-year period for which he was eligible), with any deferred bonuses counting for the year earned rather than the year paid. Such severance benefit shall be paid in a lump sum within 30 days after the date of such termination of employment.

(d) During the period of 18 months beginning on the date of the Executive's termination of employment, the Executive (and, if applicable, the Executive's spouse and dependent children) shall remain covered by the medical, dental, life insurance, and, if reasonably commercially available through nationally reputable insurance carriers, long-term disability plans of the Company that covered him immediately prior to his termination of employment as if he had remained in employment for such period; provided , however , that the coverage under any such plan is conditioned on the timely payment by the Executive (or his spouse or dependent children) of the portion of the premium for such coverage that actively employed senior executives with the Company generally are required to pay for such coverage. In the event that the Executive's participation in any such plan is barred, the Company shall arrange to provide the Executive (and, if applicable, his spouse and dependent children) with substantially similar benefits (but, in the case of long-term disability benefits, only if reasonably commercially available).

(e) The Company shall supplement the benefits payable in respect of the Executive under the Company's Pension Plan and Supplemental Executive Retirement Plan (and any successor plans thereto) (collectively, the "Pension Plans") by paying the difference between (i) the benefits that the Executive would have been entitled to receive under the Pension Plans if he had been credited with one and one-half additional years of service (but no additional years of age) for purposes of the benefit accrual formula under the Pension Plans as of the date of termination of the Executive's employment and (ii) the benefits that the Executive is entitled to receive under the Pension Plans determined without regard to this subsection(e). Such benefits shall be payable in the same form and at the same time as the benefits under the respective Pension Plans.

(f) The Company will pay the Executive a car allowance of $500 per month for 24 months following termination of the Executive's employment to replace the Company-leased automobile, which leased automobile will be returned to the Company by the Executive on the date of termination of the Executive's employment.

(g) The Company will provide the Executive with out-placement services (which may include secretarial services and office space, equipment and supplies) selected by the Executive, at the Company's expense, up to a maximum of $20,000.

(h) The Executive shall be entitled to the Gross-up Payment, if any, described in Section 11.

(i) The Company shall promptly pay all reasonable attorneys' fees and related expenses incurred by the Executive in seeking to obtain or enforce any right or benefit under this Agreement or to defend against any claim or assertion in connection with this Agreement, but only to the extent the Executive substantially prevails.

9. Benefits Upon Termination Without Cause or For Good Reason (Change of Control) . If (a) the Executive's employment with the Company shall terminate (i) because of termination by the Company other than for Cause or Permanent and Total Disability pursuant to Section 5.1 or (ii) because of termination by the Employee for Good Reason pursuant to Section 6(a) and (b) such termination of employment occurs within 12 months following a "Change of Control" of the Company (as defined in Section 10), the Executive shall be entitled to the following:

(a) The Company shall pay to the Executive his base salary pursuant to Section 3.1 earned through the date of such termination of employment and any other compensation and benefits to the extent actually earned by the Executive under any benefit plan or program

of the Company as of the date of such termination of employment, such base salary, compensation and benefits to be paid at the normal time for payment of such base salary, compensation and benefits.

(b) The Company shall pay the Executive any reimbursement amounts owing under Section 4.

(c) The Company shall pay to the Executive as a severance benefit an amount equal to three (3) times the sum of (i) his annual rate of base salary immediately preceding his termination of employment and (ii) the average of his three highest annual bonuses earned under the Company's annual incentive bonus plan for any of the five calendar years preceding his termination of employment (or, if he was not eligible for a bonus for at least three calendar years in such five-year period, then the average of such bonuses for all of the calendar years in such five-year period for which he was eligible), with any deferred bonuses counting for the year earned rather than the year paid. Such severance benefit shall be paid in a lump sum within 30 days after the date of such termination of employment.

(d) The Company shall pay to the Executive as a bonus for the year of termination of his employment an amount equal to a portion (determined as provided in the next sentence) of the Executive's maximum bonus opportunity under the Company's annual incentive bonus plan for the calendar year of termination of the Executive's employment or, if none, such portion of the bonus awarded to him under the Company's annual incentive bonus plan for the calendar year immediately preceding the calendar year of the termination of his employment, with deferred bonuses counting for the year earned rather than the year paid. Such portion shall be determined by dividing the number of days of the Executive's employment during such calendar year up to his termination of employment by 365 (366 if a leap year). Such payment shall be made in a lump sum within 30 days after the date of such termination of employment, and the Executive shall have no right to any further bonuses under said plan.

(e) During the period of 36 months beginning on the date of the Executive's termination of employment, the Executive (and, if applicable, the Executive's spouse and dependent children) shall remain covered by the medical, dental, life insurance, and, if reasonably commercially available through nationally reputable insurance carriers, long-term disability plans of the Company that covered him immediately prior to his termination of employment as if he had remained in employment for such period; provided , however , that the coverage under any such plan is conditioned on the timely payment by the Executive (or his spouse or dependent children) of the portion of the premium for such coverage that actively employed senior executives with the Company generally are required to pay for such coverage. In the event that the Executive's participation in any such plan is barred, the Company shall arrange to provide the Executive (and, if applicable, his spouse and dependent children) with substantially similar benefits (but, in the case of long-term disability benefits, only if reasonably commercially available).

(f) The Company shall supplement the benefits payable in respect of the Executive under the Company's Pension Plan and Supplemental Executive Retirement Plan (and any successor plans thereto) (collectively, the "Pension Plans") by paying the difference between (i) the benefits that the Executive would have been entitled to receive under the Pension Plans if he had been credited with three additional years of service (but no additional years of age) for purposes of the benefit accrual formula under the Pension Plans as of the date of termination of the Executive's employment and (ii) the benefits that the Executive is entitled to receive under the Pension Plans determined without regard to this subsection (f). Such benefits shall be payable in the same form and at the same time as the benefits under the respective Pension Plans.

(g) Each stock option granted by the Company to the Executive and outstanding immediately prior to termination of his employment shall be fully vested and immediately exercisable and may be exercised by the Executive (or, following his death, by the person or entity to which such option passes) at any time prior to the expiration date of the applicable option (determined without regard to any earlier termination of the option that would otherwise occur by reason of termination of his employment). Each restricted stock award granted by the Company to the Executive and outstanding immediately prior to termination of the Executive's employment shall be fully vested upon such termination of employment.

(h) The Company will pay the Executive a car allowance, in an amount equal to Executive's monthly lease allowance at the time of termination, per month for 24 months following termination of the Executive's employment to replace the Company-leased automobile, which leased automobile will be returned to the Company by the Executive on the date of termination of the Executive's employment.

(i) The Company will provide the Executive with out-placement services (which may include secretarial services and office space, equipment and supplies) selected by the Executive, at the Company's expense, up to a maximum of $20,000.

(j) The Executive shall be entitled to the Gross-up Payment, if any, described in Section 11.

(k) The Company shall promptly pay all reasonable attorneys' fees and related expenses incurred by the Executive in seeking to obtain or enforce any right or benefit under this Agreement or to defend against any claim or assertion in connection with this Agreement, but only to the extent the Executive substantially prevails.

10. Change of Control . For the purposes of this Agreement, a "Change of Control" shall be deemed to have occurred if (a) any person or persons acting together which would constitute a "group" for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (other than the Company or any subsidiary of the Company) shall beneficially own (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, at least 25% of the total voting power of all classes of capital stock of the Company entitled to vote generally in the election of the Board; (b) Current Directors (as herein defined) shall cease for any reason to constitute at least a majority of the members of the Board (for this purpose, a "Current Director" shall mean any member of the

Board as of the date hereof and any successor of a Current Director whose election, or nomination for election by the Company's shareholders, was approved by at least a majority of the Current Directors then on the Board); (c) the shareholders of the Company approve (i) a plan of complete liquidation of the Company or (ii) an agreement providing for the merger or consolidation of the Company other than a merger or consolidation in which (x) the holders of the common stock of the Company immediately prior to the consolidation or merger have, directly or indirectly, at least a majority of the common stock of the continuing or surviving corporation immediately after such consolidation or merger or (y) the Board immediately prior to the merger or consolidation would, immediately after the merger or consolidation, constitute a majority of the board of directors of the continuing or surviving corporation; or (d) the shareholders of the Company approve an agreement (or agreements) providing for the sale or other disposition (in one transaction or a series of transactions) of all or substantially all of the assets of the Company.

11. Tax Gross-up .

(a) In the event that any payment or distribution made, or benefit provided, by the Company or any of its affiliates to or for the benefit of the Executive (whether paid or payable or distributed or distributable) pursuant to the terms of this Agreement or any other plan, program or arrangement of the Company or any of its affiliates but determined without regard to any additional payments required under this Section 11 (collectively the "Payments") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended and then in effect (the "Code") (or any similar excise tax) or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all Federal, state, local or other taxes (including any interest or penalties imposed with respect to any such taxes), including, without limitation, any such income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The Executive may receive Gross-Up Payments under this Section 11 whether or not the Executive actually receives other payments or benefits under this Agreement.

(b) Subject to the provisions of subsection (c) of this Section 11, all determinations required to be made under this Section 11, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized independent accounting firm mutually agreeable to the Company and the Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 20 calendar days of the receipt of written notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company and shall be paid by the Company upon demand of the Executive as incurred or billed by the Accounting Firm. Any Gross-Up Payment, as determined pursuant to this Section 11, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with an unqualified written opinion in form and substance satisfactory to the Executive that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies described in subsection (c) of this Section 11 and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be paid by the Company to or for the benefit of the Executive within five days of the receipt of the Accounting Firm's determination. All determinations made by the Accounting Firm in connection with any Gross-Up Payment or Underpayment shall be final and binding upon the Company and the Executive.

(c) The Executive shall notify the Company in writing of any claim asserted in writing by the Internal Revenue Service to the Executive that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but not later than 60 days after the Executive is informed in writing of such claim and shall apprise the

Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall at the Company's expense:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim; provided , however , that the Company shall bear and pay directly as incurred all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or any Federal, state, local or other income or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 11, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided , however , that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or Federal, state, local or other income or other tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to subsection (c) of this Section 11, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of subsection (c) of this Section 11) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto) upon receipt thereof. If, after the receipt by the Executive of an amount advanced by the Company pursuant to subsection (c) of this Section 11, a determination is made that the Executive shall not be entitled to any refund with respect

to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

12. Entitlement to Other Benefits . Except as otherwise provided in this Agreement, this Agreement shall not be construed as limiting in any way any rights or benefits that the Executive or his spouse, dependents or beneficiaries may have pursuant to any other plan or program of the Company.

13. Indemnification . The parties agree that the Indemnification Agreement dated March 1, 2000 between the Executive and the Company and attached as Exhibit B shall remain in full force and effect.

14. General Provisions .

14.1 No Duty to Seek Employment . The Executive shall not be under any duty or obligation to seek or accept other employment following termination of employment, and no amount, payment or benefits due to the Executive hereunder shall be reduced or suspended if the Executive accepts subsequent employment, except as expressly set forth herein.

14.2 Deductions and Withholding . All amounts payable or which become payable under any provision of this Agreement shall be subject to any deductions authorized by the Executive and any deductions and withholdings required by law.

14.3 Notices . All notices, demands, requests, consents, approvals or other communications (collectively “Notices”) required or permitted to be given hereunder or which are given with respect to this Agreement shall be in writing and may be personally served or may be faxed with a copy deposited in the United States mail, registered or certified, return receipt requested, postage prepaid, addressed as follows:

To the Company: Lydall, Inc.
P.O. Box 151
One Colonial Road
Manchester, CT 06045-0151
Attn: Chief Executive Officer

To the Executive: Christopher R. Skomorowski
48 Highwood Road
Simsbury, CT 06070

or such other address as such party shall have specified most recently by written notice. Notice mailed as provided herein shall be deemed given on the fifth business day following the date so mailed or on the date of actual receipt, whichever is earlier.

14.4 No Disparagement . The Executive shall not during the period of his employment with the Company, nor during the two-year period beginning on the date of termination of his employment for any reason, disparage the Company or any of its subsidiaries or affiliates or any of their shareholders, directors, officers, employees or agents. The Executive agrees that the terms of this Section 14.4 shall survive the term of this Agreement and the termination of the Executive’s employment.

14.5 Proprietary Information and Inventions . The Lydall Employee Agreement previously executed by the Executive and attached hereto as Exhibit A is incorporated by reference in this Agreement, and the Executive agrees to continue to be bound thereby.

14.6 Covenant to Notify Management . The Executive agrees to abide by the Code of Ethics and Business Conduct of the Company as well as the Company's other rules, regulations, policies and procedures. The Executive agrees to comply in full with all governmental laws and regulations as well as ethics codes applicable. In the event that the Executive is aware or suspects the Company, or any of its officers or agents, of violating any such laws, ethics, codes, rules, regulations, policies or procedures, the Executive agrees to bring all such actual and suspected violations to the attention of the Company immediately so that the matter may be properly investigated and appropriate action taken. The Executive understands that the Executive is precluded from filing a complaint with any governmental agency or court having jurisdiction over wrongful conduct unless the Executive has first notified the Company of the facts and permits it to investigate and correct the concerns.

14.7 Amendments and Waivers . No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either Party hereto at any time of any breach by the other Party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other Party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

14.8 Beneficial Interests . This Agreement shall inure to the benefit of and be enforceable by a) the Company's successors and assigns and b) the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amounts are still payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

14.9 Successors . The Company will require any successors (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform.

14.10 Assignment . This Agreement and the rights, duties, and obligations hereunder may not be assigned or delegated by any Party without the prior written consent of the other Party and any attempted assignment or delegation without such prior written consent shall be void and be of no effect. Notwithstanding the foregoing provisions of this Section 14.10, the Company may assign or delegate its rights, duties and obligations hereunder to any affiliate or to any person or entity which succeeds to all or substantially all of the business of the Company or one of its subsidiaries through merger, consolation, reorganization, or other business combination or by acquisition of all or substantially all of the assets of the Company or one of its subsidiaries.

14.11 Choice of Law . This Agreement shall be governed by and construed in accordance with the laws of the State of Connecticut.

14.12 Statute of Limitations . The Executive and the Company hereby agree that there shall be a one year statute of limitations for the filing of any requests for arbitration or any lawsuit

relating to this Agreement or the terms or conditions of Executive's employment by the Company. If such a claim is filed more than one year subsequent to the Executive's last day of employment it shall be precluded by this provision, regardless of whether or not the claim has accrued at that time.

14.13 Right to Injunctive and Equitable Relief . The Executive's obligations under Section 14.4 are of a special and unique character, which gives them a peculiar value. The Company cannot be reasonably or adequately compensated for damages in an action at law in the event the Executive breaches such obligations. Therefore, the Executive expressly agrees that the Company shall be entitled to injunctive and other equitable relief without bond or other security in the event of such breach in addition to any other rights or remedies which the Company may possess or be entitled to pursue. Furthermore, the obligations of the Executive and the rights and remedies of the Company under Section 14.4 and this Section 14.13 are cumulative and in addition to, and not in lieu of, any obligations, rights, or remedies as created by applicable law.

14.14 Severability or Partial Invalidity . The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14.15 Entire Agreement . This Agreement, along with the Lydall Employee Agreement by and between the Executive and the Company, constitutes the entire agreement of the Parties and supersedes all prior written or oral and all contemporaneous oral agreements, understandings, and negotiations between the Parties with respect to the subject matter hereof. This Agreement may not be changed orally and may only be modified in writing signed by both Parties. This Agreement, along with the Lydall Employee Agreement, is intended by the Parties as the final expression of their agreement with respect to such terms as are included herein and therein and may not be contradicted by evidence of any prior or contemporaneous agreement. The Parties further intend that this Agreement, along with the Lydall Employee Agreement, constitutes the complete and exclusive statement of their terms and that no extrinsic evidence may be introduced in any judicial proceeding involving such agreements.

14.16 Counterparts . This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Employee has hereunto set his hand as of the day and year first above written.

LYDALL, INC.

By:	/s/ DAVID FREEMAN	October 2, 2003
	David Freeman Chief Executive Officer	Date
	/s/ CHRISTOPHER R. SKOMOROWSKI	October 2, 2003
	Christopher R. Skomorowski	Date

Exhibit 31.1

CERTIFICATION

I, David Freeman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lydall, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 7, 2003	/s/ DAVID FREEMAN
	David Freeman **President and Chief Executive Officer**

Exhibit 31.2

CERTIFICATION

I, Thomas P. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lydall, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 7, 2003

/s/ THOMAS P. SMITH

Thomas P. Smith
Vice President – Controller
and Interim Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lydall, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certifications are accompanying the Form 10-Q solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, chapter 63 of title 18, United States Code) and are not being filed as a part of this Form 10-Q or as a separate disclosure document.

November 7, 2003

/s/ DAVID FREEMAN

David Freeman
President and Chief Executive Officer

November 7, 2003

/s/ THOMAS P. SMITH

Thomas P. Smith
Vice President – Controller
and Interim Chief Financial Officer

End of Filing

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