

XERIUM TECHNOLOGIES INC  
Form 10-Q  
May 11, 2015

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 March 31, 2015

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 001-32498

Xerium Technologies, Inc.  
(Exact name of registrant as specified in its charter)

DELAWARE 42-1558674  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

14101 Capital Boulevard 27596  
Youngsville, North Carolina (Zip Code)  
(Address of principal executive offices)  
(919) 526-1400  
(Registrant's telephone number, including area code)

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed

by a court. Yes  No

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of May 8, 2015 was 15,593,708.

---

TABLE OF CONTENTS

Part I. Financial Information

	Page
Item 1. Unaudited <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29

Part II. Other Information

Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 5. Other Information	30
Item 6. <u>Exhibits</u>	30

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. UNAUDITED FINANCIAL STATEMENTS

Xerium Technologies, Inc.  
Consolidated Balance Sheets

(Dollars in thousands and Unaudited)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$8,826	\$9,517
Accounts receivable, net	77,969	83,069
Inventories, net	75,811	83,550
Prepaid expenses	8,138	8,472
Other current assets	14,523	15,714
Total current assets	185,267	200,322
Property and equipment, net	291,590	303,617
Goodwill	56,262	61,927
Intangible assets	10,717	11,707
Non-current deferred tax asset	8,485	10,662
Other assets	8,700	5,809
Total assets	\$561,021	\$594,044
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Notes payable	\$3,267	\$244
Accounts payable	37,070	41,827
Accrued expenses	57,763	56,109
Current maturities of long-term debt	5,627	4,406
Total current liabilities	103,727	102,586
Long-term debt, net of current maturities	460,279	460,840
Liabilities under capital leases	4,395	3,945
Non-current deferred tax liability	7,321	10,416
Pension, other post-retirement and post-employment obligations	75,215	80,471
Other long-term liabilities	12,991	9,896
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized; no shares outstanding as of March 31, 2015 and December 31, 2014	—	—
Common stock, \$0.001 par value, 20,000,000 shares authorized; 15,593,708 and 15,560,627 shares outstanding as of March 31, 2015 and December 31, 2014, respectively	16	16
Paid-in capital	429,481	428,880
Accumulated deficit	(415,335)	(417,068)
Accumulated other comprehensive loss	(117,069)	(85,938)
Total stockholders' deficit	(102,907)	(74,110)
Total liabilities and stockholders' deficit	\$561,021	\$594,044



Table of Contents

Xerium Technologies, Inc.

Consolidated Statements of Operations

(Dollars in thousands, except per share data and unaudited)

	Three Months Ended		
	March 31,		
	2015	2014	
Net Sales	\$121,029	\$133,384	
Costs and expenses:			
Cost of products sold	72,476	81,218	
Selling	16,326	18,178	
General and administrative	13,846	14,797	
Research and development	1,962	1,946	
Restructuring	2,224	4,651	
	106,834	120,790	
Income from operations	14,195	12,594	
Interest expense, net	(9,664	) (8,657	)
Foreign exchange gain (loss)	977	(877	)
Income before provision for income taxes	5,508	3,060	
Provision for income taxes	(3,775	) (1,893	)
Net income	\$1,733	\$1,167	
Comprehensive loss	\$(29,398	) \$(758	)
Net income per share:			
Basic	\$0.11	\$0.08	
Diluted	\$0.11	\$0.07	
Shares used in computing net income per share:			
Basic	15,560,995	15,391,391	
Diluted	16,479,368	16,371,772	

Table of Contents

Xerium Technologies, Inc.  
Consolidated Statements of Cash Flows  
(Dollars in thousands and unaudited)

	Three Months ended March 31,	
	2015	2014
Operating activities		
Net income	\$1,733	\$1,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	822	509
Depreciation	7,163	8,233
Amortization of intangibles	79	416
Deferred financing cost amortization	875	716
Foreign exchange gain on revaluation of debt	(1,973	) (1,103
Deferred taxes	979	(808
Loss on disposition of property and equipment	14	27
Provision for doubtful accounts	472	245
Change in assets and liabilities which provided (used) cash:		
Accounts receivable	(592	) (7,052
Inventories	1,436	(4,048
Prepaid expenses	25	1,600
Other current assets	(1,679	) 819
Accounts payable and accrued expenses	2,218	4,202
Deferred and other long-term liabilities	(3,571	) (2,160
Net cash provided by operating activities	8,001	2,763
Investing activities		
Capital expenditures	(12,155	) (10,494
Proceeds from disposals of property and equipment	32	43
Net cash used in investing activities	(12,123	) (10,451
Financing activities		
Proceeds from borrowings	22,568	7,580
Principal payments on debt	(18,331	) (6,600
Payment of financing fees	(25	) (710
Payment of obligations under capital leases	(265	) (190
Net cash provided by financing activities	3,947	80
Effect of exchange rate changes on cash flows	(516	) (95
Net decrease in cash	(691	) (7,703
Cash and cash equivalents at beginning of period	9,517	25,716
Cash and cash equivalents at end of period	\$8,826	\$18,013
Non-cash capitalized lease asset and liability	\$—	\$4,468
Accrued construction in process	\$1,519	\$—

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except per share data)

1. Description of Business and Significant Accounting Policies

Description of Business

Xerium Technologies, Inc. (the "Company") is a leading global provider of industrial consumables and mechanical services used in the production of paper, paperboard, building products and nonwoven materials. Its operations are strategically located in the major paper-making regions of the world, including North America, Europe, South America and Asia-Pacific.

Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements at March 31, 2015 and for the three months ended March 31, 2015 and 2014 include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, such financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. The interim results presented herein are not necessarily indicative of the results to be expected for the entire year. In management's opinion, these unaudited condensed consolidated interim financial statements contain all adjustments of a normal recurring nature necessary for a fair presentation of the financial statements for the interim periods presented. These unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2014 as reported on the Company's Annual Report on Form 10-K filed on March 4, 2015.

Accounting Policies

Inventories, net

Inventories are generally valued at the lower of cost or market using the first-in, first-out (FIFO) method. Raw materials are valued principally on a weighted average cost basis. The Company's work in process and finished goods are specifically identified and valued based on actual inputs to production. Provisions are recorded as appropriate to write-down obsolete and excess inventory to estimated net realizable value. The process for evaluating obsolete and excess inventory often requires management to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be able to be sold in the normal course of business, while considering the general aging of inventory and factoring in any new business conditions.

The components of inventories are as follows at:

	March 31, 2015	December 31, 2014
Raw materials	\$13,229	\$18,018
Work in process	27,504	28,756
Finished goods (includes consigned inventory of \$8,586 at March 31, 2015 and \$8,582 at December 31, 2014)	41,262	43,072
Inventory allowances	(6,184	) (6,296
	\$75,811	\$83,550

Goodwill

The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, Intangibles—Goodwill and Other Intangible Assets ("Topic 350"). Topic 350 requires that goodwill and intangible assets that have indefinite lives not be amortized, but instead, must be tested for impairment at least annually or whenever events or business conditions warrant. During the three months ended March 31, 2015, the Company evaluated events and business conditions to determine if a test for an impairment of goodwill was warranted. No such events or business conditions took place during this period, therefore no test was determined to be warranted at March 31, 2015.



Warranties

The Company offers warranties on certain roll products that it sells. The specific terms and conditions of these warranties vary depending on the product sold, the country in which the product is sold and arrangements with the customer. The

6

---

Table of Contents

Company estimates the costs that may be incurred under its warranties and records a liability in Accrued Expenses on its Consolidated Balance Sheet for such costs. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, cost per claim and new product introduction. The Company periodically assesses the adequacy of its recorded warranty claims and adjusts the amounts as necessary. The table below represents the changes in the Company's warranty liability for the three months ended March 31, 2015 and 2014:

	Beginning Balance	Charged to Cost of Sales	Effect of Foreign Currency Translation	Deduction from Reserves	Ending Balance
Three Months Ended March 31, 2015:	\$2,685	\$336	\$ (118 )	\$(578 )	\$2,325
Three Months Ended March 31, 2014:	\$1,629	\$327	\$ (5 )	\$(422 )	\$1,529

## Net Income Per Common Share

Net income per common share has been computed and presented pursuant to the provisions of ASC Topic 260, Earnings per Share ("Topic 260"). Net income per share is based on the weighted-average number of shares outstanding during the period. As of March 31, 2015 and 2014, the Company had outstanding restricted stock units ("RSUs"), deferred stock units ("DSUs") and options.

The following table sets forth the computation of basic and diluted weighted-average shares:

	Three Months ended March 31,	
	2015	2014
Weighted-average common shares outstanding—basic	15,560,995	15,391,391
Dilutive effect of stock-based compensation awards outstanding	918,373	980,381
Weighted-average common shares outstanding—diluted	16,479,368	16,371,772

Dilutive securities aggregating 21,957 and 1.7 million were outstanding for the three months ended March 31, 2015 and 2014, but were not included in the computation of diluted earnings per share for the three months ended March 31, 2015, and 2014 because the impact of including such shares would have been anti-dilutive to the earnings per share calculations.

## Impairment

The Company reviews its long-lived assets that have finite lives for impairment in accordance with ASC Topic 360, Property, Plant, and Equipment ("Topic 360"). This topic requires that companies evaluate the fair value of long-lived assets based on the anticipated undiscounted future cash flows to be generated by the assets when indicators of impairment exist to determine if there is impairment to the carrying value. Any change in the carrying amount of an asset as a result of the Company's evaluation has been recorded in either restructuring expense, if it was a result of the Company's restructuring activities, or general and administrative expense for all other impairments in the consolidated statements of operations. Impairment charges associated with restructuring are discussed in Note 7 "Restructuring Expense". For the three months ended March 31, 2015 and 2014, the Company had no impairment charges included in restructuring expense, respectively.

## New Accounting Pronouncements

In May of 2014, the FASB issued Accounting Standard Update No. 2014-09 Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that the Company identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when it satisfies the performance obligations. The Company will also be required to disclose information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is required to be adopted in January of

2017. Retrospective application is required either to all periods presented or with the cumulative effect of initial adoption recognized in the period of adoption. The Company is in the process of evaluating this accounting standard update.

In February of 2015, the FASB issued Accounting Standard Update No. 2015-02 Consolidation ("ASU 2015-02"). ASU 2015-02 amends the existing consolidation requirements under GAAP and will require companies to reevaluate all previous consolidation requirements. ASU 2015-02 is required to be adopted in January of 2016. The Company is in the process of evaluating this accounting standard update.

7

---

Table of Contents

In April of 2015, the FASB issued Accounting Standard Update No. 2015-03 Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying value of the debt liability, consistent with debt discounts. ASU 2015-03 is required to be adopted in January of 2016. The Company believes that the adoption of ASU 2015-03 will not have a material impact on its consolidated financial statements.

## 2. Derivatives and Hedging

## Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. From time to time, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known cash amounts, the value of which are determined by interest rates or foreign exchange rates.

## Cash Flow Hedges of Interest Rate Risk

From time to time, the Company uses interest rate derivatives to add stability to interest expense and to manage its exposure to interest rate movements. However, at March 31, 2015, the Company had no interest rate swaps.

## Non-designated Hedges of Foreign Exchange Risk

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to foreign exchange rates, but do not meet the strict hedge accounting requirements of Topic 815. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

The Company, from time to time, may enter into foreign exchange forward contracts to fix currencies at specified rates based on expected future cash flows to protect against the fluctuations in cash flows resulting from sales denominated in foreign currencies. Additionally, to manage its exposure to fluctuations in foreign currency on intercompany balances and certain purchase commitments, the Company from time to time may use foreign exchange forward contracts.

As of March 31, 2015 and December 31, 2014, the Company had outstanding derivatives that were not designated as hedges in qualifying hedging relationships. The value of these contracts is recognized at fair value based on market exchange forward rates and is recorded in other assets or other liabilities on the Consolidated Balance Sheets. The following represents the fair value of these derivatives at March 31, 2015 and December 31, 2014 and the change in fair value included in foreign exchange gain in the three months ended March 31, 2015 and 2014:

	March 31, 2015	December 31, 2014
Fair value of derivative liability	\$ (931	) \$ (524
	Three Months Ended	Three Months Ended
	March 31, 2015:	March 31, 2014:
Change in fair value of derivative included in foreign exchange loss	\$ (2,059	) \$ (1,211

The following represents the notional amounts of foreign exchange forward contracts at March 31, 2015:

	Notional Sold	Notional Purchased
Non-designated hedges of foreign exchange risk	\$ 12,498	\$ (32,991
Fair Value of Derivatives Under ASC Topic 820		)

ASC Topic 820, Fair Value Measurements and Disclosures ("Topic 820"), emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own

assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

8

---

Table of Contents

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs including fair value of investments that do not have the ability to redeem at net asset value as of the measurement date, or during the first quarter following the measurement date. The derivative assets or liabilities are typically based on an entity's own assumptions, as there is little, if any, market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability. The Company determined that its derivative valuations, which are based on market exchange forward rates, fall within Level 2 of the fair value hierarchy.

## 3. Long term Debt

At March 31, 2015 and December 31, 2014, long term debt consisted of the following:

	March 31, 2015	December 31, 2014
Senior secured term loan facility, payable quarterly, U.S. Dollar denominated–LIBOR (minimum 1.25%) plus 4.50% (5.75%) net of \$0.8 million discount. Matures May of 2019.	\$225,526	\$226,052
Senior Notes (Unsecured), payable semi-annually–U.S. Dollar denominated interest rate fixed at 8.875%. Matures June of 2018.	236,410	236,410
Notes payable, working capital loan, variable interest rate at 1.3%. Matures June 30, 2015, with one-year rollover option.	3,267	244
Other debt	3,970	2,784
Total debt	469,173	465,490
Less current maturities of long term debt and notes payable	8,894	4,650
Total long term debt	\$460,279	\$460,840

On May 17, 2013, the Company entered into a Credit and Guaranty Agreement for a \$200.0 million term loan credit facility (the "Term Credit Facility"), net of a discount of \$1.0 million, among the Company, certain direct and indirect U.S. subsidiaries of the Company as guarantors and certain financial institutions. The Company also entered into a Revolving Credit and Guaranty Agreement originally for a \$40.0 million asset-based revolving credit facility subject to a borrowing base among Xerium Technologies, Inc., as a US borrower, Xerium Canada Inc., as Canadian borrower, certain direct and indirect U.S. subsidiaries of the Company as guarantors and certain financial institutions (the "Domestic Revolver"). On March 3, 2014, the Company entered into an amendment to the Revolving Credit and Guaranty Agreement (as amended, the "ABL Facility," and collectively with the Term Credit Facility, the "Credit Facility") to add the Company's German subsidiaries as European Borrowers (the "European Borrowers") and to provide for an additional \$15 million European asset-based revolving credit facility subject to a European borrowing base (the "European Revolver"), increasing the aggregate availability under the ABL Facility to \$55 million.

On August 18, 2014, the Company entered into the Second Amendment to Credit and Guaranty Agreement (the "Second Amendment"). Under the Second Amendment, the Company borrowed an additional \$30.0 million by utilizing the Incremental Facility. The \$30 million in additional borrowings was used to finance a tax amnesty payment in Brazil. The Second Amendment made no changes to the repayment and other previously disclosed terms of the Credit Facility.

The Credit Facility contains certain customary covenants that, subject to exceptions, restrict the Company's ability to, among other things:

- declare dividends or redeem or repurchase equity interests;

- prepay, redeem or purchase debt;
- incur liens and engage in sale-leaseback transactions;
- make loans and investments;
- incur additional indebtedness;
- amend or otherwise alter debt and other material agreements;
- make capital expenditures in excess of \$42 million per fiscal year, subject to adjustment;
- engage in mergers, acquisitions and asset sales;
- transact with affiliates; and
- engage in businesses that are not related to the Company's existing business.

## Table of Contents

As of March 31, 2015, the outstanding balance of the Company's term debt under its Credit Facility and Notes was \$461.9 million, which is net of a \$0.8 million discount. In addition, as of March 31, 2015, an aggregate of \$32.4 million is available for additional borrowings under the ABL Facility. This availability represents a borrowing base of \$44.1 million under the ABL Facility less \$11.7 million of that facility committed for letters of credit or additional borrowings. Additionally, at March 31, 2015, the Company had approximately \$5.1 million available for borrowings under other small lines of credit.

As of March 31, 2015 and December 31, 2014, the carrying value of the Company's debt was \$469.2 million and \$465.2 million, respectively, and its fair value was approximately \$479.2 million and \$478.2 million, respectively. The Company determined the fair value of its debt utilizing significant other observable inputs (Level 2 of the fair value hierarchy).

### Capitalized Lease Liabilities

As of March 31, 2015, the Company had capitalized lease liabilities totaling \$4.4 million. These amounts represent the lease on the corporate headquarters and certain other software licensing, vehicle and office equipment capitalized lease arrangements.

### 4. Income Taxes

The Company utilizes the liability method for accounting for income taxes in accordance with ASC Topic 740, Income Taxes ("Topic 740"). Under Topic 740, deferred tax assets and liabilities are determined based on the difference between their financial reporting and tax basis. The assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company reduces its deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In making this determination, the Company evaluates all available information including the Company's financial position and results of operations for the current and preceding years, as well as any available projected information for future years.

For the three months ended March 31, 2015, the provision for income taxes was \$3,775 as compared to \$1,893 for the three months ended March 31, 2014. The increase in tax expense was primarily attributable to the geographic mix of earnings in the three months ended March 31, 2015, as well as an increase in the unrecognized tax benefit due to the effects of income tax audits. Generally, the provision for income taxes is primarily impacted by income earned in tax paying jurisdictions relative to income earned in non-tax paying jurisdictions. The majority of income recognized for purposes of computing the effective tax rate is earned in countries where the statutory income tax rates range from 15.0% to 37.1%; however, permanent income adjustments recorded against pre-tax earnings may result in an effective tax rate that is higher or lower than the statutory tax rate in these jurisdictions. The Company generates losses in certain jurisdictions for which no tax benefit is realized, as the deferred tax assets in these jurisdictions (including the net operating losses) are fully reserved in the valuation allowance. For this reason, the Company recognizes minimal income tax expense or benefit in these jurisdictions, of which the most material jurisdictions are the United States and Australia. Due to these reserves, the geographic mix of the Company's pre-tax earnings has a direct correlation with how high or low its annual effective tax rate is relative to consolidated earnings.

As the Company continues to reorganize and restructure its operations, it is possible that deferred tax assets, for which no income tax benefit has previously been provided, may more likely than not become realized. The Company continues to evaluate future operations and will record an income tax benefit in the period where it believes it is more likely than not that the deferred tax asset will be able to be realized. Historic and future ownership changes could potentially reduce the amount of net operating loss carry-forwards available for use.

As of March 31, 2015, the Company had a gross amount of unrecognized tax benefit of \$7,791, exclusive of interest and penalties. The unrecognized tax benefit increased by approximately \$289 during the three months ended March 31, 2015, as a result of ongoing changes in currently reserved positions as a result of new facts or information



and the effects of income tax audits, which was partially offset by decreases related to foreign currency effects. In January 2015, the Company received notice of a tax audit report which could lead to an income tax assessment of an unknown amount related to its Italian operations. The Company expects to litigate if such an assessment is received, and the Company believes it would prevail on some portion of the issues litigated. As a result of this new information, the unrecognized tax benefit was increased by \$1,097 for tax, interest and penalties related to this matter in the first quarter of 2015.

The Company's policy is to recognize interest and penalties related to income tax matters as income tax expense, which were \$738 related to the unrecognized tax benefits for the three months ended March 31, 2015. The tax years 2000 through 2014 remain open to examination in a number of the major tax jurisdictions to which the Company and its subsidiaries are subject. The Company believes that it has made adequate provisions for all income tax uncertainties.

Table of Contents

## 5. Pensions, Other Post-retirement and Post-employment Benefits

The Company accounts for its pensions, other post-retirement and post-employment benefit plans in accordance with ASC Topic 715, Compensation—Retirement Benefits (“Topic 715”). The Company has defined benefit pension plans covering substantially all of its U.S. and Canadian employees and employees of certain subsidiaries in other countries. Benefits are generally based on the employee’s years of service and compensation. These plans are funded in conformity with the funding requirements of applicable government regulations. The Company does not fund certain plans, as funding is not required. The Company plans to continue to fund its U.S. defined benefit plans to comply with the Pension Protection Act of 2006. In addition, the Company also intends to fund its U.K. and Canadian defined benefit plans in accordance with local regulations.

As required by Topic 715, the following tables summarize the components of net periodic benefit cost:

## Defined Benefit Plans

	Three Months ended March 31,	
	2015	2014
Service cost	\$842	\$816
Interest cost	1,670	1,650
Expected return on plan assets	(1,815	) (1,564
Amortization of net loss	755	295
Net periodic benefit cost	\$1,452	\$1,197

## 6. Comprehensive Loss and Accumulated Other Comprehensive Loss

Comprehensive loss for the three months ended March 31, 2015 (net of tax expense of \$851) and 2014 (net of tax benefits of \$32) is as follows:

	Three Months ended March 31,	
	2015	2014
Net income	\$1,733	\$1,167
Foreign currency translation adjustments	(32,857	) (1,669
Pension liability changes under Topic 715	1,684	(275
Change in value of derivative instruments	42	19
Comprehensive loss	\$(29,398	) \$(758

The components of accumulated other comprehensive loss for the three months ended March 31, 2015 are as follows (net of tax benefits of \$7,302):

	Foreign Currency Translation Adjustment	Pension Liability Changes Under Topic 715	Change in Value of Derivative Instruments	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2014	\$(39,014	) \$(46,816	) \$(108	) \$(85,938
Other comprehensive income before reclassifications	(32,857	) 929	—	(31,928
Amounts reclassified from other comprehensive income				
Amortization of actuarial losses	—	755	—	755
Amortization of interest expense	—	—	42	42
Net current period other comprehensive (loss) income	(32,857	) 1,684	42	(31,131
Balance at March 31, 2015	\$(71,871	) \$(45,132	) \$(66	) \$(117,069



Table of Contents

For the three months ended March 31, 2015, the amortization of actuarial losses is included in cost of products sold and general and administrative expenses in the Consolidated Statements of Operations.

For the three months ended March 31, 2015, the impact on Accumulated Other Comprehensive Loss ("AOCL") due to foreign currency translation adjustments of \$(32,857) was primarily the result of the decline in the Euro and Brazilian Real and the effect of that decline on our foreign subsidiaries net equity balances of \$151 million (Euro) and \$107 million (Brazilian Real) in Europe and Brazil, respectively. The Euro declined to \$1.13 at March 31, 2015 from \$1.33 at December 31, 2014. The Brazilian Real declined to \$0.35 at March 31, 2015 from \$0.43 at December 31, 2014.

## 7. Restructuring and Impairment Expense

For the three months ended March 31, 2015, the Company incurred restructuring expenses of \$2,224. These included \$1,300 of charges related to the closure of the Joao Pessoa, Brazil clothing facility and \$924 of charges relating to headcount reductions. For the three months ended March 31, 2014, the Company incurred restructuring expenses of \$4.7 million. These included charges relating to the closure of a roll cover facility in Germany, the reduction of headcount and the second phase of the closure of a clothing facility in Argentina.

The following table sets forth the significant components of the restructuring accrual (included in Accrued Expenses on our Consolidated Balance Sheet), including activity under restructuring programs for the three months ended March 31, 2015 and 2014:

	Balance at December 31, 2014	Charges	Currency Effects	Cash Payments	Balance at March 31, 2015
Severance and other benefits	\$4,880	\$881	\$(243)	\$(1,286)	\$4,232
Facility costs and other	818	1,343	(365)	(1,796)	—
Total	\$5,698	\$2,224	\$(608)	\$(3,082)	\$4,232

	Balance at December 31, 2013	Charges	Currency Effects	Cash Payments	Balance at March 31, 2014
Severance and other benefits	\$6,466	\$4,411	\$(46)	\$(2,240)	\$8,591
Facility costs and other	1,468	240	(11)	(312)	1,385
Total	\$7,934	\$4,651	\$(57)	\$(2,552)	\$9,976

Restructuring and impairment expense by segment, which is not included in Segment Earnings in Note 8, is as follows:

	Three Months Ended March 31,	
	2015	2014
Clothing	\$2,092	\$2,254
Roll Covers	101	2,397
Corporate	31	—
Total	\$2,224	\$4,651

## 8. Business Segment Information

The Company is a global manufacturer and supplier of consumable products used primarily in the production of paper and is organized into two reportable segments: Clothing and Roll Covers. The Clothing segment represents the manufacture and sale of synthetic textile belts used to transport paper along the length of papermaking machines. The Roll Covers segment primarily represents the manufacture and refurbishment of covers used on the steel rolls of papermaking machines and the servicing of those rolls. The Company manages each of these operating segments separately.

Management evaluates segment performance based on earnings before interest, taxes, depreciation and amortization and before allocation of corporate charges. Such measure is then adjusted to exclude items that are of an unusual nature and are not used in measuring segment performance or are not segment specific (“Segment Earnings (Loss)”). The accounting policies of

12

---

Table of Contents

these segments are the same as those for the Company as a whole. Inter-segment net sales and inter-segment eliminations are not material for any of the periods presented.

Summarized financial information for the Company's reportable segments is presented in the tables that follow for the three months ended March 31, 2015 and 2014.

	Clothing	Roll Covers	Corporate	Total
Three Months Ended March 31, 2015:				
Net Sales	\$77,284	\$43,745	\$—	\$121,029
Segment Earnings (Loss)	\$21,766	\$8,091	\$(3,647)	)
Three Months Ended March 31, 2014:				
Net Sales	\$88,971	\$44,413	\$—	\$133,384
Segment Earnings (Loss)	\$21,392	\$7,379	\$(3,069)	)

Provided below is a reconciliation of Segment Earnings (Loss) to income before provision for income taxes for the three months ended March 31, 2015 and 2014, respectively.

	Three Months ended March 31,	
	2015	2014
Segment Earnings (Loss):		
Clothing	\$21,766	\$21,392
Roll Covers	8,091	7,379
Corporate	(3,647)	) (3,069)
Stock-based compensation	(822)	) (509)
Interest expense, net	(9,664)	) (8,657)
Depreciation and amortization	(7,242)	) (8,649)
Restructuring expense	(2,224)	) (4,651)
Plant startup costs	(750)	) (176)
Income before provision for income taxes	\$5,508	\$3,060

#### 9. Commitments and Contingencies

The Company is involved in various legal matters which have arisen in the ordinary course of business as a result of various immaterial labor claims, taxing authority reviews and other routine legal matters. As of March 31, 2015, the Company accrued an immaterial amount in its financial statements for these matters for which the Company believed the possibility of loss was probable and was able to estimate the damages. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its financial position, results of operations or cash flow. The Company believes that any additional liability in excess of amounts provided which may result from the resolution of legal matters will not have a material adverse effect on the financial condition, liquidity or cash flow of the Company.

#### 10. Stock-Based Compensation and Stockholders' Deficit

The Company records stock-based compensation expense in accordance with ASC Topic 718, Accounting for Stock Compensation and has used the straight-line attribution method to recognize expense for time-based restricted stock units ("RSUs"), options and deferred stock units ("DSUs"). The Company recorded stock-based compensation expense during the three months ended March 31, 2015 and March 31, 2014 as follows:

	Three Months ended March 31,	
	2015	2014
RSU, Options and DSU Awards (1)	\$822	\$509

(1)

Related to RSUs, Options and DSUs awarded to certain employees and non-employee directors.

## Table of Contents

### Summary of Activity under the Long-Term Incentive Plans

On March 2, 2015, the Board of Directors approved the 2015-2017 Long-Term Incentive Plan (the “2015 - 2017 LTIP”) under the 2010 Equity Incentive Plan (the “2010 Plan”). Awards under the 2015 - 2017 LTIP are time-based, performance-based and market-based. A specific target share award has been set for each participant in the 2015-2017 LTIP. Awards will be paid in the form of shares of common stock of the Company, as described below:

52,601 Time-based awards, or 35% of the total target award for each participant, have been granted in the form of time-based restricted stock units under the Company’s 2010 Plan. The time-based restricted stock units vest on the third anniversary of the date of grant.

97,681 Performance-based and Market-based awards, 65% of the total target award for each participant, have been granted in the form of performance-based stock units under the 2010 Plan. Of these units, half will vest based on the financial performance of the Company and the other half will vest based on the stock price performance of the Company.

The performance-based stock units whose vesting is subject to the financial performance of the Company (the “financial stock units”) will vest based on the degree to which the Company achieves a targeted three-year cumulative Adjusted EBITDA metric, adjusted for currency fluctuations, over the performance period of January 1, 2015 through December 31, 2017. Financial stock units that vest will convert into shares of the Company’s common stock and be paid after the close of a three-year performance period. The amount of units that vest will range from 0% to 100% of the employee's total financial stock units. Upon attainment of cumulative Adjusted EBITDA equal to 80% or less of the targeted Adjusted EBITDA, none of the financial stock units will vest. Upon attainment of more than 80% of the targeted Adjusted EBITDA, the financial stock units will begin vesting on a straight-line basis from 0% of the financial stock units at 80% of the targeted Adjusted EBITDA to 100% of the financial stock units at 100% of the targeted Adjusted EBITDA, up to a maximum payout of 100% of the financial stock units.

The market-based stock units whose vesting is subject to stock price performance of the Company (the “market-based stock units”) will vest based on the Company's total stock price change (plus dividends) over the three-year performance period of March 2, 2015 through March 2, 2018 (“TSR”) relative to the TSR over the same performance period of companies listed on the S&P Global Small Cap Index on the third anniversary of the grant date, or March 2, 2018. Market-based stock units that vest will convert into shares of the Company’s common stock and will be paid after the third anniversary of the grant date, or March 2, 2018. The amount of units that vest will range from 0% to 100% of the employee's total market-based stock units. If the Company’s TSR over the performance period is less than the 35<sup>th</sup> percentile TSR of companies in the S&P Global Small Cap Index, then no market-based units will vest. If the Company’s TSR over the performance period is equal to the 35<sup>th</sup> percentile TSR of the companies in the S&P Global Small Cap Index, then 50% of the market-based stock units will vest. Full payout at 100% of the market-based stock units will be made if the Company’s TSR over the performance period is equal to the 55<sup>th</sup> percentile TSR of companies in the S&P Global Small Cap Index. TSR performance between the 35<sup>th</sup> and 55<sup>th</sup> percentile TSR of companies in the S&P Global Small Cap Index will result in an interpolated payout percentage of the market-based stock units between 50% and 100%.

Subject to early acceleration and payment under certain circumstances consistent with the terms of the Company’s 2015-2017 LTIP and LTIP Share Agreement thereunder, delivery of shares of common stock underlying the time-based and performance-based and market-based awards that become vested are subject to the participant’s continued service to the Company through March 2, 2018.

#### Directors’ Deferred Stock Unit Plan

Under the 2011 non-management directors stock plan (“2011 DSU Plan”), as amended in January of 2015, each director receives an annual retainer of \$132, to be paid on a quarterly basis in arrears. Approximately half of the annual retainer is payable in DSUs, with the remaining half payable in DSUs, cash or a mix of both at the election of



each director. The non-management directors were awarded an aggregate of 7,062 DSUs under the 2011 DSU Plan for service during the quarter ended March 31, 2015. In addition, in accordance with the 2011 DSU Plan, as amended in January of 2015, 4,951 DSUs were settled in common stock during the quarter ended March 31, 2015.

#### 11. Supplemental Guarantor Financial Information

On May 26, 2011, the Company closed on the sale of its Notes. The Notes are unsecured obligations of the Company and are fully and unconditionally guaranteed on a senior unsecured basis by all of the domestic wholly owned subsidiaries of the Company (the “Guarantors”). In accordance with Rule 3-10 of Regulation S-X promulgated under the Securities Act of 1933,

Table of Contents

as amended, the following condensed consolidating financial statements present the financial position, results of operations and cash flows of Xerium Technologies, Inc. (referred to as “Parent” for the purpose of this note only) on a stand-alone parent-only basis, the Guarantors on a Guarantors-only basis, the combined non-Guarantor subsidiaries and elimination entries necessary to arrive at the information for the Parent, the Guarantors and non-Guarantor subsidiaries on a consolidated basis.

15

---

Table of Contents

Xerium Technologies, Inc.  
 Consolidating Balance Sheet—(Unaudited)  
 At March 31, 2015  
 (Dollars in thousands)

	Parent	Total Guarantors	Total Non Guarantors	Other Eliminations	The Company
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$735	\$(15 )	\$8,106	\$—	\$8,826
Accounts receivable, net	97	22,078	55,794	—	77,969
Intercompany receivables	(102,773 )	111,030	(8,257 )	—	—
Inventories, net	—	16,263	60,419	(871 )	75,811
Prepaid expenses	1,875	927	5,336	—	8,138
Other current assets	—	1,695	12,828	—	14,523
Total current assets	(100,066 )	151,978	134,226	(871 )	185,267
Property and equipment, net	16,701	59,242	215,647	—	291,590
Investments	798,802	183,408	—	(982,210 )	—
Goodwill	—	17,737	38,525	—	56,262
Intangible assets	8,191	1,595	931	—	10,717
Non-current deferred tax asset	—	—	8,485	—	8,485
Other assets	—	364	8,336	—	8,700
Total assets	\$723,628	\$414,324	\$406,150	\$(983,081 )	\$561,021
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>					
Current liabilities:					
Accounts payable	\$2,842	\$9,216	\$25,012	\$—	\$37,070
Accrued expenses	14,197	8,351	35,215	—	57,763
Current notes payable	—	—	3,267	—	3,267
Current maturities of long-term debt	2,772	449	2,406	—	5,627
Total current liabilities	19,811	18,016	65,900	—	103,727
Long-term debt, net of current maturities	460,279	—	—	—	460,279
Capitalized lease obligations	3,206	495	694	—	4,395
Non-current deferred tax liability	607	1,035	5,679	—	7,321
Pension, other post-retirement and post-employment obligations	22,009	1,569	51,637	—	75,215
Other long-term liabilities	200	—	12,791	—	12,991
Intercompany loans	307,868	(397,350 )	89,482	—	—
Total stockholders' (deficit) equity	(90,352 )	790,559	179,967	(983,081 )	(102,907 )
Total liabilities and stockholders' equity	\$723,628	\$414,324	\$406,150	\$(983,081 )	\$561,021

Table of Contents

Xerium Technologies, Inc.  
 Consolidating Balance Sheet  
 At December 31, 2014  
 (Dollars in thousands)

	Parent	Total Guarantors	Total Non Guarantors	Other Eliminations	The Company
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$605	\$ (15 )	\$ 8,927	\$—	\$ 9,517
Accounts receivable, net	50	22,358	60,661	—	83,069
Intercompany receivables	(107,064 )	107,590	(526 )	—	—
Inventories, net	—	17,310	67,016	(776 )	83,550
Prepaid expenses	546	1,470	6,456	—	8,472
Other current assets	—	2,021	13,693	—	15,714
Total current assets	(105,863 )	150,734	156,227	(776 )	200,322
Property and equipment, net	12,365	59,448	231,804	—	303,617
Investments	782,633	229,109	—	(1,011,742 )	—
Goodwill	—	17,737	44,190	—	61,927
Intangible assets	9,001	1,664	1,042	—	11,707
Non-current deferred tax asset	—	—	10,662	—	10,662
Other assets	—	364	5,445	—	5,809
Total assets	\$698,136	\$ 459,056	\$ 449,370	\$(1,012,518 )	\$ 594,044
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>					
Current liabilities:					
Accounts payable	\$2,679	\$ 10,212	\$ 28,936	\$—	\$ 41,827
Accrued expenses	8,511	8,301	39,297	—	56,109
Current notes payable	—	—	244	—	244
Current maturities of long-term debt	2,944	—	1,462	—	4,406
Total current liabilities	14,134	18,513	69,939	—	102,586
Long-term debt, net of current maturities	460,840	—	—	—	460,840
Liabilities under capital leases	3,503	440	2	—	3,945
Non-current deferred tax liability	97	1,035	9,284	—	10,416
Pension, other post-retirement and post-employment obligations	22,070	1,200	57,201	—	80,471
Other long-term liabilities	181	—	9,715	—	9,896
Intercompany loans	289,896	(401,482 )	111,586	—	—
Total stockholders' (deficit) equity	(92,585 )	839,350	191,643	(1,012,518 )	(74,110 )
Total liabilities and stockholders' (deficit) equity	\$698,136	\$ 459,056	\$ 449,370	\$(1,012,518 )	\$ 594,044

Table of Contents

Xerium Technologies, Inc.

Consolidating Statement of Operations and Comprehensive Income (Loss) (Unaudited)

For the three months ended March 31, 2015

(Dollars in thousands)

	Parent	Total Guarantors	Total Non Guarantors	Other Eliminations	The Company
Net sales	\$—	\$42,850	\$81,688	\$(3,509)	) \$121,029
Costs and expenses:					
Cost of products sold	(348)	) 29,378	46,860	(3,414)	) 72,476
Selling	268	4,801	11,257	—	16,326
General and administrative	2,828	1,411	9,607	—	13,846
Research and development	232	1,196	534	—	1,962
Restructuring and impairment	7,952	175	(5,903)	) —	2,224
	10,932	36,961	62,355	(3,414)	) 106,834
(Loss) income from operations	(10,932)	) 5,889	19,333	(95)	) 14,195
Interest (expense) income, net	(9,399)	) 1,160	(1,425)	) —	(9,664)
Foreign exchange gain (loss)	213	(141)	) 905	—	977
Equity in subsidiaries income	21,669	5,223	—	(26,892)	) —
Dividend income	700	700	(1,400)	) —	—
Income before provision for income taxes	2,251	12,831	17,413	(26,987)	) 5,508
Provision for income taxes	(518)	) (29)	(3,228)	) —	(3,775)
Net income	\$1,733	\$12,802	\$14,185	\$(26,987)	) \$1,733
Comprehensive income (loss)	\$1,631	\$13,443	\$(17,485)	) \$(26,987)	) \$(29,398)

Xerium Technologies, Inc.

Consolidating Statement of Operations and Comprehensive Income-(Unaudited)

For the three months ended March 31, 2014

(Dollars in thousands)

	Parent	Total Guarantors	Total Non Guarantors	Other Eliminations	The Company
Net sales	\$—	\$43,156	\$99,265	\$(9,037)	) \$133,384
Costs and expenses:					
Cost of products sold	(419)	) 29,999	60,731	(9,093)	) 81,218
Selling	113	5,068	12,997	—	18,178
General and administrative	1,884	2,520	10,393	—	14,797
Research and development	276	1,118	552	—	1,946
Restructuring and impairment	(18)	) 237	4,432	—	4,651
	1,836	38,942	89,105	(9,093)	) 120,790
(Loss) income from operations	(1,836)	) 4,214	10,160	56	12,594
Interest (expense) income, net	(8,242)	) 1,395	(1,810)	) —	(8,657)
Foreign exchange loss	(12)	) (81)	(784)	) —	(877)
Equity in subsidiaries income	11,731	5,892	—	(17,623)	) —
Income before provision for income taxes	1,641	11,420	7,566	(17,567)	) 3,060
Provision for income taxes	(474)	) (34)	(1,385)	) —	(1,893)
Net income	\$1,167	\$11,386	\$6,181	\$(17,567)	) \$1,167
Comprehensive income	\$1,578	\$11,116	\$4,115	\$(17,567)	) \$(758)



Table of Contents

Xerium Technologies, Inc.  
 Consolidating Statement of Cash Flows-(Unaudited)  
 For the three months ended March 31, 2015  
 (Dollars in thousands)

	Parent	Total Guarantors	Total Non Guarantors	Other Eliminations	The Company
Operating activities					
Net income	\$1,733	\$12,802	\$14,185	\$ (26,987 )	\$1,733
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Stock-based compensation	752	—	70	—	822
Depreciation	361	1,719	5,083	—	7,163
Amortization of intangibles	—	69	10	—	79
Deferred financing cost amortization	852	—	23	—	875
Foreign exchange gain on revaluation of debt	(1,973 )	—	—	—	(1,973 )
Deferred tax expense	511	—	468	—	979
Loss (gain) on disposition of property and equipment	—	25	(11 )	—	14
Provision for doubtful accounts	—	49	423	—	472
Undistributed equity in earnings of subsidiaries	(21,669 )	(5,223 )	—	26,892	—
Change in assets and liabilities which provided (used) cash:					
Accounts receivable	(47 )	231	(776 )	—	(592 )
Inventories	—	1,047	294	95	1,436
Prepaid expenses	(1,328 )	543	810	—	25
Other current assets	—	326	(2,005 )	—	(1,679 )
Accounts payable and accrued expenses	5,618	(947 )	(2,453 )	—	2,218
Deferred and other long-term liabilities	(42 )	347	(3,876 )	—	(3,571 )
Intercompany loans	(4,290 )	(3,343 )	7,633	—	—
Net cash (used in) provided by operating activities	(19,522 )	7,645	19,878	—	8,001
Investing activities					
Capital expenditures, gross	(4,697 )	(1,103 )	(6,355 )	—	(12,155 )
Intercompany property and equipment transfers, net	—	191	(191 )	—	—
Proceeds from disposals of property and equipment	—	26	6	—	32
Net cash used in investing activities	(4,697 )	(886 )	(6,540 )	—	(12,123 )
Financing activities					
Proceeds from borrowings	13,516	—	9,052	—	22,568
Principal payments on debt	(14,059 )	—	(4,272 )	—	(18,331 )
Dividends paid	—	(1,400 )	1,400	—	—
Payment of obligations under capital leases	(161 )	(101 )	(3 )	—	(265 )
Payment of financing fees	(34 )	—	9	—	(25 )
Intercompany loans	19,587	(5,258 )	(14,329 )	—	—
Other financing activities	5,500	—	(5,500 )	—	—
Net cash provided by (used in) financing activities	24,349	(6,759 )	(13,643 )	—	3,947
Effect of exchange rate changes on cash flows	—	—	(516 )	—	(516 )
Net increase (decrease) in cash	130	—	(821 )	—	(691 )
Cash and cash equivalents at beginning of period	605	(15 )	8,927	—	9,517
Cash and cash equivalents at end of period	\$735	\$(15 )	\$8,106	\$—	\$8,826





Table of Contents

Xerium Technologies, Inc.  
Consolidating Statement of Cash Flows (Unaudited)  
For the three months ended March 31, 2014  
(Dollars in Thousands)

	Parent	Total Guarantors	Total Non Guarantors	Other Eliminations	The Company
Operating activities					
Net income	\$1,167	\$11,386	\$6,181	\$ (17,567 )	\$1,167
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Stock-based compensation	456	—	53	—	509
Depreciation	108	1,850	6,275	—	8,233
Amortization of intangibles	—	384	32	—	416
Deferred financing cost amortization	716	—	—	—	716
Foreign exchange gain on revaluation of debt	(1,103 )	—	—	—	(1,103 )
Deferred taxes	282	—	(1,090 )	—	(808 )
Loss on disposition of property and equipment	—	22	5	—	27
Provision for doubtful accounts	—	165	80	—	245
Undistributed equity in earnings of subsidiaries	(11,731 )	(5,892 )	—	17,623	—
Change in assets and liabilities which provided (used) cash:					
Accounts receivable	(61 )	(1,762 )	(5,229 )	—	(7,052 )
Inventories	—	(387 )	(3,605 )	(56 )	(4,048 )
Prepaid expenses	201	(351 )	1,750	—	1,600
Other current assets	515	(623 )	927	—	819
Accounts payable and accrued expenses	2,767	(11 )	1,446	—	4,202
Deferred and other long-term liabilities	(182 )	(828 )	(1,150 )	—	(2,160 )
Intercompany loans	(1,171 )	1,401	(230 )	—	—
Net cash (used in) provided by operating activities	(8,036 )	5,354	5,445	—	2,763
Investing activities					
Capital expenditures, gross	(5,537 )	(922 )	(4,035 )	—	(10,494 )
Intercompany property and equipment transfers, net	—	—	—	—	—
Proceeds from disposals of property and equipment	—	35	8	—	43
Net cash used in investing activities	(5,537 )	(887 )	(4,027 )	—	(10,451 )
Financing activities					
Proceeds from borrowings	7,580	—	—	—	7,580
Principal payments on debt	(6,600 )	—	—	—	(6,600 )
Payments of obligations under capitalized leases	(126 )	(64 )	—	—	(190 )
Payment of deferred financing fees	(710 )	—	—	—	(710 )
Intercompany loans	9,994	(4,404 )	(5,590 )	—	—
Net cash provided by (used in) financing activities	10,138	(4,468 )	(5,590 )	—	80
Effect of exchange rate changes on cash flows	—	—	(95 )	—	(95 )
Net (decrease) increase in cash	(3,435 )	(1 )	(4,267 )	—	(7,703 )
Cash and cash equivalents at beginning of period	4,120	(10 )	21,606	—	25,716
Cash and cash equivalents at end of period	\$685	\$(11 )	\$17,339	\$—	\$18,013



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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to the safe harbor created by that Act. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. In some cases, forward-looking statements can be identified by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," or "continue" or the negative of the other comparable terminology. Undue reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties, and other factors that are, in some cases, beyond our control and that could materially affect actual results, levels of activity, performance, or achievements. Factors that could materially affect our actual results, levels of activity, performance or achievements include the following items:

- our financial results could be adversely affected by fluctuations in interest rates and currency exchange rates; our strategy to lower our costs in response to market changes in the paper industry by reorganizing and restructuring our operations has required us to incur significantly higher costs in the short-term and may not provide the cost reductions and results we anticipate;
- we are subject to execution risk related to the startup of our new facilities in China and Turkey;
- we are subject to the risk of a weaker global economy that influences the paper industry as well as local economic conditions in the areas around the world where we conduct business;
- structural shifts in the demand for paper, for instance the shift away from newsprint, printing and writing paper in favor of digital media, may adversely impact customers' demand for our products and services and consequently our financial results;
- our strategies and plans, including, but not limited to, those relating to developing and successfully marketing new products, expanding our customer base by diversifying our products, enhancing our operational efficiencies and reducing costs, may not result in the anticipated benefits;
- our manufacturing facilities may be required to quickly increase or decrease production capacity, which could negatively affect our production, customer order lead time, product quality, labor relations or gross margin;
- we may not be successful in developing and marketing new technologies or in competing against new technologies developed by competitors;
- variations in demand for our products, including our new products, could negatively affect our net sales and profitability;
- we are subject to fluctuations in the price of our component supply costs;
  - due to our high degree of leverage and significant debt service obligations, we need to generate substantial operating cash flow to fund growth and unexpected cash needs;
- we are subject to the risk of terrorist attacks or an outbreak or escalation of any insurrection or armed conflict involving the United States or any other country in which we conduct business, or any other domestic or international calamity, including natural disasters;
- we are subject to the impact of changes in the policies, laws, regulations and practices of the United States and any foreign country in which we operate or conduct business, including changes regarding taxes and the repatriation of earnings; and
- anti-takeover provisions could make it more difficult for a third-party to acquire us.

Other factors that could materially affect our actual results, levels of activity, performance or achievements can be found in our "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 4, 2015. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we project. Any forward-looking statement in this Quarterly Report on Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and

liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

All references in this Quarterly Report to “Xerium”, “the Company”, “we”, “our” and “us” means Xerium Technologies, Inc. and its subsidiaries.

## Table of Contents

### Company Overview

We are a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper—clothing and roll covers. Our operations are strategically located in the major paper-producing regions of North America, Europe, South America and Asia-Pacific. Our products play key roles in the formation and processing of paper along the length of a paper-making machine. Paper producers rely on our products and services to help improve the quality of their paper, differentiate their paper products, operate their paper-making machines more efficiently and reduce production costs.

We operate in two principal business segments: clothing and roll covers. In our clothing segment, we manufacture and sell highly engineered synthetic textile belts that transport paper as it is processed in a paper-making machine.

Clothing plays a significant role in the forming, pressing and drying stages of paper production. Because paper-making processes and machine specifications vary widely, the clothing size, form, material and function is custom engineered to fit each individual paper-making machine and process. For the three months ended March 31, 2015, our clothing segment represented 64% of our net sales.

Our roll cover products provide a surface with the mechanical properties necessary to process the paper sheet in a cost-effective manner that delivers the sheet qualities desired by each paper producer. We tailor our roll covers to individual paper-making machines and processes, using different materials, treatments and finishings. In addition to manufacturing and selling new roll covers, we also provide refurbishment services for previously installed roll covers and we manufacture new and rebuilt spreader rolls. We also provide various related products and services to our customers, both directly and through third party providers, as a growing part of our overall product offering through our roll covers sales channels. For the three months ended March 31, 2015, our roll cover segment represented 36% of our net sales.

### Industry Trends and Outlook

Historically, demand for our products has been driven primarily by the volume (tonnage) of paper produced on a worldwide basis, which in turn is affected by global economic conditions. Since 2000, paper producers have taken actions that seek to structurally improve the balance between the supply of, and demand for, paper in response to the industry's highly cyclical swings in profitability driven by the oversupply of paper during periods when paper producers have more aggregate capacity than the market requires. As part of these efforts, they have permanently shut down many paper-making machines or entire manufacturing facilities.

In 2010, the paper industry began to address the structural balance between the supply and demand for paper, the widespread adoption of e-commerce and digitalization of traditionally printed material has resulted in a prolonged decline in newsprint and printing and writing grades of paper. This longer term decline has been partially offset by increases in the production of packaging grades, both as a consequence of globalization of manufacturing and as a result of the increase of tissue/personal care products which have increased as global GDP has risen, particularly in the developing world.

In the near term, we expect that global paper and board manufacturers' operating rates will remain near their 2014 levels, while industry forecasters predict the growth of global paper production from 2015 to 2017 to be between approximately 0% and 1% per annum. Generally, and over time, we expect growth in paper production to be greater in Asia-Pacific, South America and Europe than in the more mature North America where demand has declined.

In response to this, we expect to continue to focus our research and development efforts on new products that deliver increased value to our customers and for which they will pay increased prices. In addition, we intend to continue to enhance and deploy our value added selling approach as part of our strategy to differentiate our products, while at the same time we remain focused on cost reduction and efficiency programs.

The negative paper industry trends described above are likely to continue. We believe that the paper industry will continue to experience an increased emphasis on cost reduction and continued paper-machine shutdown activity.

These underlying industry dynamics could negatively impact our business, results of operations and financial condition and are the key drivers behind our strategy to reduce our cost structure, align our geographic footprint with anticipated growth in the Asia-Pacific regions and grow our non-paper business revenue streams.

#### Net Sales and Expenses

The following factors primarily drive net sales in both our clothing and roll covers segments:

- the volume (tonnage) of worldwide paper production;
- our ability to introduce new products that our customers value and will pay for;

## Table of Contents

- advances in technology of our products, which can provide value to our customers by improving the efficiency of paper-making machines and reduce their manufacturing costs;
- growth in developing markets, particularly in Asia;
- the mix of paper grades being produced;
- our ability to enter and expand our business in non-paper products; and
- the impact of currency fluctuations.

Net sales in our roll covers segment include our mechanical services business. We have expanded this business in response to demand from paper producers that we perform work on the internal mechanisms of their rolls while we refurbish or replace a roll cover. In our clothing segment, we conduct a small portion of our business pursuant to consignment arrangements; for these, we do not recognize a sale of a product to a customer until the customer places the product into use, which typically occurs some period after we ship the product to the customer or to a warehouse location near the customer's facility. As part of the consignment agreement, we deliver the goods to a location designated by the customer. In addition, we agree to a "sunset" date with the customer, which represents the date by which the customer must accept all risks and responsibilities of ownership of the product and payment terms begin. For consignment sales, we recognize revenue on the earlier of the actual product installation date or the "sunset" date. Our operating cost levels are impacted by total sales volume, raw material costs, the impact of inflation, foreign currency fluctuations and the success of our cost reduction programs.

The level of our cost of products sold is primarily attributable to labor costs, raw material costs, product shipping costs, plant utilization and depreciation, with labor costs constituting the largest component. We invest in facilities and equipment that enable innovative product development and improve production efficiency and costs. Recent examples of capital spending for such purposes include faster weaving looms and seaming machines with accurate electronic controls, automated compound mixing equipment and computer-controlled lathes and mills.

The level of research and development spending is driven by market demand for technology enhancements, including both specific customer needs and general market requirements, as well as by our own analysis of applied technology opportunities. With the exception of purchases of equipment and similar capital items used in our research and development activities, all research and development is expensed as incurred. Research and development expenses were \$2.0 million and \$1.9 million for the three months ended March 31, 2015 and 2014, respectively.

### Foreign Exchange

We have a geographically diverse customer base. In the three months ended March 31, 2015, we generated approximately 39% of our net sales in North America, 33% in Europe, 19% in Asia-Pacific and 9% in South America. A substantial portion of our net sales is denominated in Euros or other currencies. As a result, changes in the relative values of U.S. Dollars, Euros and other currencies affect our reported levels of net sales and profitability as the results are translated into U.S. Dollars for reporting purposes. In particular, decreases in the value of the U.S. Dollar relative to the value of the Euro and these other currencies positively impact our levels of revenue and profitability because the translation of a certain number of Euros or units of such other currencies into U.S. Dollars for financial reporting purposes will represent more U.S. Dollars than it would have prior to the relative decrease in the value of the U.S. Dollar. Conversely, a decline in the value of the Euro will result in a lower number of U.S. Dollars for financial reporting purposes.

For certain transactions, our net sales are denominated in U.S. Dollars, but all or a substantial portion of the associated costs are denominated in a different currency. As a result, changes in the relative values of U.S. Dollars, Euros and other currencies can affect the level of the profitability of these transactions. The largest proportion of such transactions consists of transactions in which the net sales are denominated in or indexed to the U.S. Dollar and all or a substantial portion of the associated costs are denominated in Brazilian Reals or other currencies.

During the three months ended March 31, 2015, we conducted business in nine foreign currencies. The following table provides the average exchange rate for the three months ended March 31, 2015 of the U.S. Dollar against each of the four foreign currencies in which we conduct the largest portion of our operations.





Table of Contents

Currency	Three months ended March 31, 2015	Three months ended March 31, 2014
Euro	\$1.13 = 1 Euro	\$1.37 = 1 Euro
Brazilian Real	\$0.35 = 1 Brazilian Real	\$0.42 = 1 Brazilian Real
Canadian Dollar	\$0.80 = 1 Canadian Dollar	\$0.91 = 1 Canadian Dollar
Australian Dollar	\$0.79 = 1 Australian Dollar	\$0.90 = 1 Australian Dollar

In the three months ended March 31, 2015, we conducted approximately 34% of our operations in Euros, approximately 10% in the Australian Dollar, approximately 8% in the Brazilian Real (although a significant portion of Brazil net sales are in U.S. Dollars) and approximately 5% in the Canadian Dollar.

To mitigate the risk of transactions in which a sale is made in one currency and associated costs are denominated in a different currency, we may utilize forward currency contracts in certain circumstances to lock in exchange rates with the objective that the gain or loss on the forward contracts will approximate the loss or gain that results from the transaction or transactions being hedged. We determine whether to enter into hedging arrangements based upon the size of the underlying transaction or transactions, an assessment of the risk of adverse movements in the applicable currencies and the availability of a cost effective hedge strategy. To the extent we do not engage in hedging or such hedging is not effective, changes in the relative value of currencies can affect our profitability.

#### Domestic and Foreign Operating Results:

The following is an analysis of our domestic and foreign operations during the three months ended March 31, 2015 and March 31, 2014 and a discussion of the results of operations during those periods (in thousands):

	Three Months Ended March 31,	
	2015	2014
Domestic (loss) income from operations	\$ (5,043	) \$ 2,378
Foreign income from operations	19,238	10,216
Total income from operations	\$ 14,195	\$ 12,594

During the three months ended March 31, 2015, domestic income from operations was lower than foreign income from operations primarily due to product mix, market differences and various unallocated corporate expenses. All earnings generated by foreign subsidiaries after 2012 will be remitted to the parent company at some point in the future. U.S. income taxes and foreign withholding taxes have been provided related to those foreign earnings. All other foreign unremitted earnings generated in years prior to 2013 will remain indefinitely reinvested, except for a portion of the earnings generated prior to 2013 related to our Brazil operations.

#### Cost Reduction Programs

An important part of our strategy is to seek to reduce our overall costs and improve our competitiveness. As a part of this effort, we engage in cost reduction programs, which are designed to improve the cost structure of our global operations in response to changing market conditions. These cost reduction programs include headcount reductions throughout the world as well as plant closures that are intended to rationalize production among our facilities to better enable us to match our cost structure with customer demand. Cost savings have been realized and are expected to be realized in labor costs and other production overhead, other components of costs of products sold, general and administrative expenses and facility costs. The majority of cost savings begin at the time of the headcount reductions and plant closure with remaining cost savings recognized over subsequent periods. Cost savings from headcount reductions have not been and are not expected to be offset by related increases in other expenses. Cost savings related to plant closures have been and are expected to be partially offset by additional costs incurred in the facilities that assumed the operations of the closed facility.

For the three months ended March 31, 2015, we incurred restructuring expenses of \$2.2 million. These included \$1.3 million of charges related to the closure of the Joao Pessoa, Brazil clothing facility and \$0.9 million of charges relating to headcount reductions. For the three months ended March 31, 2014, we incurred restructuring expenses of

\$4.7 million. These included charges relating to the closure of a roll cover facility in Germany, the reduction of headcount and the second phase of the closure of a clothing facility in Argentina.

Results of Operations

24

---

Table of Contents

The table that follows sets forth for the periods presented certain consolidated operating results.

	Three Months Ended	
	March 31,	
	2015	2014
	(in thousands)	
Net sales	\$121,029	\$133,384
Costs and expenses:		
Cost of products sold	72,476	81,218
Selling	16,326	18,178
General and administrative	13,846	14,797
Research and development	1,962	1,946
Restructuring	2,224	4,651
	106,834	120,790
Income from operations	14,195	12,594
Interest expense, net	(9,664	) (8,657
Foreign exchange gain (loss)	977	(877
Income before provision for income taxes	5,508	3,060
Provision for income taxes	(3,775	) (1,893
Net income	\$1,733	\$1,167
Comprehensive loss	\$(29,398	) \$(758

#### Three Months Ended March 31, 2015 Compared to the Three Months Ended March 31, 2014

**Net Sales.** Net sales for the three months ended March 31, 2015 decreased by \$(12.4) million, or (9.3)%, to \$121.0 million from \$133.4 million for the three months ended March 31, 2014. For the three months ended March 31, 2015, approximately 64% of our net sales were in our clothing segment and approximately 36% were in our roll covers segment.

In our clothing segment, net sales for the three months ended March 31, 2015 decreased \$(11.7) million to \$77.3 million from \$89.0 million for the three months ended March 31, 2014. Excluding unfavorable currency effects of \$(7.2) million, the remaining decrease was primarily due to the continued decline in the graphical grade markets, mill closures in North America and Europe, as well as soft sales in Japan.

In our roll covers segment, net sales for the three months ended March 31, 2015 decreased by \$(0.7) million to \$43.7 million from \$44.4 million for the three months ended March 31, 2014. Excluding unfavorable currency effects of \$(4.0) million, the increase was primarily due to increased roll cover, new core and mechanical services sales.

**Cost of Products Sold.** Cost of products sold for the three months ended March 31, 2015 decreased by \$(8.7) million, or (10.7)%, to \$72.5 million from \$81.2 million for the three months ended March 31, 2014.

In our clothing segment, cost of products sold decreased \$(7.7) million in the current quarter compared to the first quarter of 2014, as a result of favorable currency effects, decreased sales volume and cost reduction programs, partially offset by unfavorable fixed cost absorption. Cost of products sold as a percentage of net sales decreased by (1.2)% to 57.1% in the three months ended March 31, 2015 from 58.3% in the three months ended March 31, 2014. This decrease was primarily due to favorable currency effects and reduced costs as a result of restructuring and cost reduction savings and operational efficiencies, partially offset by inflationary increases and unfavorable fixed cost absorption.

In our roll covers segment, cost of products sold decreased \$(1.0) million in the current quarter compared to the first quarter of 2014, primarily as a result of favorable currency effects partially offset by higher sales volumes. Cost of products sold as a percentage of net sales decreased by (1.3)% to 64.8% for the three months ended March 31, 2015 from 66.1% for the three months ended March 31, 2014. This decrease was primarily due to restructuring and cost reduction savings and operational efficiencies, partially offset by unfavorable product mix.

**Selling Expenses.** For the three months ended March 31, 2015, selling expenses decreased by \$1.9 million, or 10.4%, to \$16.3 million from \$18.2 million for the three months ended March 31, 2014. This decrease was primarily driven

by favorable currency effects.

25

---

Table of Contents

**General and Administrative Expenses.** For the three months ended March 31, 2015, general and administrative expenses decreased by \$(1.0) million, or (6.8)%, to \$13.8 million from \$14.8 million for the three months ended March 31, 2014, primarily as a result of favorable currency effects. These reductions were partially offset by an increase in management incentive compensation and startup costs in the first quarter of 2015.

**Restructuring Expenses.** For the three months ended March 31, 2015, we incurred restructuring expenses of \$2.2 million. These included \$1.3 million of charges related to the closure of the Joao Pessoa, Brazil clothing facility and \$0.9 million of charges relating to headcount reductions.

**Interest Expense, Net.** Net interest expense for the three months ended March 31, 2015 was \$9.7 million, up \$1.0 million from \$8.7 million for the three months ended March 31, 2014. Increases were primarily due to increased average borrowings, and were offset by capitalized interest related to certain equipment construction projects in the first quarter of 2015.

**Provision for Income Taxes.** For the three months ended March 31, 2015 and 2014, the provision for income taxes was \$3.8 million and \$1.9 million, respectively. The increase in income tax expense was primarily attributable to the geographic mix of earnings in the first quarter of 2015 as compared to the first quarter of 2014 as well as an increase in the unrecognized tax benefit due to the effects of income tax audits. Generally, our provision for income taxes is primarily impacted by the income we earn in tax paying jurisdictions relative to the income we earn in non-tax paying jurisdictions. The majority of income recognized for purposes of computing our effective tax rate is earned in countries where the statutory income tax rates range from 15% to 37%. However, permanent income adjustments recorded against pre-tax earnings may result in an effective tax rate that is higher or lower than the statutory tax rate in these jurisdictions. We generate losses in certain jurisdictions for which we realize no tax benefit as the deferred tax assets in these jurisdictions (including net operating losses) are fully reserved in our valuation allowance. For this reason, we recognize minimal income tax expense or benefit in these jurisdictions, of which the most material jurisdictions are the United States and Australia. Due to these reserves, the geographic mix of our pre-tax earnings has a direct correlation with how high or low our annual effective tax rate is relative to consolidated earnings.

#### Liquidity and Capital Resources

Our principal liquidity requirements are for debt service, restructuring payments, working capital and capital expenditures. We plan to use cash on hand, cash generated by operations and, should it become necessary, access to our revolving credit facility, as our primary sources of liquidity. Our operations are highly dependent upon the paper production industry and the degree to which the paper industry is affected by global economic conditions and the availability of credit. Demand for our products could decline if paper manufacturers are unable to obtain required financing or if economic conditions cause additional mill closures. In addition, the impact of the most recent global economic recession and the continued lack of availability of credit may affect our customers' ability to pay their debts. Net cash provided by operating activities was \$8.0 million for the three months ended March 31, 2015 and \$2.8 million for the three months ended March 31, 2014. The \$5.2 million increase was primarily due a decrease in working capital.

Net cash used in investing activities was \$12.1 million for the three months ended March 31, 2015 and \$10.5 million for the three months ended March 31, 2014. The increase in cash used in investing activities of \$1.6 million was primarily due to the increase in capital expenditures.

Net cash provided by financing activities was \$3.9 million and \$0.1 million for the three months ended March 31, 2015 and 2014, respectively. The increase of \$3.8 million was primarily the result of the increase of \$15.0 million in borrowings and a decrease in the payment of financing fees of \$0.7 million. These increases were partially offset by an increase in principal payments on debt and capital leases of \$11.9 million.

As of March 31, 2015, the outstanding balance of our term debt under the Term Credit Facility and Notes (each defined below) was \$461.9 million, which is net of a \$0.8 million discount. In addition, as of March 31, 2015, an aggregate of \$32.4 million is available for additional borrowings under the ABL Facility. This availability represents a borrowing base of \$44.1 million under the ABL Facility less \$11.7 million of that facility committed for letters of credit or additional borrowings. Additionally, at March 31, 2015, the Company had approximately \$5.1 million available for borrowings under other small lines of credit.

We expect to incur expenses of approximately \$5.0 million to \$10.0 million related to the continuation of our restructuring initiatives for the remainder of 2015. We have incurred \$2.2 million in the three months ended March 31, 2015. Actual restructuring costs for 2015 may substantially differ from estimates at this time, depending on the timing of the restructuring activities and the required actions to complete them.

#### Capital Expenditures

For the three months ended March 31, 2015, we had capital expenditures of \$12.2 million. We are currently targeting capital expenditures for 2015 to be approximately \$50.0 million. We analyze our planned capital expenditures, based on investment opportunities available to us and our financial and operating performance, and accordingly, actual capital expenditures may be more or less than this amount. We intend to use existing cash and cash from operations to fund our capital expenditures.

See “Credit Facility and Notes” below for a description on limitations on capital expenditures imposed by our Credit Facility.

#### Credit Facility and Notes

On May 17, 2013, the Company entered into a Credit and Guaranty Agreement for a \$200.0 million term loan credit facility (the “Term Credit Facility”), net of a discount of \$1.0 million, among the Company, certain direct and indirect U.S. subsidiaries of the Company as guarantors and certain financial institutions. The Company also entered into a Revolving Credit and Guaranty Agreement originally for a \$40.0 million asset-based revolving credit facility subject to a borrowing base among Xerium Technologies, Inc, as a US borrower, Xerium Canada Inc., as Canadian borrower, certain direct and indirect U.S. subsidiaries of the Company as guarantors and certain financial institutions (the “Domestic Revolver”). On March 3, 2014, the Company entered into an amendment to the Revolving Credit and Guaranty Agreement (as amended, the “ABL Facility,” and collectively with the Term Credit Facility, the “Credit Facility”) to add the Company's German subsidiaries as European Borrowers (the “European Borrowers”) and to provide for an additional \$15 million European asset-based revolving credit facility subject to a European borrowing base (the “European Revolver”), increasing the aggregate availability under the ABL Facility to \$55 million.

On August 18, 2014, the Company entered into the Second Amendment to Credit and Guaranty Agreement (the “Second Amendment”). Under the Second Amendment, the Company borrowed an additional \$30.0 million by utilizing the Incremental Facility. The \$30 million in additional borrowings was used to finance a tax amnesty payment in Brazil. The Second Amendment made no changes to the repayment and other previously disclosed terms of the Credit Facility.

The Credit Facility contains certain customary covenants that, subject to exceptions, restrict our ability to, among other things:

- declare dividends or redeem or repurchase equity interests;
- prepay, redeem or purchase debt;
- incur liens and engage in sale-leaseback transactions;
- make loans and investments;
- incur additional indebtedness;
- amend or otherwise alter debt and other material agreements;
- make capital expenditures in excess of \$42 million per fiscal year, subject to adjustment;
- engage in mergers, acquisitions and asset sales;
- transact with affiliates; and
- engage in businesses that are not related to the Company's existing business.

We are in compliance with all covenants under the Notes and Credit Facility at March 31, 2015.

#### Critical Accounting Policies

The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Our significant policies are described in the notes to the condensed consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014. Judgments and estimates of uncertainties are required in applying our accounting policies in many areas. There have been no material changes to the critical accounting policies

Table of Contents

affecting the application of those accounting policies as noted in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Non-GAAP Financial Measures

We use EBITDA and Adjusted EBITDA (each as defined in the Credit Facility) as supplementary non-GAAP liquidity measures to assist us in evaluating our liquidity and financial performance, specifically our ability to service indebtedness and to fund ongoing capital expenditures. Neither EBITDA nor Adjusted EBITDA should be considered in isolation or as a substitute for income from operations or cash flows (as determined in accordance with GAAP). EBITDA is defined as net income before interest expense, income tax provision and depreciation (including non-cash impairment charges) and amortization.

“Adjusted EBITDA” means, with respect to any period, the total of (A) the consolidated net income for such period, plus (B) without duplication, to the extent that any of the following were deducted in computing such consolidated net income for such period: (i) provision for taxes based on income or profits, including, without limitation, federal, state, provincial, franchise and similar taxes, including any penalties and interest relating to any tax examinations, (ii) consolidated interest expense, (iii) consolidated depreciation and amortization expense, (iv) reserves for inventory in connection with plant closures, (v) consolidated operational restructuring costs, (vi) non-cash charges resulting from the application of purchase accounting, including push-down accounting, (vii) non-cash expenses resulting from the granting of common stock, stock options, restricted stock or restricted stock unit awards under equity compensation programs solely with respect to common stock, and cash expenses for compensation mandatorily applied to purchase common stock, (viii) non-cash items relating to a change in or adoption of accounting policies, (ix) non-cash expenses relating to pension or benefit arrangements, (x) expenses incurred as a result of the repurchase, redemption or retention of common stock earned under equity compensation programs solely in order to make withholding tax payments, (xi) amortization or write-offs of deferred financing costs, (xii) any non-cash losses resulting from mark to market hedging obligations (to the extent the cash impact resulting from such loss has not been realized in such period) and (xiii) other non-cash losses or charges (excluding, however, any non-cash loss or charge which represents an accrual of, or a reserve for, a cash disbursement in a future period), minus (C) without duplication, to the extent any of the following were included in computing consolidated net income for such period, (i) non-cash gains with respect to the items described in clauses (vi), (vii), (ix), (xi), (xii) and (xiii) (other than, in the case of clause (xiii), any such gain to the extent that it represents a reversal of an accrual of, or reserve for, a cash disbursement in a future period) of clause (B) above and (ii) provisions for tax benefits based on income or profits. Notwithstanding the foregoing, Adjusted EBITDA, as defined in the Credit Facility and calculated below, may not be comparable to similarly titled measurements used by other companies.

Consolidated net income is defined as net income determined on a consolidated basis in accordance with GAAP; provided, however, that the following, without duplication, shall be excluded in determining consolidated net income: (i) any net after-tax extraordinary or non-recurring gains, losses or expenses (less all fees and expenses relating thereto), (ii) the cumulative effect of changes in accounting principles, (iii) any fees and expenses incurred during such period in connection with the issuance or repayment of indebtedness, any refinancing transaction or amendment or modification of any debt instrument, in each case, as permitted under the Credit Facility and (iv) any cancellation of indebtedness income.

The following table provides reconciliation from net income and operating cash flows, which are the most directly comparable GAAP financial measures, to EBITDA and Adjusted EBITDA.

	Three Months Ended March 31,	
	2015	2014
Net income	\$1,733	\$1,167
Stock-based compensation	822	509
Depreciation	7,163	8,233
Amortization of intangibles	79	416
Deferred financing cost amortization	875	716
Foreign exchange gain on revaluation of debt	(1,973	) (1,103



Deferred tax expense	979	(808	)
Loss on disposition of property and equipment	14	27	
Net change in operating assets and liabilities	(1,691	)	(6,394
Net cash provided by operating activities	8,001	2,763	
Interest expense, excluding amortization	8,789	7,941	
Net change in operating assets and liabilities	1,691	6,394	
Current portion of income tax expense	2,796	2,700	
Stock-based compensation	(822	)	(509
Foreign exchange loss on revaluation of debt	1,973	1,103	
Loss on disposition of property and equipment	(14	)	(27
EBITDA	22,414	20,365	
Stock-based compensation	822	509	
Operational restructuring expenses	2,224	4,651	
Plant startup costs	750	176	
Adjusted EBITDA	\$26,210	\$25,701	

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Interest Rate Risk

Our interest rate risks as of March 31, 2015 have not materially changed from December 31, 2014 (see Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2014). As of March 31, 2015, we had outstanding long-term debt with a carrying amount of \$469.2 million with an approximate fair value of \$479.2 million.

#### Foreign Currency Risk

As discussed in Note 6 to the Consolidated Financial Statements, the Euro, the Brazilian Real and the Canadian Dollar declined significantly from December 31, 2014. These declines had an unfavorable impact of approximately \$(32.9) million on our foreign subsidiaries net equity balances at March 31, 2015.

### ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. We have carried out an evaluation, as of March 31, 2015 under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Act"). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms; and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. No evaluation of disclosure controls and procedures can provide absolute assurance that these controls and procedures will operate effectively

Table of Contents

under all circumstances. However, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level as set forth above.

(b) Changes in Internal Control over Financial Reporting. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Act) occurred during the quarter ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments to the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2014. See Note 9 to our Unaudited Condensed Consolidated Financial Statements for other routine litigation to which we are subject.

ITEM 1A. RISK FACTORS

The risks described in our Annual Report on Form 10-K for the year ended December 31, 2014 have not materially changed.

ITEM 5. OTHER INFORMATION

On May 8, 2015, the Board of Directors of the Company amended the Company's Amended and Restated By-laws (the "By-laws") by adding a new Article 7 (and changing the number of the prior Article 7 to Article 8) designating the Court of Chancery of the State of Delaware (or, in the event that the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware or other state courts of the State of Delaware) as the sole and exclusive forum for certain legal actions, unless the Company consents in writing to the selection of an alternative forum (the "Amendment").

The foregoing summary of the Amendment is qualified in its entirety by reference to the full text of the By-laws, as amended, which are filed as Exhibit 3.1 to this Quarterly Report.

ITEM 6. EXHIBITS

See the exhibit index following the signature page to this Quarterly Report on Form 10-Q.

Table of Contents

SIGNATURES

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.

XERIUM TECHNOLOGIES, INC.  
(Registrant)

May 11, 2015

By: /s/Clifford E. Pietrafitta  
Clifford E. Pietrafitta  
Executive Vice President and CFO  
(Principal Financial Officer)

Table of Contents

## EXHIBIT INDEX

Exhibit Number	Description of Exhibits
3.1	Amended and Restated By-Laws of Xerium Technologies, Inc.
10.1†	Amended and Restated Non-Management Director Compensation Policy
10.2†	Form of 2015 Management Incentive Plan Award Agreement
10.3†	Form of 2015 Long Term Incentive Plan Award Agreement
31.1	Certification Statement of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Statement of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Statement of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Statement of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

† Management contract or compensatory arrangement or plan