XERIUM TECHNOLOGIES INC
Form 10-K
March 14, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 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 incorporation or organization) | (I.R.S. Employer Identification No.) |

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.001 par value per share | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.    Yes    No  X
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.    Yes    No  X
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  X    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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 the 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 | X |
| 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 X

The aggregate market value of the voting common stock held by non-affiliates of the registrant on June 29, 2015, the last business day in the second fiscal quarter, was approximately $197,695,061. There were 15,745,914 shares of the registrant's common stock, $0.001 par value per share, outstanding as of March 7, 2016.

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 X No

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A, is incorporated by reference in Part III to the extent described therein.

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This Annual Report on Form 10-K 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 t 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:

- rate and magnitude of decline in graphical grade paper production;

- fluctuations in interest rates and currency exchange rates;

- over-capacity of certain grades of paper, leading to distressed profit situations;

- execution risk related to our expansion projects;

- local economic conditions in the areas around the world where we conduct business;

- quality issues with new products that could lead to higher warranty and quality costs;

- structural shifts in the demand for paper;

- the effectiveness of our strategies and plans

- sudden increase or decrease in production capacity;

- trend toward extended life in forming fabrics, leading to reduced market share;

- our development and marketing of new technologies and our ability to compete against new technologies developed by competitors;

- variations in demand for our products, including our new products;

- fluctuations in the price of our component supply costs and energy costs;

- our ability to generate substantial operating cash flow to fund growth and unexpected cash needs;

- occurrences of terrorist attacks or an 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;

- 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 in our charter documents.

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 Annual Report on Form 10-K 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 Annual Report to “Xerium”, “the Company”, “we”, “our” and “us” means Xerium Technologies, Inc. and its subsidiaries.

## PART I

## ITEM 1. BUSINESS

### General

We are a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper—machine clothing and roll covers. We market our products through the following industry-recognized brands:

| Brand | Product Category | Geographic Region |
|---|---|---|
| Huyck Wangner | Machine Clothing | Worldwide, other than North America |
| Weavexx | Machine Clothing | North America |
| Stowe Woodward | Roll Covers & Spreader Rolls | Worldwide |
| Mount Hope | Spreader Rolls | Worldwide |
| Robec | Spreader Rolls | Europe |
| Xibe | Roll Covers | China |

We have an extensive global footprint of 27 manufacturing facilities in 13 countries, strategically located in the major paper-producing regions of North America, Europe, South America and Asia Pacific, and have approximately 3,000 employees worldwide. We market our products, primarily using our direct sales force, to the paper industry's leading producers. In 2015, we generated net sales of $477.2 million.

### Company Overview

Our machine clothing and roll cover products are primarily installed on pulp and paper-making machines and play key roles in the process by which raw materials are converted into finished paper. A fundamental characteristic of our products is that they are consumed in the paper production process and must be regularly replaced. This positions us to make recurring sales to our customers, and accordingly, the number of paper machines in operation throughout the world and the amount of paper, pulp and board produced globally each year are primary drivers of the demand for our products. In addition, our products are also installed in other industrial applications such as nonwoven and fiber cement machines.

Paper-making machines utilize different processes and have different requirements depending on the design of the machine, the raw materials used, the type of paper being made and the preferences of individual production managers. We employ our broad portfolio of patented and proprietary product and manufacturing technologies, as well as our extensive industry experience, to provide our customers with tailored solutions designed to optimize the performance of their equipment and significantly reduce the costs of their operations. We systematically track and report the impact of these customized solutions to our customers through our ValueResults™ program which quantifies the optimization process on their machines.

Our machine clothing products are highly engineered synthetic textile belts that transport and filter paper as it is processed in a paper-making machine. Machine clothing plays a significant role in the forming, pressing and drying stages of paper production. Our machine clothing segment represented 63% of our net sales for the year ended December 31, 2015 and 64% in 2014 and 2013.

Roll cover products cover the rolls on a paper-making machine, which are the large steel cylinders over which machine clothing is mounted and between which the paper travels as it is processed. Our roll covers provide a surface with the mechanical properties necessary to process the paper in a cost-effective manner that delivers the sheet qualities desired by the paper producer. We currently use several hundred chemical compounds in our roll cover manufacturing process. Our roll cover segment represented 37% of our net sales for the year ended December 31, 2015 and 36% in 2014 and 2013.

Our products are in constant contact with the paper during the manufacturing process. As a result, our products have a significant effect on paper quality and the ability of a paper producer to differentiate its products, two factors that we believe are increasingly important to paper producers. In addition, while machine clothing and roll covers represent only approximately 3%, on average, of a typical paper producer's production costs, they can help a paper producer improve productivity and reduce overall costs. Our machine clothing and roll covers facilitate the paper producers' use of less expensive raw materials (including recycled fiber), their ability to run paper-making machines faster and with fewer interruptions and their ability to decrease the amount of energy required in the expensive drying portion of the paper-making process. We have found that, in certain cases, our products and services provide paper producers with cost savings that substantially offset the costs of such products and services.

We estimate that there are approximately 7,000 paper-making machines worldwide, all of which require a regular supply of machine clothing and roll covers. Machine clothing and roll covers must be replaced regularly to sustain high quality paper output and operate efficiently. Roll covers also require regular refurbishment, a service that we provide to our customers. Paper producers typically replace machine clothing multiple times per year, replace roll covers every two to five years and refurbish roll covers several times between each replacement.

We have a reputation for technological innovation in the paper-making industry. In our machine clothing segment, in recent years we have focused our research and development efforts on higher value-added, technologically advanced products, such as forming fabrics and press felts, which offer paper producers greater potential for differentiating their products through quality improvements and increasing their operating efficiency. Historically, we have pioneered a number of technologies that have become industry standards, including in our machine clothing business, synthetic forming fabrics (which replaced bronze wire technology), double-layer forming fabrics, laminated press felts and, most recently, triple-layer forming fabrics.

In our roll covers segment, we have introduced a number of innovations to our roll cover and spreader roll products in recent years, including (1) the SmartRoll™, the first continuous pressure sensing paper machine roll that enables the papermaker to maximize performance by knowing the pressure of the paper machine while the machine is running; (2) composite calendar roll covers that use nanoparticle technology to improve roll cover durability and paper gloss and (3) covers that use an improved polyurethane to increase abrasion and moisture resistance as well as responsiveness and stability.

Our portfolio of patented and proprietary product and manufacturing technologies differentiates our product offerings from others in the market and allows us to deliver high value products and services to our customers. As of December 31, 2015, we had approximately 455 issued patents and over 93 pending patent applications. Our patents and patent applications cover approximately 68 different inventions. We currently license certain of our patents and technologies to some of our competitors, which we believe helps further demonstrate our technological leadership in the industry. We believe that the technological sophistication of the products needed in our business and the capital-intensive nature of our business present significant challenges to any potential new competitors in our field.

We organized our business in 1999 in connection with the acquisition of the paper technology group of Invensys plc. We completed our initial public offering on May 19, 2005.

## Recent Developments

### Global Economic Environment

The Company's markets are declining, driven by the graphical grade decline. As published by Numera Analytics, in 2015 versus 2014, newsprint production declined (9.4)% in Asia, (6.8)% in Europe, (4.7)% in South America and (13.1)% in North America, and we expect those trends to continue into 2016. However, the global tissue and containerboard markets still remain very viable and are growing. In response to these trends, we are repositioning our assets, sales teams and value additive technologies to the tissue, packaging, services and non-paper segments around the world, entering new or under-served markets that present long term revenue growth opportunities.

### Business Strategy

- Expand commercial presence in growing areas and emerging markets - In the last three years we built or expanded nine locations including: two greenfield plants in Corlu, Turkey; Kunshan, China; Expanded seven plants in: (1) Piracicaba, Brazil (spiral dryers, non-wovens); (2) Changzhou, China (polyurethane, drilling, mechanical services); (3) Ruston, LA (mechanical services); (4) Griffin, GA, (mechanical services); (5) Neenah, WI (polyurethane, mechanical services); (6) Gloggnitz, Austria (high-end press felts, nonwovens); (7) Kentville, Canada (woven dryers).
- Improve backbone of Company, reduce cost structure, realign operational footprint out of high-cost, declining areas - Closed and moved nine locations: (1) France, (2) Spain, (3) Argentina PMC, (4) Charlotte, NC; (5)

Warwick QC, Canada; (6) Heidenheim, Germany; (7) Joao Pessoa, Brazil; (8) Raleigh, NC headquarters and (9) Middletown, VA.

Compete with a product line that will win technical run-offs in targeted areas - 53 new products, 270 new patents.

- Participate in industry events and market to target audiences – nonwovens, tissue, fiber cement, Turkey, China, new product launches.

### Products

We operate through two principal business segments, machine clothing and roll covers. Our machine clothing segment products include various types of industrial textiles used on paper-making machines and other industrial applications. Through our roll covers segment, we manufacture various types of roll covers, refurbish previously installed roll covers, provide mechanical services for the internal mechanisms of rolls used on paper-making machines and manufacture spreader rolls. For additional financial information about our machine clothing and roll covers segments, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 12 "Business Segment Information" to the accompanying audited consolidated financial statements.

### Machine Clothing Products

Our machine clothing segment products are large, highly engineered synthetic textile belts that transport paper as it is processed in a paper-making machine from paper stock into finished paper. Machine clothing products must be tailored to each machine because all paper-making machines have different physical configurations and operating parameters. Machine clothing generally ranges in size from approximately 7 feet to over 30 feet wide and 24 feet to more than 460 feet long and operates on paper-making machines that run at speeds up to 7,500 feet per minute.

We manufacture three general types of machine clothing products used on paper-making machines—forming fabrics, press felts and dryer fabrics—each of which is located in a different section of a paper machine. Forming fabrics and press felts are typically replaced multiple times a year, but replacement frequency varies significantly by the grade of paper being produced, the manner in which the paper-making machine is operated and the quality of raw materials used in the paper stock. Dryer fabrics are replaced less frequently, with replacement typically taking place approximately once per year.

Forming fabrics. Forming fabrics are used at the beginning of paper-making machines, where highly diluted paper stock is deposited on the forming fabric while the fabric is traveling at a very high speed. Forming fabrics allow water to drain from the paper stock, creating an initial wet sheet. Forming fabrics must be sufficiently porous to allow water to drain evenly and quickly, yet tight enough to retain and align the fiber and other materials that form the sheet of paper. They must also be strong enough to withstand high mechanical stresses. Forming fabrics are custom-manufactured in single, double and triple layer designs in a variety of meshes to suit particular machines and paper grades. Customers are increasingly demanding the higher-priced triple layer designs that remove more moisture and produce higher quality paper. In 2015, forming fabrics accounted for approximately 36% of net sales in our machine clothing segment.

Press felts. Press felts are used to carry the paper sheet through a series of press rolls that mechanically press water from the sheet under high pressure. Press felts are designed to maximize water removal, which reduces the amount of water that must be removed during the expensive energy-intensive drying section of the production process. Press felts must maximize water removal while maintaining the orientation of the fibers and the consistency of the thickness of the paper, without removing chemicals or fillers from the paper.

Press felts differ from forming fabrics and dryer fabrics due to the addition of several layers of staple fiber that are needled into the fabric base. The staple fiber provides a smooth surface to meet the wet sheet of paper and creates a wicking effect to remove water from the paper sheet as it is pressed under high pressure between press rolls. Press felts are manufactured in a variety of designs, including lightweight single layer felts, multi-layer laminated endless felts and seamed felts that allow for reduced installation times. In 2015, press felts accounted for approximately 46% of net sales in our machine clothing segment.

Dryer fabrics. Dryer fabrics are used to transport the paper sheet through the drying section of paper-making machines, where high temperatures from large, steam-heated dryer cylinders evaporate the remaining moisture from the paper sheet. Dryer fabrics, which are less technically advanced than forming fabrics or press felts, are woven from heat-resistant yarns with a coarser mesh than forming fabrics. In 2015, dryer fabrics accounted for approximately 5% of net sales in our machine clothing segment.

Industrials and Other. We manufacture other fabrics used in other industrial applications, such as pulp, non-woven textiles, fiber cement, tannery sludge dewatering and textiles manufacturing. In 2015, net sales for such industrial applications accounted for 12% of net sales in our machine clothing segment. We also manufacture auto-joining equipment used in machine clothing production. Net sales of auto-joining equipment accounted for less than 1% of net sales in our clothing segment in 2015.

New Machine Clothing Products. The major goal of research and development is to create customer value and solutions by combining latest technologies with excellent quality and unique product characteristics. This commitment will improve Xerium's competitive position and ensures a continuously optimized product portfolio. In recent years, we have focused our research and development efforts on higher performance, value-added, sustainable product solutions throughout our entire machine clothing offering. Our efforts have resulted in several innovative and revolutionary new forming fabric and press felt product solutions, which every day prove their performance benefits globally.

Roll Covers and Services

In our roll covers segment, the majority of our sales are generated through the replacement and refurbishment of roll covers and spreader rolls, the manufacturing of new spreader rolls and general mechanical maintenance and repair services for the internal mechanisms of rolls.

Roll covers. We manufacture, refurbish and replace covers of all types of roll applications used in paper-making machines, such as press section rolls including suction rolls, lump breaker rolls, coater rolls, sizing rolls, calendar rolls and all purpose conveying rolls. There can be up to 200 such rolls in a typical paper-making machine. These metal rolls, which can be up to 39 feet long, 6 feet in diameter and weigh 500 to 140,000 pounds, are covered with an exterior layer of rubber, polyurethane, composite or ceramic, each of which is designed for use in a particular phase of the paper-making process. Roll covers operate in temperatures up to 400 degrees Fahrenheit, under pressures up to 12,000 pounds per square inch and at speeds up to 10,000 feet per minute. Roll covers are typically replaced every two to five years.

Roll cover replacement is performed at the manufacturing facility of the supplier, such as Xerium, which necessitates removing the roll from the paper-making machine, transporting it to the supplier's site and using a spare roll in the interim. In general, each roll on a paper-making machine is unique due to its dimensions, specific design and cover material, and generally not interchangeable with other rolls. Because of their large size, paper producers generally maintain only one spare roll for each position on a paper-making machine. It is important that the roll cover replacement be completed quickly, because damage or a malfunction of the spare roll could render the paper-making machine inoperable.

Due to the large size and weight of a roll, transportation to and from a supplier's site can be costly and is occasionally subject to regulations on road use that restrict available routes and times of travel, and that may require safety escorts. Round-trip transcontinental travel can take several weeks and intercontinental travel is rare. We offer an extensive network of manufacturing facilities worldwide, often in close proximity to our customers, which we believe is a significant competitive advantage.

Roll covers accounted for approximately 58% of our total net sales in our roll covers segment in 2015.

Services. Roll covers are typically refurbished several times over the two to five years they are in service before needing to be replaced. Refurbishment typically includes the regrinding of the roll cover to standard specifications and inspecting the bearings and other mechanical components of the roll. As with roll cover replacement, refurbishment is performed at the supplier's manufacturing facility. Similar to the paper producer's selection of a roll cover supplier, the selection of a refurbishment provider is influenced by the time and expense of transporting a roll cover.

We offer a wide range of mechanical maintenance and repair services for the internal mechanisms of rolls. Paper producers are increasingly finding it economical to have the company that refurbishes or replaces a roll cover also perform work on the internal roll mechanisms at the same time, which avoids having multiple suppliers and incurring additional time and transportation charges. We have begun performing such services to meet the demands of our customers and gain a competitive advantage. As of December 31, 2015, we provide major mechanical services at ten locations around the world. Roll cover refurbishment services and mechanical services accounted for approximately 24% of our total net sales in our roll covers segment in 2015.

Spreader rolls. We manufacture and repair spreader rolls, which are small-diameter curved rolls used throughout a paper-making machine to stretch, smooth and remove wrinkles from the paper and machine clothing. There are approximately five to seven spreader rolls in a typical paper-making machine. Spreader rolls and related services accounted for approximately 15% of our total net sales in our roll covers segment in 2015.

New Roll Products. We have introduced a number of innovations to our roll cover and spreader roll products in recent years, including composite calendar roll covers that use nanoparticle technology to improve roll cover durability and paper gloss, as well as covers that use an improved polyurethane to increase abrasion and moisture resistance as well as responsiveness and stability. We are evaluating new products, which will use different materials and utilize different sales channels and provide enhancements to our existing product line.

## Customers

We supply leading paper producers worldwide. Our top ten customers accounted for 25.6% of net sales in 2015 and individually, no customer accounted for more than 6% of 2015 net sales. In 2015, we generated 39% of our net sales in North America, 32% in Europe, 10% in South America and 19% in Asia-Pacific. See Note 12 "Business Segment Information" to the accompanying audited consolidated financial statements for geographic information related to net sales and long-lived assets. Due to competitive market forces, we offer our customers payment terms similar to those offered by our competitors. Also, agreements with certain customers require us to maintain modest amounts of finished machine clothing inventory to assure those customers of supply continuity. We do not maintain finished rolls inventories.

## Competition

Our largest competitors are the 2 leading manufacturers of paper-making machines. In addition, we also face competition from smaller regional suppliers. We compete primarily based on the value, price and production lead times of our products. Competition with respect to both machine clothing and roll covers, particularly as it relates to our technologically advanced forming fabrics, press felts and roll covers, is based primarily on the value that the products deliver to the paper producer through the ability of such products to reduce production costs and improve paper quality. Also, because our customers operate continuously, we aim to offer competitive delivery schedules from customer order to placement in their machines.

Competition in the machine clothing and roll covers market is also based on a supplier’s ability to deliver engineering and technical services. Many paper producers have been reducing their in-house engineering and technical staff and increasingly expect their suppliers to provide such services. While smaller suppliers often lack the resources necessary to invest in and provide this level of engineering and technical service, we have made investments in order to provide the following services to the paper producers: specialist advice and resident engineers, installation support, on-call “trouble-shooting” and performance monitoring and analysis of paper-making machines.

In the roll covers market, competition is also based on a supplier’s proximity to the paper producer’s facilities, which affects the transportation time and expense associated with refurbishing or replacing a roll cover, and on the supplier’s ability to provide mechanical services to a roll’s internal mechanisms while the roll cover is being refurbished or replaced. We offer an extensive network of facilities throughout the world and provide mechanical services at the majority of our locations.

## Research and Development

Our continuing ability to deliver value depends on developing product innovations. As we create new and improved products, we are often able to obtain patent protection for our innovations, which is indicative of our technical capabilities and creativity. Although we do not consider any single patent to be material to our business, we believe that, in the aggregate, our patents and other intellectual property provide us with a competitive advantage. At December 31, 2015, we have approximately 455 domestic and foreign patents outstanding and approximately 93 pending patent applications. Our patents and patent applications cover approximately 68 different inventions. Some of our competitors license our technology in exchange for royalty payments, although such licensing does not represent a material amount of our business. Research and development expenses totaled $7.4 million in 2015 and $7.9 million in 2014 and 2013, and were approximately 1.6%, 1.5% and 1.4% of our net sales in 2015, 2014 and 2013, respectively.

## Production

### Machine Clothing Production Process

The following diagram represents the machine clothing production process.

The machine clothing production process begins with the spinning of synthetic fiber threads to produce yarn, which is then twisted in preparation for the manufacturing of machine clothing. Yarn, which companies sometimes purchase as a raw material, is then wound on large spools prior to installation on the loom. The yarn is drawn through needles in preparation for weaving.

With the yarn prepared for weaving, a weave pattern can be installed in the loom controller. The nature of the weave pattern is critical to how the machine clothing performs in the paper-making process. The yarn is then woven to the desired length.

Technological advancements have resulted in weaving becoming an almost entirely automated process. Following weaving of a forming or dryer fabric, the two ends are permanently joined to form a continuous loop of machine clothing. Although significant automation has occurred in the joining process, it remains the most labor intensive element of the machine clothing production process.

Press felts are woven in a continuous loop and undergo a process that is not necessary for forming and dryer fabrics. An additional layer of fibers is added to the outside surface with the use of an advanced needling machine, such that a very smooth felt surface is created.

All machine clothing then undergoes heat setting and chemical treating. Heat setting tightens the machine clothing giving it the necessary mechanical properties for the paper-making process. Finally, the machine clothing is meticulously inspected prior to being shipped to the customer.

The machine clothing production process is capital intensive and requires a variety of equipment, including warping equipment, weaving looms, heat set equipment, joining equipment, needle looms and finishing machines.

### Roll Cover Production Process

The following diagram represents the roll covering production process.

The covering on the rolls used in the paper-making process wear over time and must be periodically replaced for the roll to function properly. Rolls are removed from the paper-making machine and delivered to one of our facilities for re-covering. During this time, a spare roll is placed in the machine to enable continuous operations.

The roll covering process begins with the removal of the old cover. A lathe and belt grinder are used to remove the old cover, exposing the roll shell. The shell is cleaned with a pressure washer and blasted with solid particles to increase the shell’s surface area for bonding of the new cover. Following the blasting process, the shell is ready to be re-covered.

The shell is then coated with proprietary bonding agents that affix the new roll cover to the shell. Each type of cover material is applied with a different process. Rubber and composite covers are extruded in a slow spinning lathe. Polyurethane covers are typically cast on the core using a mold, and ceramic covering is expelled onto the shell at high pressure.

Following application of the core material, the cover undergoes a curing process. Rubber covers are cured for 12 to 28 hours in vulcanizers under high temperature and pressure, whereas polyurethane and composite materials are cured in a hot air oven. After curing, the roll cover is ground with belts and grinding stones. Depending on the type of roll, a proprietary pattern of holes and grooves is then drilled into the cover to aid in water removal. Finally, the roll is balanced for proper spinning motion and meticulously checked for quality before being returned to the customer.

The roll cover production process is capital intensive and requires a variety of equipment, including lathes, belt grinders, polyurethane casting molds (for polyurethane roll covers), extruders, mix stations, vulcanizers, ovens and balancing equipment.

## Raw Materials

Primary raw materials used in our machine clothing production are synthetic yarns and fibers. The primary raw materials used in our roll cover products are synthetic and natural rubber, monomers, epoxy resins and polyurethane. A number of suppliers provide the materials used in our product lines, so availability has not posed a significant concern. Since both the machine clothing and primary roll cover materials are based on petroleum and natural gas derivatives, their prices are subject to changes in supply/demand and the price of petroleum and natural gas. The decrease in petroleum prices in 2014 and especially 2015 are expected to result in flat to favorable raw material costs in 2016. Other than a temporary spike in the second quarter of 2015, we have seen a downward trend in all major raw material indexes. Natural rubber prices tend to be influenced directly by the weather in the Asian crop regions and by demand in China.

## Environmental

Our operations and facilities are subject to a number of national, state and local laws and regulations protecting the environment and human health in the United States and foreign countries that govern, among other things, the handling, storage and disposal of hazardous materials, discharges of pollutants into the air and water and workplace safety. Because of our operations, the history of industrial uses at some of our facilities, the operations of predecessor owners or operators of some of the businesses, and the use and release of hazardous substances at these sites, the liability provisions of environmental laws may affect us.

We believe that any liability in excess of amounts provided in Note 9 "Commitments and Contingencies" to the accompanying audited consolidated financial statements which may result from the resolution of such matters will not have a material adverse effect on our financial condition, liquidity or cash flow.

## Employees

As of December 31, 2015 we had approximately 3,000 employees worldwide, of which approximately 66% were manufacturing employees. As of December 31, 2015, 1,978, or 66%, of our employees are members of labor unions, trade unions, employee associations or workers councils. We believe that we have good relations with our employees and the various groups that represent our employees.

## Our Corporate Information

We are subject to the information requirements of the Securities Exchange Act of 1934 (the “Exchange Act”). Therefore, we file periodic reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically.

We maintain a website at www.xerium.com to provide information to the general public and our shareholders on our products and services, along with general information on Xerium. We make our periodic and current reports available, free of charge, on our website as soon as reasonably practicable after these reports are filed with, or furnished to, the SEC. Our corporate code of business conduct and ethics, our corporate governance guidelines, and the charters of each of the Audit, Compensation and Nominating and Corporate Governance Committees of our Board of Directors are also made available, free of charge, on our website. Our corporate code of business conduct and ethics, which includes our code of ethics, and related waivers (if any) are posted on our website and we intend to post on our website and (if required) file on Form 8-K all disclosures required by applicable law or the rules of the SEC concerning any amendment to, or waiver from, our code of ethics. Copies of these documents may be obtained, free of charge, by writing Investor Relations, Xerium Technologies, Inc., 14101 Capital Boulevard, Youngsville, NC 27596, or telephoning us at 919-526-1444.

## ITEM 1A. RISK FACTORS

Our business, results of operations and financial condition, and an investment in our securities, are subject to various risks. Investors should carefully consider the risks described below in conjunction with the other information in this Form 10-K, including our Consolidated Financial Statements and related notes. If any of the following risks or other risks which have not been identified or which we may believe are immaterial or unlikely, actually occur, our business, financial condition and results of operations could be harmed. This could cause the value of our securities to decline and holders could lose part or all of their investment. This section does not describe all risks applicable to us, our business or industry, and it is intended only as a summary of certain material factors.

### Risks Relating to Our Business and the Industry

Our current and anticipated restructuring actions aimed at realigning our cost structure with market demand in the paper industry will require significant expenditures and may not be successful.

Beginning in 2012 and continuing through the present, we have announced various operational restructuring measures in response to changed market conditions in the paper industry triggered by the structural realignment between supply of and demand for paper. For example, we have announced the termination of sales agency relationships in Europe, workforce reductions in Germany, the closure of 4 rolls facilities in Middletown, Virginia, Meyzieu, France, Charlotte, North Carolina and Heidenheim, Germany and the closure of 4 machine clothing facilities in Warwick, Quebec, Canada, Berazategui, Argentina, Zizurkil, Spain and Joao Pessoa, Brazil. We anticipate pursuing additional cost reduction programs in the future.

In connection with these cost reduction measures and with any future plant closures or workforce reductions, delays or failures in the transition of production from a closed facility to our other facilities or the rate of absorption of job assignments by the remaining workforce could also adversely affect our financial performance. We may not recoup the costs of programs we have already initiated, or other programs we may in the future decide to engage in, the costs of which may be significant. In addition, our profitability may decline if our restructuring efforts do not sufficiently reduce our future costs while at the same time positioning us to maintain or increase our sales and gross margins.

Our various expansion projects are subject to execution risk and uncertainties that could adversely impact our business, results of operations and financial condition.

In connection with our efforts to realign our manufacturing footprint by closing facilities in high cost regions and transferring production to lower cost regions, we are in the midst of, or have recently completed, significant expansions of several of our existing facilities. The completion of these projects are dependent upon a number of factors, many of which may be beyond our control. For example, we may experience significant delays in completing these projects because we may not be able to acquire appropriate permits. We may encounter unanticipated complications with the installation and implementation of the complex systems and equipment that would impair our ability to begin production within the timeframe estimated for the projects. We also may be unable to attract a sufficient number of skilled workers to meet the needs of the new or expanded facilities.

In addition, the cost to implement our strategic projects ultimately may prove to be greater than originally anticipated. We have spent, and intend to continue to spend, significant capital and managerial resources on these new facilities and expansions. Our Credit Facility (defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Credit Facility and Notes") restricts our annual capital expenditures to $42 million per year, subject to adjustment. Dedication of our financial resources to these projects will reduce our flexibility with respect to the ongoing capital requirements of our existing business and will limit our ability to pursue other initiatives to grow our business. Furthermore, our assessment of the projected benefits associated with the construction of the new facility is subject to a number of estimates and assumptions, which in turn are subject to significant economic, competitive and other uncertainties that are beyond our control. If we incur unanticipated costs in connection with this project, are not able to complete the new facility in a timely manner or at all, or otherwise unable to achieve the anticipated benefits from this project, our business, results of operations and financial position could be materially adversely affected.

New developments and trends in the paper industry could adversely affect our net sales and profitability.

Because demand for our products has been driven primarily by the volume of paper produced on a worldwide basis, trends that affect the production level of the paper industry, such as declining demand for newsprint and printing and writing paper due to increased adoption of digital media, will impact our business and financial results.

Especially since the fourth quarter of 2015, we have experienced, and we believe our industry in general has experienced significant declines in sales to the graphical and newsprint industry. We expect such declines to continue for the foreseeable future, and unless we are successful in increasing our sales to industries other than the graphical and newsprint industry, such declines may adversely affect our net sales and profitability.

The profitability of paper producers has historically been highly cyclical due to wide swings in the price of paper, driven to a high degree by the oversupply of paper during periods when paper producers have more aggregate capacity than the market requires. In response to significant changes in the sector and other technological shifts affecting paper consumption, paper producers have continually sought to improve the balance between the supply of and demand for paper. As part of these efforts, they have permanently shut down many paper-making machines or entire manufacturing facilities. Should papermakers continue to experience low levels of profitability, we would expect that further consolidation among papermakers, reducing the number of paper producers, and shutdowns of paper-making machines or facilities could occur, particularly in Europe and North America, until there is a better balance between supply and demand for paper and the profit levels of paper producers improve.

Global paper production growth in developing markets such as Asia and South America could be moderated by the level of industry consolidation and papermachine shutdown activity that appears to be an underlying trend in developed markets. We have observed a trend that paper producers are focusing on cost reduction strategies and, as a result, are extending the life of roll covers and machine clothing products through additional maintenance cycles before replacing them. New developments and trends in the paper industry, either globally or in a particular region, could cause our paper manufacturing customers to reduce production, cease operations or declare bankruptcy, each of which would adversely affect our net sales and profitability.

Price competition in our industry could adversely affect our gross margins and net sales.

Historically, we and our competitors have been able to sell machine clothing and roll cover products and services at favorable prices that reflect the value they deliver to customers. This favorable pricing has been particularly derived from our more technologically advanced products, such as forming fabrics, press felts and advanced roll covers. In the event that competition increases due to global economic conditions or continued over capacity in the paper manufacturing industry, we may be required to price our products, in some cases, at levels insufficient to realize our historical gross margins. Such pricing pressure from our competitors might require price decreases or make us unable to affect planned price increases and, thereby, adversely affect our profitability.

Balancing production levels at our manufacturing facilities could negatively affect our production, customer order time, product quality, labor relations or gross margin.

As part of our efforts to reduce our costs, we have attempted to reduce or eliminate excess manufacturing capacity through closure of certain of our manufacturing plants and consolidation of our production. As a result, however, from time to time, our ability to meet customer demand for our products may rely on our ability to operate our remaining manufacturing facilities at or near capacity on an uninterrupted basis. Our manufacturing facilities are dependent on critical equipment, and operating such equipment at or near capacity for extended periods may result in increased equipment failures or other reliability problems, which may result in production shutdowns or periods of reduced production. Such disruptions could have an adverse effect on our operations and financial results. In addition, insufficient manufacturing capacity or other delays may cause our customer order times to increase and our product quality to decrease, which may increase warranty costs and negatively affect customer demand for our products and customer relations generally. Operating our facilities at or near capacity may also negatively affect relations with our employees, which could result in higher employee turnover, labor disputes and disruptions in our operations. On the other hand, if we anticipate or experience a significant decrease in demand for our products, we may choose to temporarily decrease production or idle manufacturing facilities and employees. While decreasing production may mitigate some of the risks of operating at or near capacity discussed above, a significant drop off in production to meet lower demand, including idling facilities or employees, may negatively impact our gross margin.

Fluctuations in currency exchange rates could adversely affect our net sales, profitability and compliance with our debt covenants.

Our foreign operations expose us to fluctuations in currency exchange rates and currency devaluations. We report our financial results in U.S. Dollars, but a substantial portion of our sales and expenses are denominated in Euros and other currencies. As a result, changes in the relative values of U.S. Dollars, Euros and other currencies will affect our levels of net sales and profitability. Currency fluctuations, as they pertain to the Euro, generally have a greater effect on the level of our net sales due to the amount of business we conduct in Euros. An increase in the U.S. Dollar against the Euro generally results in a decrease to net sales and net income. Increases in the U.S. Dollar against other currencies, such as the Brazilian Real, would not impact consolidated net sales as much, as a significant portion of sales in that country is denominated in or indexed to U.S.

Dollars, but generally would increase net income as local currency costs would be translated into lower U.S. Dollar expenses for financial reporting purposes. We would expect a similar but opposite effect in a period in which the value of the U.S. Dollar decreases against these currencies. Although in certain circumstances we attempt to hedge our cash exposure to fluctuations in currency exchange rates, our hedging strategies may not be effective.

Our industry is competitive and our future success will depend on our ability to effectively develop, market and supply competitive products.

The paper-making consumables industry is highly competitive. Some of our competitors are larger than us, have greater financial and other resources and are well-established suppliers to the markets we serve. For example, while we have recently expanded our business in China, we face substantial competition from manufacturers already operating there that are more established and familiar with the Chinese marketplace. In addition, some of our competitors also manufacture paper-making machines and have the ability to initially package sales of their machine clothing and roll cover products with the sale of their machines and/or to tie the warranties on their machines to the use of their machine clothing and roll cover products. Due to various factors such as price or product innovation by our competitors, our products may not be able to compete successfully with the products of our competitors, which could result in a loss of customers and, as a result, decreased net sales and profitability.

Because we have substantial operations outside the United States, we are subject to the economic and political conditions of foreign nations.

We have manufacturing facilities in 13 foreign countries. In 2015, we sold products in approximately 63 countries other than the United States, which represented approximately 67% of our net sales. Operating in foreign countries presents challenges unique to each country such as in hiring employees, our relations with various parties, including suppliers and governmental agencies, and in production.

Furthermore, we may decide to do business in countries where we have not previously done business. In such countries, we face the additional uncertainty of entering a new market and its social customs, laws and practices. Should these challenges be realized, our operating results could be adversely impacted and our business or production may be delayed.

Our foreign operations are subject to a number of risks and uncertainties, including risks that:

- foreign governments may impose limitations on our ability to repatriate funds;
- foreign governments may impose withholding or other taxes on remittances and other payments to us, or the amount of any such taxes may increase;
- an outbreak or escalation of any insurrection or armed conflict may occur;
- foreign governments may impose or increase investment barriers or other restrictions affecting our business; or
- changes in and interpretations of tax policies of foreign governments may adversely affect our foreign subsidiaries.

The occurrence of any of these conditions could disrupt our business in particular countries or regions of the world, or prevent us from conducting business in particular countries or regions, which could adversely affect our net sales and profitability. In addition, we rely on dividends and other payments or distributions from our subsidiaries to meet our debt obligations. If foreign governments impose limitations on our ability to repatriate funds or impose or increase taxes on remittances or other payments to us, the amount of dividends and other distributions we receive from our subsidiaries could be reduced, which could reduce the amount of cash available to us to meet our debt obligations.

Energy price increases may negatively impact our results of operations.

Certain of the components that we use in our manufacturing activities are petroleum-based. In addition, we, along with our suppliers and customers, rely on various energy sources (including oil) in our transportation activities. While significant uncertainty currently exists about the future levels of energy prices, significant increases are possible. Increased energy prices could cause an increase to our raw material costs and transportation costs. In addition, increased transportation costs of certain of our suppliers could be passed along to us. We may not be able to increase our prices enough to offset these increased costs. In addition, any increase in our prices may reduce our future customer orders and profitability.

We must continue to innovate and improve our products to maintain our competitive advantage.

We compete primarily based on the value our products delivered to our customers. Our value proposition is based on a combination of price and the technology and performance of our products, including the ability of our products to help reduce our customers’ production costs and increase the quality of the paper they produce. Our ability to retain our customers and increase our business depends on our ability to continually develop new, technologically superior products that support our value proposition. We cannot assure that our investments in technological development will be sufficient, that we will be able to create and market new products, that such new products will be accepted by our customers or that we will be successful in competing against new technologies developed by competitors. In addition, either we or our competitors could develop new technologies that increase the useful life of machine clothing or roll covers, which could reduce the frequency with which our customers would need to replace their machine clothing and refurbish or replace their roll covers, and consequently lead to fewer sales.

We believe that market recognition of the extended life of our roll cover products and the trend towards new paper-making machine designs which have fewer rolls will continue to negatively impact the demand for our roll cover products.

We have seen a trend that paper producers are placing an increasingly strong emphasis on maintenance cost reduction and, as a result, are extending the life of roll covers through additional maintenance cycles before replacing them. Market recognition of the extended life of our roll cover products negatively impacts the demand for these products. In addition, we have seen a trend towards new paper-making machine designs which have fewer rolls, also negatively impacting the demand for our roll cover products. If we are not able to offset these negative impacts on the demand for our roll cover products with growth from new roll cover products, the sale of roll cover products in regions which we believe have high growth potential such as China, or from other sources, the volume of our roll cover sales will be adversely affected.

The loss of major customers or the shut down of a mill or mills by one of our customers could have a material adverse effect on our net sales and profitability.

Our top ten customers generated 25.6% of our net sales during 2015. The loss of major customers, financial difficulties faced by our customers or a substantial decrease in such customers’ purchases from us, for instance through the closure of mills, could have a material adverse effect on our net sales and profitability. Because we do not generally have binding long-term purchasing agreements with our customers, there can be no assurance that our existing customers will continue to purchase products from us.

We may fail to adequately protect our proprietary technology, which would allow competitors or others to take advantage of our research and development efforts.

We rely upon trade secrets, proprietary know-how, and continuing technological innovation to develop new products and remain competitive. If our competitors learn of our proprietary technology, they may use this information to produce products that are equivalent or superior to our products, which could reduce the net sales of our products. Our employees, consultants, and corporate collaborators may breach their obligations not to reveal our confidential information, and any remedies available to us may be insufficient to compensate our damages. Even in the absence of such breaches, our trade secrets and proprietary know-how may otherwise become known to our competitors, or be independently discovered by our competitors, which could adversely affect our competitive position.

Our success and ability to compete in the future may depend upon obtaining sufficient patent protection for proprietary technology.

Our patent applications may not result in issued patents, and even if they result in issued patents, the patents may not have claims of the scope we seek. Even in the event that these patents are not issued, the applications may become publicly available and proprietary information disclosed in the applications will become available to others. In addition, any issued patents may be challenged, invalidated or declared unenforceable. The term of any issued patent in the United States is 20 years from its filing date, and if our applications are pending for a long time period, we may have a correspondingly shorter term for any patent that may be issued. Our present and future patents may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. For example, competitors could be successful in challenging any issued patents or, alternatively, could develop similar or more advantageous technologies on their own or design around our patents. Also, patent protection in certain foreign countries may not be available or may be limited in scope and any patents obtained may not be as readily enforceable as in the United States, making it difficult for us to effectively protect our intellectual property from misuse or infringement by other companies in these countries. Our inability to obtain and enforce our intellectual property rights in some countries may harm our business. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important.

We may be liable for product defects or other claims relating to our products.

Our products could be defective, fail to perform as designed or otherwise cause harm to our customers, their equipment or their products. If any of our products are defective, we may be required to recall the products and/or repair or replace them, which could result in substantial expenses and affect our profitability. Any problems with the performance of our products could harm our reputation, which could result in a loss of sales to customers and/or potential customers. In addition, if our customers believe that they have suffered harm caused by our products, they could bring claims against us that could result in significant liability. A failure of our products could cause substantial damage to a paper-making machine. Any claims brought against us by customers may result in:

- diversion of management’s time and attention;
- expenditure of large amounts of cash on legal fees, expenses, and payment of damages;
- decreased demand for our products and services; and
- injury to our reputation.

Our insurance may not sufficiently cover a large judgment against us or a large settlement payment, and is subject to customary deductibles, limits and exclusions.

Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

Global cybersecurity threats can range from uncoordinated individual attempts to gain unauthorized access to our information technology ("IT") systems to sophisticated and targeted measures known as advanced persistent threats. While we employ comprehensive measures to prevent, detect, address and mitigate these threats (including access controls, data encryption, vulnerability assessments, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage; litigation with third parties; diminution in the value of our investment in research, development and engineering, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and results of operations.

We may be adversely affected if we fail to attract and retain key personnel.

Our future success depends on the continued contributions of our key senior management personnel, including members of our senior sales staff and research and development team. The loss of services of any one or more of our key personnel might significantly delay or prevent the achievement of our business objectives and could cause us to incur additional costs to recruit replacements. Each member of our executive management team may terminate his or her employment at any time. We do not maintain “key person” life insurance with respect to any of our executives.

We could incur substantial costs as a result of violations of or liabilities under laws protecting the environment and human health.

Our operations and facilities are subject to a number of national, state and local laws and regulations protecting the environment and human health in the United States and foreign countries that govern, among other things, the handling, storage and disposal of hazardous materials, discharges of pollutants into the air and water and workplace safety. The U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act, as amended, provides for responses to, and, in some instances, joint and several liability for releases of hazardous substances into the environment. Environmental laws also hold current owners or operators of land or businesses liable for their own and for previous owners’ or operators’ releases of hazardous or toxic substances, materials or wastes, pollutants or contaminants, including petroleum and petroleum products. Because of our operations, the history of industrial uses at some of our facilities, the operations of predecessor owners or operators of some of the businesses and the use and release of hazardous substances at these sites, the liability provisions of environmental laws may affect us. Many of our facilities have experienced some level of regulatory scrutiny in the past and are or may be subject to further regulatory inspections, future requests for investigation or liability for regulated materials management practices.

We cannot assure that we have been or will be at all times in complete compliance with all laws and regulations applicable to us which are designed to protect the environment and human health. We could incur substantial costs, including clean-up costs, fines and sanctions and third party property damage or personal injury claims, as a result of violations of or liabilities under environmental laws, relevant common law or the environmental permits required for our operations or under workplace safety laws. While we believe that the current level of reserves is adequate, the adequacy of these reserves may change in the future due to new developments in particular matters.

Adverse labor relations could harm our operations and reduce our profitability.

We are subject to risk of work stoppages and other labor relations matters because a significant portion of our workforce is unionized. As of December 31, 2015, we had approximately 3,000 employees worldwide, approximately 12% of whom were subject to protection of various North American collective bargaining agreements and approximately 54% of whom were subject to job protection as members of European or South American trade unions, employee associations or workers' councils. As of December 31, 2015, approximately 52% of the employees subject to North American collective bargaining agreements (or approximately 6% of our total employees) were covered by an agreement that is set to expire prior to December 31, 2015. We cannot be certain that we will be able to renew the collective bargaining agreement set to expire this year, or enter into a new collective bargaining agreement that does not adversely affect our operating results or that we will be without production interruptions, including labor stoppages. In addition, all of our European and South American employees subject to job protection as members of trade unions, employee associations or workers' councils are subject to arrangements that typically result in higher negotiated or mandated salary increases on either an annual or biannual basis. We cannot be certain that the terms of employment applicable to such employees will not change in the future in a manner which could adversely affect our operating results. We cannot be certain that we will not experience disruptions in our operations as a result of labor disputes or experience other labor relations issues. If we are unable to maintain good relations with our employees, our ability to produce our products and provide services to our customers could be reduced and/or our production costs could increase, either of which could disrupt our business and reduce our net sales and profitability.

We may be subject to assessment of income taxes for which we have not accrued any liability.

We accrue for certain known and reasonably anticipated income tax obligations after assessing the likely outcome. In the event that actual results differ from these accruals or if we become subject to a tax obligation for which we have made no accrual, we may need to make adjustments, which could materially impact our financial condition and results of operations. For example, taxing authorities may disagree with our tax accounting methodologies and may subject us to inquiries regarding such taxes, which potentially could result in additional income tax assessments against us. In accordance with accounting rules, we do not accrue for potential income tax obligations if we deem a particular tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. In making our determination, we assume that the taxing authorities will have access to all relevant facts and information.

Risks Relating to Our Capital Structure

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to plan for and react to changes in the economy, our industry or our business and prevent us from meeting our debt obligations.

We are significantly leveraged. As of December 31, 2015, our total indebtedness was approximately $490.5 million. Our substantial degree of leverage could have important consequences to us, including the following:

- it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, product development, debt service requirements, acquisitions or general corporate or other purposes;
- a substantial portion of our cash flows from operations will be dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes, including our operations, capital expenditures and other business opportunities;
- certain of our borrowings, including borrowings under our Credit Facility, are at variable rates of interest, exposing us to the risk of increased interest rates;
- if we seek to refinance our debt or require additional refinancing in the future, we may be unable to do so on attractive terms or at all;
- it may limit our flexibility in planning for, or our ability to adjust to, changes in our business or the industry in which we operate, and place us at a competitive disadvantage compared to our competitors that have less debt; and
- we may be vulnerable to a downturn in general economic conditions or in our business, or we may be unable to carry out capital spending that is important to our growth.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could further exacerbate the risks described above.

We may be able to incur substantial additional indebtedness in the future. The terms of the indenture governing our 8.875% senior unsecured notes due 2018 (the "Notes") do not fully prohibit us or our subsidiaries from doing so. If we incur any additional indebtedness that ranks pari passu with the Notes, the holders of that new debt will be entitled to share ratably with the Note holders in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us. This may have the effect of reducing the amount of proceeds paid to our Note holders. Additionally, our Credit Facility includes up to a $55.0 million committed revolving credit facility, under which we may borrow from time to time. Furthermore, we have an uncommitted incremental credit facility allowing for increases under the revolving credit facility and term loans, and borrowing of new tranches of term loans, in each case, up to an aggregate principal amount not to exceed the greater of (i) $45.0 million and (ii) our and our subsidiaries' Adjusted EBITDA (as defined in the agreement governing our

Credit Facility) for the most recent four fiscal quarters. If new debt is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Credit Facility and Notes" for a more complete description of the terms and features of the Credit Facility and the Notes.

Our Credit Facility and the indenture governing our Notes include a number of significant restrictions and covenants that limit our flexibility in operating our business.

Our Credit Facility and the indenture governing our Notes include a number of customary and significant restrictions and covenants, subject to certain exceptions, that limit our ability to, among other things:

- incur or guarantee additional indebtedness;
- pay dividends or distributions on capital stock or redeem or repurchase capital stock;
- prepay, redeem or purchase debt;
- make loans and investments;
- make capital expenditures in excess of $42.0 million per fiscal year, subject to adjustment;
- create restrictions on the payment of dividends or other amounts to us;
- sell stock of our subsidiaries;
- transfer or sell assets;
- create liens and engage in sale-leaseback transactions;
- amend or otherwise alter debt and certain other material agreements;
- enter into certain transactions with affiliates; and
- enter into mergers or consolidations.

A breach of any of these covenants could result in a default under our Credit Facility. Upon the occurrence of an event of default under our Credit Facility, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under our Credit Facility could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under our Credit Facility. If the lenders under our Credit Facility accelerate the repayment of borrowings, there can be no assurance that we will have sufficient assets to repay our Credit Facility and our other indebtedness, including the Notes, or borrow sufficient funds to refinance such indebtedness. Even if we are able to obtain new financing, it may not be on commercially reasonable terms, or terms that are acceptable to us.

Fluctuations in interest rates could adversely affect our liquidity, interest expense and financial results.

The term loans under our Credit Facility have variable interest rates. To the extent that we do not enter into hedging arrangements that effectively fix the interest rate on a portion of our senior debt, the interest rate on all of the debt covered by our Credit Facility will fluctuate based on LIBOR, Euribor and other variable interest rates. To the extent these interest rates increase, our interest expense may increase, in which event, we may have difficulty making interest payments and funding our other costs and our ability to comply with the financial covenants in our Credit Facility may be adversely affected.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. There can be no assurance that our future operating performance will generate sufficient cash flows to support our cash requirements. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. There can be no assurance that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including the Credit Facility or the indenture that governs our Notes. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our Credit Facility and the indenture that governs the Notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or obtain the proceeds which we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

If we cannot make scheduled payments on our debt, we will be in default and, as a result our debt holders could declare all outstanding debt to be due and payable; the lenders under our Credit Facility could terminate their commitments to lend us money, declare all outstanding amounts there under due and payable and foreclose against the assets securing their borrowings; and we could be forced into bankruptcy or liquidation, which could result in our security holders' loss of their investment.

Risks Relating to Our Notes

Not all of our subsidiaries guarantee our obligations under the Notes, and the Notes are structurally subordinated to all indebtedness of our non-guarantor subsidiaries.

The Notes are guaranteed by each of our existing and subsequently acquired, direct or indirect wholly-owned domestic subsidiaries. Except for such subsidiary guarantors of the Notes, our subsidiaries, including all of our foreign subsidiaries and our subsidiaries that are less than wholly-owned, have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment.

The Notes are structurally subordinated to all indebtedness and other obligations of any non-guarantor subsidiary, even if such obligations do not constitute senior indebtedness, such that, in the event of insolvency, liquidation, reorganization, dissolution or other winding up of any non-guarantor subsidiary, all of such subsidiary's creditors (including trade creditors and preferred stockholders, if any) would be entitled to payment in full out of such subsidiary's assets before we would be entitled to any payment. As a result, the Notes are effectively subordinated to all liabilities of our non-guarantor subsidiaries.

Our non-guarantor subsidiaries also may be subject to restrictions on their ability to distribute cash to us as a result of law and, as a result, we may not be able to access their cash flows to service our debt obligations, including the Notes. Our non-guarantor subsidiaries accounted for approximately $343.0 million or 71.9% of our net sales for year ended December 31, 2015 and $410.3 million or 74.5% of our total assets and $202.6 million or 30.5% of our total liabilities as of December 31, 2015.

A Note holder's right to receive payments on the Notes is effectively junior to those lenders who have a security interest in our assets.

Our obligations under the Notes and the guarantors' obligations under their guarantees of the Notes are unsecured. As a result, the Notes and the related guarantees are effectively subordinated to all of our and the guarantors' secured indebtedness to the extent of the value of the assets securing such indebtedness. Our obligations under our Credit Facility are secured by a pledge of substantially all of our and our guarantors' tangible and intangible assets. In the event that we or a guarantor are declared bankrupt, become insolvent or are liquidated or reorganized, our obligations under our Credit Facility and any other secured obligations will be entitled to be paid in full from our assets or the assets of such guarantor, as the case may be, pledged as security for such obligation before any payment may be made with respect to the Notes. Holders of the Notes would participate ratably in our remaining assets or the remaining assets of the guarantor, as the case may be, with all holders of unsecured indebtedness that are deemed to rank equally with the Notes, based upon the respective amount owed to each creditor. In addition, if we default under our Credit Facility, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of the Notes, even if an event of default exists under the indenture under which the Notes were issued at such time. Furthermore, if the lenders foreclose and sell the pledged equity interests in any subsidiary guarantor under the Notes, then that subsidiary guarantor will be released from its guarantee of the Notes automatically and immediately upon such sale. In any such event, because the Notes are not secured by any of our assets or the equity interests in subsidiary guarantors, it is possible that there would be no assets remaining from which Note holder claims could be satisfied or, if any assets remained, they might be insufficient to satisfy Note holder claims fully.

As of December 31, 2015, we and our guarantor subsidiaries had $223.9 million of secured indebtedness under our Credit Facility which does not include additional borrowing availability under our revolving credit facility or incremental facility. The indenture governing the Notes permits the incurrence of substantial additional indebtedness by us and our restricted subsidiaries in the future, including secured indebtedness. Any secured indebtedness incurred would rank senior to the Notes to the extent of the value of the assets securing such indebtedness.

Our ability to repay the Notes depends on the performance of our subsidiaries, including our non-guarantor subsidiaries, and their ability to make payments or distributions.

We conduct a significant portion of our operations through our subsidiaries. Accordingly, repayment of our indebtedness, including the Notes, is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of the Notes, our subsidiaries, including all of our foreign subsidiaries, do not have any obligation to pay amounts due on the Notes or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the Notes. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the indenture governing the Notes limits the ability of certain of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to certain qualifications and exceptions.

If cash flow from our U.S. operations is insufficient to make payments of principal and interest on our debt, including amounts due under the Notes, we must rely on cash flow from our foreign operations to make these payments.

In addition, our ability to repatriate cash generated by our foreign operations or borrow from our foreign subsidiaries may be limited by tax, foreign exchange or other laws. Foreign earnings may be subject to withholding requirements for foreign taxes. Cash we hold in foreign entities may become subject to exchange controls that prevent their being converted into other currencies, including U.S. Dollars. Foreign tax laws may affect our ability to repatriate cash from foreign subsidiaries in a tax efficient manner or at all. Legal and contractual dividend restrictions may prevent foreign subsidiaries from paying dividends or other cash distributions to service payments on the Notes, and directors and officers of such foreign subsidiaries may therefore be unable or unwilling to authorize such payments or such loans. If these or other risks limit our ability to transfer cash generated by our foreign operations to us, our ability to make payments on our debt, including amounts due under the Notes, would be harmed.

We may not be able to satisfy our obligations to holders of the Notes upon a change in control.

In the event of a change in control, each Note holder may require us to purchase all or a portion of his or her Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase. Our ability to repurchase the Notes upon a change in control is limited by the terms of our Credit Facility and our other debt. Upon a change in control, we may be required immediately to repay the outstanding principal, any accrued interest and any other amounts owed by us under the Credit Facility. There can be no assurance that we would be able to repay amounts outstanding under the Credit Facility or obtain necessary consents under the Credit Facility to repurchase the Notes. Any requirement to offer to purchase any outstanding Notes may result in us having to refinance our other outstanding debt, which we may not be able to do. In addition, even if we were able to refinance this debt, the refinancing may not be on terms favorable to us. Our failure to purchase the Notes would be a default under the indenture governing the Notes.

The change in control provision in the indenture may not protect Note holders in the event we consummate a highly leveraged transaction, reorganization, restructuring, merger or other similar transaction, unless such transaction constitutes a change in control under the indenture. Such a transaction may not involve a change in voting power or beneficial ownership or, even if it does, may not involve a change of the magnitude required under the definition of change in control triggering event in the indenture to trigger our obligation to repurchase the Notes. Except as described above, the indenture does not contain provisions that permit the holders of the Notes to require us to repurchase or redeem the Notes in an event of a takeover, recapitalization or similar transaction.

Our Notes are not listed on an exchange and the market price for our Notes may be volatile.

Our Notes are not listed on an exchange, and we do not know if or when an active trading market for our Notes will develop, if at all. In addition, the market for non-investment-grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to our Notes. The market for our Notes, if any, may be subject to similar disruptions, and any such disruptions may adversely affect their value. Holders may not be able to sell their Notes at a particular time or at a favorable price.

Risks Relating to Our Common Stock

We do not anticipate paying a dividend on our common stock in the foreseeable future, which may adversely affect the market price of our common stock.

Our Credit Facility and the indenture governing our Notes limit or prohibit the payment of dividends on our common stock. Accordingly, we do not anticipate paying dividends on our common stock for the foreseeable future. The lack of dividend payments may adversely affect the market price of our common stock.

The market price of our common stock has been volatile since our initial public offering and may continue to be volatile.

Shares of our common stock may continue to experience substantial price volatility, including significant decreases, in response to a number of events, including:

- sales of our common stock by principal stockholders;
- our quarterly operating results;

- issuances of our common stock;
- future announcements concerning our business;
- our dividend policy;
- the failure of securities analysts to cover our common stock and/or changes in financial estimates and recommendations by securities analysts;
- actions of competitors;
- fluctuations in foreign currency exchange rates;
- changes in U.S. and foreign government regulation;
- general market, economic and political conditions; and
- natural disasters, terrorist attacks and acts of war.

On December 31, 2015, the last trading day in 2015, the closing price of our common stock was $11.85 as compared with $15.78 as of December 31, 2014. During the twelve months ended December 31, 2015, the lowest trading price of our common stock was $10.25 and the highest trading price was $18.93.

Some companies that have had volatile market prices for their securities have had securities class action lawsuits filed against them. Such lawsuits, should they be filed against us in the future, could result in substantial costs and a diversion of management’s attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

Certain shareholders have significant influence over our business and significant transactions.

We have a director nomination agreement with Carl Marks Strategic Investments, LP (together with its affiliates, "Carl Marks") pursuant to which Carl Marks may designate one individual for nomination to our Board of Directors, so long as Carl Marks continues to own at least 50% of the common stock issued to them under the plan of reorganization. As of March 7, 2016, Carl Marks owned 13.1% of the outstanding shares of our common stock. Mr. Wilson, who is a general partner of Carl Marks Management Company, is also our Chairman of the Board. As a result, Carl Marks has a strong ability to influence our business, policies and affairs, and we cannot be certain that their interests will be consistent with the interests of other holders of our common stock.

Anti-takeover provisions could make it more difficult for a third-party to acquire us.

Our Board of Directors has the authority to issue up to one million shares of preferred stock (of which 20,000 shares have been designated as Series A Junior Participating Preferred Stock) and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders.

The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change in control of our company without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock. For instance, we previously adopted a shareholder rights plan, which has since lapsed, that if implemented could have substantially diluted the stock ownership of a person or group attempting to take us over without the approval of our Board of Directors. Our Board of Directors could choose to adopt a stockholder rights plan in the future that may have the effect of making it more difficult for a third party to acquire us (or a significant percentage of our outstanding capital stock) without first negotiating with our Board of Directors regarding that acquisition.

Further, some provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of our company, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change in control of our company.

If securities or industry analysts downgrade our common shares or publish misleading or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common shares is influenced in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of these analysts downgrades our shares or publishes misleading or unfavorable research about our business, our share price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, demand for our shares could decrease, which could cause our share price or trading volume to decline.

We are exposed to risks relating to evaluations of our internal controls required by Section 404 of the Sarbanes-Oxley Act.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results. We are required to provide reliable financial statements and reports to our shareholders. To monitor the accuracy and reliability of our financial reporting, we have established an internal audit function that oversees our internal controls. In addition, we have developed policies and procedures with respect to company-wide business processes and cycles in order to implement effective internal control over financial reporting. While we have undertaken substantial work to comply with Section 404 of the Sarbanes-Oxley Act, we cannot be certain that we will be successful in maintaining effective internal control over our financial reporting and may determine in the future that our existing internal controls need improvement. If we fail to comply with proper overall controls, we could be materially harmed or fail to meet our reporting obligations. In addition, the existence of a material weakness or significant deficiency in our internal controls could result in errors in our financial statements that could require a restatement, cause us to fail to meet our reporting obligations, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits and cause investors to lose confidence in our reported financial information, leading to a substantial decline in the market price of our common stock.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None

## ITEM 2. PROPERTIES

As of December 31, 2015, we operate 27 manufacturing facilities in the following 13 countries: Argentina, Austria, Australia, Brazil, Canada, China, Finland, Germany, Italy, Japan, Mexico, Turkey and the United States. Of the 27 manufacturing facilities that we operate, 10 are clothing manufacturing facilities and 17 are rolls manufacturing facilities. Almost all of our facilities are owned by us, rather than leased.

## ITEM 3. LEGAL PROCEEDINGS

We and our subsidiaries are involved in various legal matters, which have arisen in the ordinary course of business as a result of various labor claims, taxing authority reviews and other legal matters. As of December 31, 2015, we accrued an immaterial amount in our financial statements for these matters for which we believed the possibility of loss was either probable or possible, and we were able to estimate the damages or, under applicable income tax accounting guidance, it was more likely than not we would not be able to sustain a particular income tax position. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings.

Governmental Proceedings and Undertakings.

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the New York Stock Exchange under the symbol "XRM". On March 7, 2016, there were approximately 81 stockholders of record of our common stock, and the closing price of our common stock as reported by the New York Stock Exchange was $8.48 per share. The following table lists the high and low sales prices for our common stock within the two most recent fiscal years.

| Period | High | Low |
|---|---|---|
| 2015 | | |
| Fourth quarter | $14.83 | $10.25 |
| Third quarter | $18.80 | $11.53 |
| Second quarter | $18.93 | $16.10 |
| First quarter | $16.39 | $14.20 |
| 2014 | | |
| Fourth quarter | $16.05 | $13.46 |
| Third quarter | $15.89 | $12.64 |
| Second quarter | $16.08 | $11.20 |
| First quarter | $17.99 | $14.71 |

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.
Our Credit Facility limits, and our previous credit facility prohibited, our payment of dividends and accordingly, we made no such payments during the years ended December 31, 2015 and December 31, 2014.

* $100 invested on 12/31/2010 in stock or index, including reinvestment of dividends. Excludes value of warrants distributed to shareholders in May of 2010, which expired in May of 2014. Fiscal year ending December 31.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our financial statements and the related Notes to Consolidated Financial Statements.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (in thousands, except per share data) | | | | |
| Statement of operations data: | | | | | |
| Net sales | $477,243 | $542,932 | $546,892 | $538,740 | $586,960 |
| Costs and expenses: | | | | | |
| Cost of products sold | 288,512 | 327,161 | 337,256 | 345,171 | 370,754 |
| Selling | 64,414 | 73,002 | 73,348 | 76,083 | 81,455 |
| General and administrative | 56,250 | 56,539 | 60,214 | 63,701 | 62,012 |
| Research and development | 7,404 | 7,903 | 7,858 | 11,681 | 10,049 |
| Restructuring | 14,649 | 18,142 | 14,844 | 25,708 | 1,589 |
| Total operating costs and expenses | 431,229 | 482,747 | 493,520 | 522,344 | 525,859 |
| Income from operations | 46,014 | 60,185 | 53,372 | 16,396 | 61,101 |
| Other (expense) income: | | | | | |
| Interest expense, net | (38,413) | (36,768) | (40,681) | (37,878) | (39,150) |
| (Loss) gain on extinguishment of debt | (388) | — | (3,123) | 243 | (2,926) |
| Foreign exchange gain (loss) | 1,872 | (719) | (1,052) | (358) | (156) |
| Income (loss) before (provision) benefit for income taxes | 9,085 | 22,698 | 8,516 | (21,597) | 18,869 |
| (Provision) benefit for income taxes | (13,465) | (30,080) | (4,363) | 3,562 | (10,679) |
| Net (loss) income | $(4,380) | $(7,382) | $4,153 | $(18,035) | $8,190 |
| Net (loss) income per common share—basic | $(0.28) | $(0.48) | $0.27 | $(1.18) | $0.54 |
| Net (loss) income per common share—diluted | $(0.28) | $(0.48) | $0.26 | $(1.18) | $0.54 |
| Cash dividends per common share | $— | $— | $— | $— | $— |

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Balance sheet data (at end of period): | | | | | |
| Unrestricted cash and cash equivalents | $9,839 | $9,517 | $25,716 | $34,777 | $43,566 |
| Total assets (1) | $550,374 | $584,273 | $612,986 | $605,330 | $650,551 |
| Total debt (1) | $483,173 | $459,664 | $432,061 | $431,479 | $453,884 |
| Total stockholders' deficit | $(113,070) | $(74,110) | $(11,449) | $(29,061) | $(2,305) |
| Cash flow data: | | | | | |
| Net cash provided by operating activities | $31,163 | $6,892 | $36,114 | $39,322 | $45,208 |
| Net cash used in investing activities | $(47,605) | $(41,788) | $(41,869) | $(20,617) | $(8,688) |
| Net cash provided by (used in) financing activities | $16,574 | $20,693 | $(3,274) | $(27,472) | $(31,463) |
| Other financial data: | | | | | |
| Depreciation and amortization | $29,250 | $34,292 | $36,403 | $40,838 | $43,686 |
| Capital expenditures | $50,871 | $45,218 | $44,145 | $21,705 | $30,154 |

[1] Previous year amounts were reduced by deferred financing costs, as a result of the Company adopting ASU 2015-03 at December 31, 2015. See Note 5 to the Consolidated Financial Statements for further discussion.

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the section titled “Risk Factors,” the Consolidated Financial Statements and related Notes and other financial information appearing elsewhere in this Annual Report on Form 10-K.

### Company Overview

We are a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper—machine 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. Our products and services typically represent only a small percentage of a paper producer’s overall production costs, yet they can reduce costs by permitting the use of lower-cost raw materials and by reducing energy consumption. Paper producers must replace machine clothing and refurbish or replace roll covers periodically as these products wear down during the paper production process. Our products are designed to withstand high temperatures, chemicals and high pressure conditions and are the result of a substantial investment in research and development and highly sophisticated manufacturing processes.

We operate in two principal business segments: machine clothing and roll covers. In our machine clothing segment, we manufacture and sell highly engineered synthetic textile belts that transport paper as it is processed in a paper-making machine. 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 machine clothing size, form, material and function is custom engineered to fit each individual paper-making machine and process. For the year ended December 31, 2015, our machine clothing segment represented 63% 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 the 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 mechanical and refurbishment services for previously installed roll covers and we manufacture new and rebuilt spreader rolls. We also provide various related mechanical services both directly and through third party providers. For the year ended December 31, 2015, our roll cover segment represented 37% of our net sales.

### Industry Trends and Outlook

The Company's markets are declining, driven by the graphical grade decline. As published by Numera Analytics, in 2015 versus 2014, newsprint production declined (9.4)% in Asia, (6.8)% in Europe, (4.7)% in South America and (13.1)% in North America, and we expect those trends to continue into 2016. However, the global tissue and containerboard markets still remain very viable and are growing. In response to these trends, we are repositioning our assets, sales teams and value additive technologies to the tissue, packaging, services and non-paper segments around the world, entering new or under-served markets that present long term revenue growth opportunities.

### Net Sales and Expenses

Net sales in both our machine clothing and roll covers segments are primarily driven by the following factors:

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

- 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. We perform work on the internal mechanisms of their rolls while we refurbish or replace a roll cover. In our machine clothing segment, a small portion of our business has been conducted 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 the product is shipped 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, revenue is recognized 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 $7.4 million in 2015 and $7.9 million in 2014 and 2013.

Foreign Exchange

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 year ended December 31, 2015, we conducted business in nine foreign currencies. The following table provides the average exchange rate for the year ended December 31, 2015 and the year ended December 31, 2014 of the U.S. Dollar against each of the four foreign currencies in which we conduct the largest portion of our operations.

| Currency | Average exchange rate of the U.S. Dollar in the year ended December 31, 2015 | Average exchange rate of the U.S. Dollar in the year ended December 31, 2014 |
|---|---|---|
| Euro | $1.11= 1 Euro | $1.33 = 1 Euro |
| Brazilian Real | $0.31= 1 Brazilian Real | $0.43= 1 Brazilian Real |
| Canadian Dollar | $0.78 = 1 Canadian Dollar | $0.91 = 1 Canadian Dollar |
| Australian Dollar | $0.75 = 1 Australian Dollar | $0.90 = 1 Australian Dollar |

For the year ended December 31, 2015, we conducted approximately 33% of our operations in Euros, approximately 9% 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 year ended December 31, 2015 and 2014 and a discussion of the results of operations during those periods (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | | 2014 |
| Domestic (loss) income from operations | $(3,114 | ) | $13,487 |
| Foreign income from operations | 49,128 | | 46,698 |
| Total income from operations | $46,014 | | $60,185 |

During the year ended December 31, 2015, domestic income (loss) from operations was lower than foreign income from operations primarily due to product mix and market differences.  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 un-remitted 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 Brazilian 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 continue 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 or 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.

During 2015, we incurred restructuring expenses of $14.6 million. These included $4.4 million of charges related to the closure of the Joao Pessoa, Brazil clothing facility; $4.9 million of charges related to the closure of the Warwick, Canada machine clothing facility; and $6.4 million of charges relating to headcount reductions, organizational benchmarking and other costs relating to previously announced plant closures. Partially offsetting these charges was a gain of $1.1 million related to the sale of the Joao Pessoa, Brazil machine clothing facility in the fourth quarter of 2015.

During 2014, we incurred restructuring expenses of $18.1 million. These charges were related to $4.0 million in headcount reductions; $4.5 million of charges related to the closure of the Heidenheim, Germany rolls facility; $4.8 million in impairment charges and severance and other charges due to the closing of the Joao Pessoa, Brazil clothing facility; a $1.6 million charge in Italy to terminate a sales agency contract; $1.5 million in severance charges relating to the closure of the Berazategvi,Argentina press felt facility; $1.2 million of charges relating to the closed France rolls facility, including costs related to moving certain assets to China and other locations in Europe; $0.2 million of costs associated with liquidating the Vietnam facility; and $1.2 million in severance and facility charges relating to the Spain closure. These costs were partially offset by a gain of $0.9 million recorded in connection with the sale of the Spain and France facilities in the third and fourth quarters of 2014.

During 2013, we incurred restructuring expenses of approximately $14.8 million. This amount included charges relating to previously announced headcount reductions; the closure of two machine clothing facilities in Spain and Argentina; and the closure of three rolls facilities in Germany, France and Charlotte, NC, USA.

Results of Operations

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in thousands) | | |
| Net sales | $477,243 | $542,932 | $546,892 |
| Costs and expenses: | | | |
| Cost of products sold | 288,512 | 327,161 | 337,256 |
| Selling | 64,414 | 73,002 | 73,348 |
| General and administrative | 56,250 | 56,539 | 60,214 |
| Research and development | 7,404 | 7,903 | 7,858 |
| Restructuring | 14,649 | 18,142 | 14,844 |
| | 431,229 | 482,747 | 493,520 |

| | | | |
|---|---|---|---|
| Income from operations | 46,014 | 60,185 | 53,372 |
| Interest expense, net | (38,413) | (36,768) | (40,681) |
| Loss on extinguishment of debt | (388) | — | (3,123) |
| Foreign exchange gain (loss) | 1,872 | (719) | (1,052) |
| Income before provision for income taxes | 9,085 | 22,698 | 8,516 |
| Provision for income taxes | (13,465) | (30,080) | (4,363) |
| Net (loss) income | $(4,380) | $(7,382) | $4,153 |

Year Ended December 31, 2015 Compared to the Year December 31, 2014

Net Sales. Net sales for the year ended December 31, 2015 decreased by $(65.7) million, or (12.1)%, to $477.2 million from $542.9 million for the year ended December 31, 2014. Unfavorable currency effects were $(43.6) million. For the year ended December 31, 2015, approximately 63% of our net sales were in our clothing segment and approximately 37% were in our roll covers segment.

In our clothing segment, net sales for the year ended December 31, 2015 decreased $(47.0) million, or (13.5)%, to $300.0 million from $347.0 million for the year ended December 31, 2014 Excluding unfavorable currency effects of $(26.8) million, the remaining $(20.2) million decrease was primarily due to the continued decline in the graphical grades of paper and continued mill closures in North America; declines in Asia, due to the softening of the Indonesia and Korea markets and declines in South America and Europe, due to a weak Brazilian economy and the over-supply of machine clothing in Europe.

In our rolls segment, net sales for the year ended December 31, 2015 decreased by $(18.6) million, or (9.5)%, to $177.3 million from $195.9 million for the year ended December 31, 2014. Excluding unfavorable currency effects of $(16.8) million, the remaining $(1.8) million decrease was primarily due to the continued decline in the graphical grades of paper and mill closures in North America and declines in Asia due to the softening of the China market. These decreases were partially offset by increases in Europe, driven primarily by increased rubber and spreader rolls sales.

Cost of Products Sold. Cost of products sold for the year ended December 31, 2015 decreased by $(38.7) million, or (11.9)%, to $288.5 million from $327.2 million for the year ended December 31, 2014.

In our clothing segment, cost of products sold decreased $(28.6) million in the year ended December 31, 2015 compared to the year ended December 31, 2014. This decrease was primarily due to favorable currency effects, decreased sales volume, cost reduction programs, net of inflation, partially offset by unfavorable absorption, unfavorable sales mix and plant startup costs. Cost of products sold as a percentage of net sales decreased by (0.5)% to 57.9% in the year ended December 31, 2015 from 58.4% in the year ended December 31, 2014. This decrease was primarily due to favorable currency effects and cost reduction programs, net of inflation, partially offset by unfavorable absorption, unfavorable sales mix and increased plant startup costs.

In our rolls segment, cost of products sold decreased $(10.3) million in the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily as a result of favorable currency effects, decreased sales volume and cost reduction programs, net of inflation, partially offset by unfavorable sales mix and plant startup costs. Cost of products sold as a percentage of net sales increased by 0.9% to 64.4% in the year ended December 31, 2015 from 63.5% in the year ended December 31, 2014, primarily as a result of unfavorable currency effects, increased plant startup costs and unfavorable sales mix, partially offset by our cost reduction programs, net of inflation.

Selling Expenses. In the year ended December 31, 2015, selling expenses decreased by $(8.6) million, or (11.8%), to $64.4 million from $73.0 million in the year ended December 31, 2014. This decrease was primarily driven by favorable currency effects and decreased sales commissions.

General and Administrative Expenses. For the year ended December 31, 2015, general and administrative expenses decreased by $(0.2) million, or (0.4)%, to $56.3 million from $56.5 million for the year ended December 31, 2014, primarily as a result of favorable currency effects and lower management incentive costs. These decreases were partially offset by incremental charges related to a deferred refinancing transaction, a one-time pension settlement in the U.S., increased bad debt expense related to mill closures in 2015 and increased medical benefit costs in 2015.

Restructuring Expenses. For the year ended December 31, 2015, restructuring expense declined by $(3.5) million, or (19.3)%, to $14.6 million from $18.1 million in 2014. In 2015, restructuring expense included $4.4 million of charges related to the closure of the Joao Pessoa, Brazil clothing facility, $4.9 million charges related to the closure of Warwick, Canada machine clothing facility and $6.4 million of charges relating to headcount reductions and other costs relating to plant closures in previous years. These charges were partially offset by a gain of $1.1 million related to the sale of the Joao Pessoa, Brazil clothing facility, which occurred in the fourth quarter of 2015.

Interest Expense, Net. Net interest expense for the year ended December 31, 2015 was $38.4 million, up $1.6 million from $36.8 million for the year ended December 31, 2014. Increases were primarily due to increased average borrowings from 2014 to 2015.

Provision for Income Taxes. For the years ended December 31, 2015 and 2014, the provision for income taxes was $(13.5) million and $(30.1) million, respectively. The decrease in tax expense in the year ended December 31, 2015, was primarily attributable to a tax provision recorded in 2014 related to settling a tax assessment in Brazil, along with the geographic mix of earnings. 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 37.11%. 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. 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.

Year Ended December 31, 2014 Compared to the Year December 31, 2013

Net Sales. Net sales for the year ended December 31, 2014 decreased by $(4.0) million, or (0.7)%, to $542.9 million from $546.9 million for the year ended December 31, 2013. For the year ended December 31, 2014, approximately 64% of our net sales were in our machine clothing segment and approximately 36% were in our roll covers segment.

In our machine clothing segment, net sales for the year ended December 31, 2014 decreased by $(5.3) million, or (1.5)%, to $347.0 million from $352.3 million for the year ended December 31, 2013. We attribute the decrease primarily to decreased sales volume of $3.6 million in North America and $2.3 million in Europe and unfavorable currency effects of $3.9 million. These decreases were partially offset by increases of $3.6 million in South America and $0.9 million in Asia-Pacific.

In our roll covers segment, net sales for the year ended December 31, 2014 increased by $1.3 million, or 0.7%, to $195.9 million from $194.6 million for the year ended December 31, 2013. We attribute the increase primarily to increased sales volume of $6.0 million in North America, $1.0 million in Asia-Pacific and $1.0 million in South America. These increases were partially offset by unfavorable currency effects of $1.8 million and decreased sales volume of $4.9 million in Europe.

Cost of Products Sold. Cost of products sold for the year ended December 31, 2014 decreased by $(10.1) million, or (3.0)%, to $327.2 million from $337.3 million for the year ended December 31, 2013.

In our machine clothing segment, cost of products sold decreased $(11.6) million, or (5.4)%, in the year ended December 31, 2014 compared to the year ended December 31, 2013 as a result of lower cost of products sold as a percentage of sales. Cost of products sold, as a percentage of net sales decreased by (2.4)% to 58.4% in the year ended December 31, 2014 from 60.8% in the year ended December 31, 2013. We attribute the decrease primarily to favorable currency effects, decreased sales volume and operational efficiencies, partially offset by unfavorable regional and product mix.

In our roll covers segment, cost of products sold increased $1.5 million, or 1.2%, in the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to increased sales volume. Cost of products sold, as a percentage of net sales increased by 0.3% to 63.5% in the year ended December 31, 2014 from 63.2% in the year ended December 31, 2013. We attribute the increase primarily to unfavorable product mix, partially offset by favorable currency effects and restructuring savings and operational efficiencies.

Selling Expenses. For the year ended December 31, 2014, selling expenses decreased by $(0.3) million, or (0.4)%, to $73.0 million from $73.3 million for the year ended December 31, 2013. We attribute the decrease primarily to unfavorable product mix, partially offset by favorable currency effects and restructuring savings and operational efficiencies.

General and Administrative Expenses. For the year ended December 31, 2014, general and administrative expenses decreased by $(3.7) million, or (6.1)%, to $56.5 million from $60.2 million for the year ended December 31, 2013. This decrease was largely comprised of a decrease of $3.1 million as a result of our cost reduction activities in 2014, a decrease of $2.7 million due to lower management incentive compensation in 2014, as payout percentages decreased from 150% in 2013 to 84% in 2014 and an impairment charge of $0.7 million related to an idle facility sold in 2013. These decreases were partially offset by an increase of $1.1 million in plant start up costs in 2014 versus 2013, an increase of $0.8 in stock compensation in 2014 and a gain of $0.9 million in 2013 related to insurance recovery from a plant fire.

Restructuring Expenses. For the year ended December 31, 2014, we incurred restructuring expenses of $18.1 million. We attribute these charges to $4.0 million in headcount reductions, $4.5 million of charges related to the closure of the Heidenheim rolls facility, $4.8 million in impairment charges and severance and other charges related to the closing of the Joao Pessoa, Brazil clothing facility, a $1.6 million charge in Italy to terminate a sales agency contract, $1.5 million in severance charges relating to the closure of the Argentina press felt facility, $1.2 million of charges relating to the closed French rolls facility, including costs related moving certain assets to China and other locations in Europe, $0.2 million of costs associated with liquidating the Vietnam facility, and $1.2 million in severance and facility charges relating to the Spain closure. These costs were partially offset by a gain of $0.9 million recorded in connection with the sale of the Spain and France facilities in the fourth quarter of 2014. During the year ended December 31, 2013, we incurred restructuring expenses of $14.8 million These included charges relating to previously announced headcount reductions, the closure of two machine clothing facilities in Spain and Argentina and the closure of three rolls facilities in Germany, France and Charlotte, NC. See Note 11 to the Consolidated Financial Statements for further discussion on these restructuring activities.

Interest Expense, Net. Net interest expense for the year ended December 31, 2014 decreased by $(3.9) million, or (9.6)%, to $36.8 million from $40.7 million for the year ended December 31, 2013. The decrease was primarily due to the $3.7 million in financing fees paid in connection with our May 2013 debt refinancing that were charged to interest expense and capitalized interest related to certain equipment construction projects in 2014. These decreases were partially offset by increased average debt balances in 2014 as a result of the Brazilian tax settlement and higher average interest rates during 2014 versus 2013.

Provision for Income Taxes. For the years ended December 31, 2014 and 2013, the provision for income taxes was $(30.1) million and $(4.4) million, respectively. The increase in income tax expense was primarily attributable to settling a tax assessment in Brazil, as well as the geographic mix of earnings in the year ended December 31, 2014 as compared to the year ended December 31, 2013. Generally, in the absence of a large settlement such as the Brazil tax settlement, the provision for income taxes is primarily impacted by income we earn in tax paying jurisdictions relative to 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 39.43%. We generate losses in certain jurisdictions for which we receive no tax benefit, as the deferred tax assets in these jurisdictions (including net operating losses) are fully reserved by a 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. 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.

Liquidity and Capital Resources

Our principal liquidity requirements are for debt service, working capital and capital expenditures. We plan to use cash on hand, cash generated by operations and 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 related mill closures may affect our customers’ ability to pay their debts.

Net cash provided by operating activities was $31.2 million for the year ended December 31, 2015 and $6.9 million for the year ended December 31, 2014. The $24.3 million increase was due primarily to the settlement of the Brazilian tax matter in 2014 as discussed in Note 7 to our Consolidated Financial Statements and decreased working capital. Net cash provided by operating activities was $6.9 million for the year ended December 31, 2014 and $36.1 million for the year ended December 31, 2013. The $29.2 million decrease was due primarily to the settlement of the Brazilian tax matter as discussed in Note 7 to our Consolidated Financial Statements and increased working capital.

Net cash used in investing activities was $47.6 million for the year ended December 31, 2015 and $41.8 million for the year ended December 31, 2014. The increase of $5.8 million was primarily due to an increase of $5.6 million in capital expenditures and a decrease of $0.2 million in proceeds from the disposals of property and equipment from 2014 to 2015. Net cash used in investing activities was $41.8 million for the year ended December 31, 2014 and $41.9 million for the year ended December 31, 2013. The decrease of $0.1 million was primarily due to an increase of $1.2 million in proceeds from the disposals of property and equipment, partially offset by an increase in capital expenditures of $1.1 million.

Net cash provided by financing activities was $16.6 million for the year ended December 31, 2015 and $20.7 million for the year ended December 31, 2014. The decrease of ($4.1) million was primarily the result of the decrease of $(5.0) million in net borrowings made on debt in 2015 from 2014, partially offset by a decrease of $0.9 million in financing fees paid in 2015 from 2014. Net cash provided by financing activities was $20.7 million for the year ended December 31, 2014 and net cash used in financing activities was $(3.3) million for the year ended December 31, 2013, respectively. The increase of $24.0 million was primarily the result of the increase of $22.2 million in net borrowings made on debt in 2014 due to the Brazilian tax settlement and a decrease of $1.8 million in financing fees paid in 2013.

As of December 31, 2015, there was a $460.3 million balance of loans outstanding under our senior secured term loan facility and notes. At December 31, 2015 we have an of $31.4 million available for additional borrowings under the ABL revolver. This availability represents the $37.8 million under the ABL revolver that is currently collateralized by certain assets of the Company less $3.3 million of that facility committed for letters of credit and $3.1 million revolver borrowings. Additionally, at December 31, 2015, the Company had approximately $0.7 million available for borrowings under other small lines of credit. In addition, in July of 2012, our Austrian subsidiary entered into a working capital loan with a local banking institution. This loan bears interest at a variable rate, which was 1.65% at December 31, 2015, and has a maturity date of June 30, 2016, with a twelve month roll-over option. We had cash and cash equivalents of $9.8 million at December 31, 2015 compared to $9.5 million at December 31, 2014.

We expect to pay approximately $11.0 million related to the continuation of our restructuring initiatives in 2016. Actual restructuring costs for 2016 may substantially differ from estimates at this time, depending on the timing of the restructuring activities.

Capital Expenditures

We use the term “capital expenditures” to refer to costs incurred to purchase or significantly upgrade property and equipment. The majority of our capital expenditures relate to purchases of machinery and equipment used in the manufacturing of our products. Capital expenditures were funded from net cash provided by operating activities and borrowings under our Credit Facility. For the year ended December 31, 2015, we had capital expenditures of $50.9 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. We target capital expenditures for 2016 to be approximately $28.0 million.

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

Credit Facility and Notes

On November 3, 2015, we refinanced our existing ABL Facility and entered into a new Revolving Credit and Guaranty Agreement (as amended, the "New ABL Facility"). The New ABL Facility will continue to provide aggregate availability of $55.0 million and the collateral pledged thereunder will also remain the same, however the New ABL Facility provides improved terms, an extended maturity date of November of 2020 and lower interest rates.

On July 17, 2015, Xerium China, Co., Ltd. ("Xerium China"), a wholly-owned subsidiary of the Company, closed a Fixed Assets Loan Contract (the "Loan Agreement") with the Industrial and Commercial Bank of China Limited, Shanghai-Jingan Branch with respect to a RMB 58.5 million loan, which was approximately $9.4 million U.S. Dollars on July 17, 2015, based on an exchange rate of 6.21 RMB per 1.00 U.S. Dollars. The loan is secured by pledged machinery and equipment of Xerium China and guaranteed by Xerium Asia Pacific (Shanghai) Limited and Stowe Woodward (Changzhou) Roll Technologies Co. Ltd., which are wholly-owned subsidiaries of the Company, pursuant to guarantee agreements (the "Guarantee Agreements"). Interest on the outstanding principal balance of the loan accrues at a benchmark rate plus a margin. The current rate is approximately 5.8%. The interest rate will be adjusted every 12 months during the term of the loan, based on the benchmark interest rate adjustment. Interest under the loan is payable quarterly in arrears. Principal on the loan is to be repaid in part every six months following the Closing Date in accordance with a predetermined schedule set forth in the Loan Agreement. Proceeds of the Loan will be used by Xerium China to purchase production equipment. The Loan Agreement contains certain customary representations and warranties and provisions relating to events of default.

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 $30.0 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 $42.0 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.

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 U.S. 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 $15.0 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 $55.0 million.

We are in compliance with all covenants under the Notes and Credit Facility at December 31, 2015, and expect to remian in compliance in 2016.

Contractual Obligations and Commercial Commitments

The following tables provide aggregated information about our contractual obligations as of December 31, 2015.

| | Payments Due by Period | | | | | |
|---|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years | Other |
| | (in millions) | | | | | |
| Long-term debt obligations | $482.4 | $12.0 | $465.3 | $4.8 | $0.3 | $— |
| Interest expense on long-term debt(1) | 89.1 | 35.7 | 53.1 | 0.3 | — | — |
| Operating leases | 9.4 | 2.8 | 3.5 | 2.3 | 0.8 | — |
| Capital leases | 15.0 | 3.1 | 5.9 | 3.2 | 2.8 | — |
| Purchase obligations (2) | 17.4 | 8.7 | 6.1 | 2.6 | — | — |
| Pension and other post-retirement obligations | 72.3 | 6.5 | 13.0 | 13.7 | 39.1 | — |
| Net unrecognized tax benefit obligation under Topic 740 (3) | 2.9 | 0.2 | — | — | — | 2.7 |
| Total contractual cash obligations | $688.5 | $69.0 | $546.9 | $26.9 | $43.0 | $2.7 |

(1) Interest expense shown above is based on the effective interest rate at December 31, 2015.

(2) Includes obligations with respect to raw material purchases, repairs and maintenance services, utilities and other capital expenditures.

(3) The amounts in "Other" represent future cash outlays for which we are unable to reasonably estimate the period of cash settlement.

Off-Balance Sheet Financing

During the year ended December 31, 2015, we did not engage in any off-balance sheet activities, including the use of structured finance or special purpose entities.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. 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 net sales and expenses. Actual results could differ from those estimates. We have formal accounting policies in place including those that address critical and complex accounting areas. Note 2 "Accounting Policies" to the Consolidated Financial Statements included elsewhere in this Annual Report identifies the significant accounting policies used in preparation of the Consolidated Financial Statements. The most significant areas involving management judgments and estimates are described below.

Derivatives and Hedging. Effective January 1, 2009, we adopted ASC Topic 815-10-65-1, Transition and Effective Date Related to FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 ("Topic 815-10-65-1") for disclosures related to derivatives and hedging. Topic 815-10-65-1 amends and expands the disclosure requirements to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Topic 815-10-65-1 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments.

As required by Topic 815-10-65-1, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows or other types of forecasted transactions are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or if we elect not to apply hedge accounting under Topic 815.

We have measured our derivative assets and liabilities under ASC Topic 820, Fair Value Measurements and Disclosures ("Topic 820"), and have classified our interest rate swaps in Level 2 of the Topic 820 fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data, including market-based inputs to models, model calibration to market-clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value a derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. We use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, and correlations of such inputs. For our derivatives, all of which traded in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment.

To comply with the provisions of Topic 820, we performed a review of the necessity to incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of our derivatives and determined these adjustments to be immaterial to the fair value derivative assets/(liabilities) recorded on our Consolidated Balance Sheet at December 31, 2015.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. We do not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2015.

Impairment of Goodwill. We account for acquired goodwill and goodwill impairment in accordance with Topic 350, which requires considerable judgment in the valuation of acquired goodwill and the ongoing evaluation of goodwill impairment. Topic 350 requires that goodwill not be amortized but, instead, must be tested at least annually for impairment or whenever events or business conditions warrant.

We perform annual tests for goodwill impairment at the reporting unit level, which are machine clothing and roll covers. When our business was acquired in 1999, more than 80% of the goodwill was assigned to the roll covers reporting unit based on relative fair values at the date of acquisition.

Goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of our reporting unit to its carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit carrying amount is greater than the fair value then the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of the net assets of the reporting unit from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

For the purpose of performing the annual impairment test, we allocate all shared assets and liabilities to the reporting units based upon the percentage of each reporting unit's revenue to total revenue. Shared expenses are allocated to each reporting unit to the extent necessary to allow them to operate as independent businesses. Fair value was determined by using a weighted combination of both a market multiple approach and an income approach. The market multiple approach utilizes our and our competitors' information to determine measures that are used to value our reporting units. The income approach is a present value technique used to measure the fair value of future cash flows produced by each reporting unit. Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. We believe that the assumptions and rates used in our annual impairment test under Topic 350 are reasonable, but inherently uncertain.

Based on the assessments performed as of December 31, 2015, we determined that no impairment of goodwill exists. The excess of the fair value over carrying value for our machine clothing and roll covers segment as of December 31, 2015, the annual test date, was approximately $163,220 and $108,200, respectively. In order to evaluate the sensitivity of the analysis performed, we applied a hypothetical 5% decrease to the fair value of the business segments, which resulted in a fair value in excess of carrying value of approximately $141,809 and $96,408 for the machine clothing segment and the roll covers segment, respectively.

Pension Expense - Selection of Assumptions. 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. Annual pension expense consists of several components:

- Service Cost, which represents the present value of benefits attributed to services rendered in the current year, measured by expected future salary levels.
- Interest Cost, which represents the accretion cost on the liability that has been discounted to its present value.
- Expected Return on Assets, which represents the expected investment return on pension plan assets.
- Amortization of Prior Service Cost and Actuarial Gains and Losses, which represent components that are recognized over time rather than immediately.

These components are calculated annually to determine the pension expense that is reflected in the Company's results of operations. Management believes the selection of assumptions related to the annual pension expense is a critical accounting estimate due to the high degree of volatility in the expense dependent on selected assumptions. The key assumptions are as follows:

- The discount rate is the rate used to present value the pension obligation and represents the current rate at which the pension obligations could be effectively settled.
- The rate of compensation increase is used to project the pay-related pension benefit formula and should estimate actual future compensation levels.
- The expected long-term return on plan assets is used to estimate future asset returns and should reflect the average rate of long-term earnings on assets already invested.

Management's selection of the discount rate is based on an analysis that estimates the current rate of return for high-quality, fixed-income investments with maturities matching the payment of pension benefits that could be purchased to settle the obligations. At December 31, 2015, the Company selected a discount rate assumption of 3.4%. Of the three key assumptions, the discount rate is generally the most volatile and sensitive estimate. Accordingly, a change in this assumption has the most significant impact on the annual pension expense.

Management's selection of the rate of future compensation increase is generally based on our historical salary increases, including cost of living adjustments and merit and promotion increases, giving consideration to any known future trends. A higher rate of increase will result in a higher pension expense. The Company selected an actual rate of compensation increase assumption of 3.64%.

Management’s selection of the expected long term return on plan assets is based on a building-block approach, whereby the components are weighted based on the allocation of pension plan assets. Given that these returns are long-term, there are generally not significant fluctuations in the expected rate of return from year to year. The Company selected a rate of return assumption of 6.62%.

Using these assumptions, the 2015 pension expense was $5.9 million. A change in the assumptions would have had the following impact on the 2015 expense. A change of 1% in the discount rate would have changed 2015 expense by approximately $0.9 million. A change of 1% in the expected long-term rate of return on assets would have changed the 2015 expense by approximately $0.9 million.

Contingencies. We are subject to various claims and contingencies associated with lawsuits, insurance, tax, environmental and other issues arising out of the normal course of business. Our Consolidated Financial Statements reflect the treatment of claims and contingencies based on management’s view of the expected outcome. We consult with legal counsel on those issues related to litigation with respect to matters in the ordinary course of business. If the likelihood of an adverse outcome is probable and the amount is estimable, we accrue a liability in accordance with ASC Topic 450, Contingencies. While we believe that the current level of reserves is adequate, the adequacy of these reserves may change in the future due to new developments in particular matters.

Income Taxes. We utilize the asset and liability method for accounting for income taxes in accordance with ASC Topic 740, Income Taxes (“Topic 740”). Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates and statutes that will be in effect when the differences are expected to reverse.

We record net deferred tax assets to the extent we believe that it is more likely than not that these assets will be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent results of operations. We reduce our deferred tax assets by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In light of our accumulated loss position in certain tax jurisdictions, and the uncertainty of taxability in future periods, we recorded a valuation allowance against all U.S. deferred tax assets and against certain of our foreign deferred tax assets primarily related to net operating loss carry-forwards in Australia, Spain, Germany, Sweden, the United Kingdom, China, Turkey and France. During the year ended December 31, 2015, we recorded $1.1 million of tax benefits related to the partial reversal of the valuation allowance previously established against our Australian company deferred tax assets. We believe that the Australian company's net operating loss deferred tax asset is more likely than not to be realized within the carry-forward period based on estimates of future taxable income generated by future earnings of the Australian business.

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. The most material unrecognized deferred tax asset relates to the U.S. By 2029, future U.S. earnings ranging between $30 million and $120 million, generated by U.S earnings from continuing operations or qualified tax planning strategies, would be required in order to fully recognize the U.S. deferred tax asset.

In addition, we operate within multiple taxing jurisdictions and could be subject to audit in these jurisdictions. These audits can involve complex issues and rely on estimates and assumptions. These audits may require an extended period of time to resolve and may cover multiple years. We adopted the uncertain tax provisions of Topic 740 on January 1, 2007. ASC Topic 740-10-25 relates to uncertain tax positions and prescribes a two-step process to determine the amount of tax benefit to be recognized as it relates to uncertain tax positions. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed “more-likely-than-not” to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority having full knowledge of all relevant information.

We accrue for certain known and reasonably anticipated income tax obligations after assessing the likely outcome. Although we believe that the estimates and assumptions are reasonable, the final determination of tax audits and any related litigation could be different than that which is reflected in historical income tax provisions and recorded assets and liabilities.

With respect to all jurisdictions, we believe we have made adequate provision for all income tax uncertainties.

We have a net deferred tax asset of $3.1 million at December 31, 2015 and $4.3 million deferred tax asset at December 31, 2014. The net deferred tax asset relates principally to pension and post-retirement benefits, net operating loss carry-forwards and differences between the book and tax treatment of accrued expenses.

Undistributed earnings of our foreign subsidiaries amount to approximately $107.2 million at December 31, 2015. Earnings generated prior to 2013 are considered to be indefinitely reinvested for continued use in foreign operations, except for the earnings of our Mexico operations and a portion of the earnings generated by Brazil. As a result of the 2014 settlement of the income tax assessment with the Federal Revenue Department of the Ministry of Finance of Brazil, approximately $15.1 million of unremitted earnings in Brazil generated before 2013 are considered permanently reinvested to help support debt payments related to the tax assessment, meet capital expenditures and reinvest in the operations. All earnings generated prior to 2013 in Mexico have previously been distributed for U.S. income tax purposes. Federal income taxes and foreign withholding taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the United States and be taxable. For those countries for which earnings generated prior to 2013 are considered to be indefinitely reinvested, no provision for U.S. income taxes or foreign withholding taxes has been provided. Upon distribution of those earnings in the form of dividends or otherwise, we may be subject to both U.S. income taxes and foreign withholding taxes payable to the various jurisdictions. The earnings that are considered indefinitely reinvested relate to on-going operations and are approximately $30.7 million as of December 31, 2015.

## 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 (loss) from operations or cash flows (as determined in accordance with U.S. GAAP).

EBITDA is defined as net income (loss) before interest expense, income tax provision (benefit) 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, subject to annual limitations provided for in the Credit Facility, (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 (loss) determined on a consolidated basis in accordance with U.S. 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 (loss) income and operating cash flows, which are the most directly comparable U.S. GAAP financial measures, to EBITDA and Adjusted EBITDA.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in thousands) | | |
| Net (loss) income | $(4,380) | $(7,382) | $4,153 |
| Stock-based compensation | 3,298 | 2,548 | 1,736 |
| Depreciation | 28,952 | 32,752 | 34,631 |
| Amortization of intangibles | 298 | 1,540 | 1,772 |
| Pension settlement losses | 1,108 | — | — |
| Deferred financing cost amortization | 3,462 | 3,303 | 2,963 |
| Unrealized foreign exchange (gain) loss on revaluation of debt | (3,426) | (259) | 1,706 |
| Deferred taxes | (2,781) | (4,857) | (5,686) |
| (Gain) loss on disposition of property and equipment | (1,383) | (1,036) | 202 |
| Asset impairment | 1,536 | 136 | 1,354 |
| Loss on extinguishment of debt | 388 | — | 3,123 |
| Net change in operating assets and liabilities | 4,091 | (19,853) | (9,840) |
| Net cash provided by operating activities | 31,163 | 6,892 | 36,114 |
| Interest expense, excluding amortization | 34,951 | 33,465 | 37,718 |
| Net change in operating assets and liabilities | (4,091) | 19,853 | 9,840 |
| Current portion of income tax expense | 16,246 | 34,937 | 10,049 |
| Stock-based compensation | (3,298) | (2,548) | (1,736) |
| Pension settlement losses | (1,108) | — | — |
| Asset impairment | (1,536) | (136) | (1,354) |
| Unrealized foreign exchange loss (gain) on revaluation of debt | 3,426 | 259 | (1,706) |
| Gain (loss) on disposition of property and equipment | 1,383 | 1,036 | (202) |
| Loss on extinguishment of debt | (388) | — | (3,123) |
| EBITDA | 76,748 | 93,758 | 85,600 |
| Operational restructuring expenses | 14,649 | 18,142 | 14,844 |
| Loss on extinguishment of debt | 388 | — | 3,123 |
| Non-recurring expenses | 2,569 | — | — |
| Stock-based compensation | 3,298 | 2,548 | 1,736 |
| Pension settlement losses | 1,108 | — | — |
| Non-restructuring impairment charges | 494 | — | 667 |
| Plant startup costs | 3,886 | 1,521 | 401 |
| Inventory write-off of closed facilities | 587 | — | 954 |
| Adjusted EBITDA | $103,727 | $115,969 | $107,325 |

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates and foreign currency rates are discussed below. Our market risk discussion includes “forward-looking statements” and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates and foreign currency rates. Actual future results may differ materially from those presented. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and the Notes to Consolidated Financial Statements for a description of our accounting policies and other information related to these financial instruments.

### Foreign Currency Hedging

We have foreign currency cash flow and earnings exposure with respect to specific sale and intercompany debt transactions denominated in currencies other than the functional currency of the unit incurring the costs associated with such transactions. To mitigate the risks related to these exposures, we 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 on 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 hedging strategy. In South America, substantially all of our net sales are indexed to U.S. Dollars, but the associated costs are recorded in the local currencies of the operating units. Generally, we do not hedge this U.S. Dollar exposure as it would not be cost effective due to the relatively inefficient foreign exchange markets for local currencies in that region. 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.

The value of these contracts is recognized at fair value based on market exchange forward rates and amounted to a net liability position of $1.2 million at December 31, 2015. These contracts mature at various dates through March of 2016.

As of December 31, 2015, we had open foreign currency exchange contracts maturing through March of 2016 with total net notional amounts of approximately $36.8 million. At December 31, 2015, a hypothetical adverse exchange rate movement of 10% against our forward foreign exchange contracts would have resulted in a potential net loss in fair value of these contracts of approximately $3.7 million. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar. Any gain or loss recognized on a foreign exchange contract would generally be offset by the gain or loss on the underlying hedge transaction. In addition to the direct effects of changes in exchange rates, such changes may affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

For additional information about the risks associated with fluctuations in currency exchange rates, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Foreign Exchange."

### Interest Rate Hedging

We borrow funds at a combination of fixed and variable rates. Our debt consists of a secured credit facility with variable interest rates and unsecured notes which bear interest at fixed rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as swaps and caps in order to mitigate our interest rate risk with respect to various debt instruments. We generally do not hold or issue these derivative contracts for trading or speculative purposes.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All financial statements required to be filed under this Item 8, other than selected quarterly financial data, are filed as Appendix A hereto, are listed under Item 15(a) and are incorporated herein by this reference.

Selected quarterly financial data are included under Item 6 and are incorporated herein by reference.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

As of December 31, 2015, under the supervision of our principal executive officer and principal financial officer, and with the participation of our management, we have evaluated 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 Exchange 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 Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC'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 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.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control—Integrated Framework. Our management concluded that based on its assessment, our internal control over financial reporting was effective as of December 31, 2015. Ernst & Young LLP, our independent registered public accounting firm, has issued its report on the effectiveness of internal control over financial reporting as of December 31, 2015, which appears in this 2015 Form 10-K.

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In May 2013, COSO issued its Internal Control - Integrated Framework (the “2013 Framework”). While the 2013 Framework’s internal control components (i.e., control environment, risk assessment, control activities, information and communication and monitoring activities) are the same as those in the 1992 Framework, the new framework requires companies to assess whether 17 principles are present and functioning in determining whether their system of internal control is effective. The Company adopted the 2013 Framework during the fiscal year ending December 31, 2015.

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Xerium Technologies, Inc.

We have audited Xerium Technologies, Inc.’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Xerium Technologies, Inc.’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Xerium Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Xerium Technologies, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ deficit, and cash flows for each of the three years in the period ended December 31, 2015 of Xerium Technologies, Inc. and our report dated March 14, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Raleigh, North Carolina
March 14, 2016

## ITEM 9B. OTHER INFORMATION

On March 8, 2016, our Board of Directors set Thursday, June 16, 2016 as the date for our 2016 annual meeting of the stockholders (the “2016 Annual Meeting”). The exact time and location of the 2016 Annual Meeting, and the record date applicable to shareholders entitled to vote at the Annual Meeting, will be specified in the Company's proxy statement for the 2016 Annual Meeting.

Qualified stockholder proposals (including proposals made pursuant to SEC Rule 14a-8 and any notice on Schedule 14N) to be presented at the 2016 Annual Meeting and in the Company’s proxy statement and form of proxy relating to that meeting must be received by the Company at its principal executive offices located at 14101 Capital Boulevard, Youngsville, NC 27596, addressed to the Secretary of the Company. In accordance with Regulation 14A and the Company’s Amended and Restated By-laws (the “By-laws”), such proposals must be received by the Company not later than the close of business on March 24, 2016 (which is the tenth day following this public announcement of the date of the 2016 Annual Meeting ). All proposals must comply with applicable Delaware law, the rules and regulations promulgated by the Securities and Exchange Commission and the procedures set forth in the By-laws.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2016 Annual Meeting of Shareholders.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2016 Annual Meeting of Shareholders.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to our Proxy Statement for the 2016 Annual Meeting of Shareholders.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2016 Annual Meeting of Shareholders.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for the 2016 Annual Meeting of Shareholders.

# PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements. The following documents are filed as Appendix A hereto and are included as part of this Annual Report on Form 10-K:

Financial Statements of Xerium Technologies, Inc.:

Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements and Schedule
Consolidated Balance Sheets as of December 31, 2015 and 2014
Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015, 2014 and 2013
Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2015, 2014 and 2013
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013
Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules. The following financial statement schedule is included as part of this Annual Report on Form 10-K:

Schedule II, Valuation and Qualifying Accounts

Certain schedules are omitted because they are not applicable, or not required, or because the required information is included in the financial statements or notes thereto.

(a) (3) Exhibits. The exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding such exhibits, and are incorporated herein by this reference. We have identified with plus symbols in the Exhibit Index each management contract and compensation plan filed as an exhibit to this Annual Report on Form 10-K.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Raleigh, North Carolina, on March 14, 2016.

XERIUM TECHNOLOGIES, INC.

| | |
|---|---|
| By: | /s/ HAROLD C. BEVIS<br>Harold C. Bevis<br>President and Chief Executive Officer |

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons in the capacities indicated on March 14, 2016.

| Signature | Title |
|---|---|
| /S/ HAROLD C. BEVIS<br>Harold C. Bevis | President, Chief Executive Officer and Director (Principal Executive Officer) |
| /S/ CLIFFORD E. PIETRAFITTA<br>Clifford E. Pietrafitta | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) |
| /S/ AMBASSADOR APRIL H. FOLEY<br>Ambassador April H. Foley | Director |
| /S/ JAY GURANDIANO<br>Jay Gurandiano | Director |
| /S/ JOHN F. MCGOVERN<br>John F. McGovern | Director |
| /S/ ROGER A. BAILEY<br>Roger A. Bailey | Director |
| /S/ ALEXANDER TOELDTE<br>Alexander Toeldte | Director |
| /S/ JAMES F. WILSON<br>James F. Wilson | Chairman |

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Xerium Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Xerium Technologies, Inc.  as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Xerium Technologies, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Xerium Technologies, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 14, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Raleigh, North Carolina
March 14, 2016

TECHNOLOGIES, INC.

## CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (dollars in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $9,839 | $9,517 |
| Accounts receivable, (net of allowance for doubtful accounts of $5,184 in 2015 and $5,002 in 2014) | 68,562 | 83,069 |
| Inventories | 71,698 | 83,550 |
| Prepaid expenses | 6,649 | 8,472 |
| Other current assets | 16,869 | 15,714 |
| Total current assets | 173,617 | 200,322 |
| Property and equipment, net | 297,083 | 303,617 |
| Goodwill | 58,599 | 61,927 |
| Intangible assets | 1,547 | 1,936 |
| Non-current deferred tax asset | 9,325 | 10,662 |
| Other assets | 10,203 | 5,809 |
| Total assets | $550,374 | $584,273 |
| LIABILITIES AND STOCKHOLDERS’ DEFICIT | | |
| Current liabilities: | | |
| Notes payable | $6,556 | $244 |
| Accounts payable | 40,696 | 41,827 |
| Accrued expenses | 56,076 | 56,109 |
| Current maturities of long-term debt | 5,410 | 4,406 |
| Total current liabilities | 108,738 | 102,586 |
| Long-term debt, net of current maturities and deferred financing costs | 462,470 | 451,069 |
| Liabilities under capital lease | 8,737 | 3,945 |
| Non-current deferred tax liability | 8,770 | 10,416 |
| Pension, other post-retirement and post-employment obligations | 63,606 | 80,471 |
| Other long-term liabilities | 11,123 | 9,896 |
| Commitments and contingencies (Note 9) | | |
| Stockholders’ deficit: | | |
| Preferred stock, $0.001 par value, 1,000,000 shares authorized; no shares outstanding as of December 31, 2015 and 2014 | — | — |
| Common stock, $0.001 par value, 20,000,000 shares authorized; 15,745,914 and 15,560,627 shares outstanding as of December 31, 2015 and 2014, respectively | 16 | 16 |
| Paid-in capital | 430,054 | 428,880 |
| Accumulated deficit | (421,448) | (417,068) |
| Accumulated other comprehensive loss | (121,692) | (85,938) |
| Total stockholders’ deficit | (113,070) | (74,110) |
| Total liabilities and stockholders’ deficit | $550,374 | $584,273 |

See accompanying notes.

XERIUM TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (dollars in thousands except per share data) | | |
| Net sales | $477,243 | $542,932 | $546,892 |
| Costs and expenses: | | | |
| Cost of products sold | 288,512 | 327,161 | 337,256 |
| Selling | 64,414 | 73,002 | 73,348 |
| General and administrative | 56,250 | 56,539 | 60,214 |
| Research and development | 7,404 | 7,903 | 7,858 |
| Restructuring | 14,649 | 18,142 | 14,844 |
| | 431,229 | 482,747 | 493,520 |
| Income from operations | 46,014 | 60,185 | 53,372 |
| Interest expense, net | (38,413) | (36,768) | (40,681) |
| Loss on extinguishment of debt | (388) | — | (3,123) |
| Foreign exchange gain (loss) | 1,872 | (719) | (1,052) |
| Income before provision for income taxes | 9,085 | 22,698 | 8,516 |
| Provision for income taxes | (13,465) | (30,080) | (4,363) |
| Net (loss) income | $(4,380) | $(7,382) | $4,153 |
| Net (loss) income per share: | | | |
| Basic | $(0.28) | $(0.48) | $0.27 |
| Diluted | $(0.28) | $(0.48) | $0.26 |
| Shares used in computing net (loss) income per share: | | | |
| Basic | 15,640,836 | 15,458,810 | 15,359,445 |
| Diluted | 15,640,836 | 15,458,810 | 15,882,376 |

See accompanying notes.

XERIUM TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net (loss) income | $(4,380) | $(7,382) | $4,153 |
| Other comprehensive (loss) income before income taxes: | | | |
| Foreign currency translation adjustments | (50,980) | (39,751) | (3,389) |
| Unrealized gain on derivative instruments | 1,126 | 127 | 409 |
| Defined benefit pension plan | | | |
| Amortization of prior service cost | — | — | 11 |
| Amortization of net loss | 2,140 | 1,124 | 2,323 |
| Net gain (loss) on liability | 14,643 | (27,455) | 9,534 |
| Net (loss) gain on asset | (5,466) | 3,827 | 4,901 |
| Settlement losses | 1,324 | 258 | 190 |
| Currency translation impact | 2,592 | 2,895 | (181) |
| Defined benefit pension plan, net | 15,233 | (19,351) | 16,778 |
| Other comprehensive (loss) income, before income taxes | (34,621) | (58,975) | 13,798 |
| Income tax benefit (provision) related to components of other comprehensive (loss) income | (1,133) | 3,089 | (1,957) |
| Other comprehensive (loss) income, net of tax | (35,754) | (55,886) | 11,841 |
| Comprehensive (loss) income, net of tax | $(40,134) | $(63,268) | $15,994 |

See accompanying notes.

XERIUM TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

| | Common Stock | | Warrants | Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| | (dollars in thousands) | | | | | | |
| Balance at December 31, 2012 | $15,309,717 | $15 | $13,532 | $413,124 | $(413,839) | $(41,893) | $(29,061) |
| Net income | — | — | — | — | 4,153 | — | 4,153 |
| Other comprehensive income | — | — | — | — | — | 11,841 | 11,841 |
| Issuance of common stock | 74,186 | — | — | (118) | — | — | (118) |
| Stock-based compensation | — | — | — | 1,736 | — | — | 1,736 |
| Balance at December 31, 2013 | 15,383,903 | 15 | 13,532 | 414,742 | (409,686) | (30,052) | (11,449) |
| Net loss | — | — | — | — | (7,382) | — | (7,382) |
| Other comprehensive loss | — | — | — | — | — | (55,886) | (55,886) |
| Issuance of common stock | 176,724 | 1 | — | (1,942) | — | — | (1,941) |
| Stock-based compensation | — | — | — | 2,548 | — | — | 2,548 |
| Reclass warrants to additional paid in capital | — | — | (13,532) | 13,532 | — | — | — |
| Balance at December 31, 2014 | 15,560,627 | 16 | — | 428,880 | (417,068) | (85,938) | (74,110) |
| Net loss | — | — | — | — | (4,380) | — | (4,380) |
| Other comprehensive loss | — | — | — | — | — | (35,754) | (35,754) |
| Issuance of common stock | 185,287 | — | — | (2,124) | — | — | (2,124) |
| Stock-based compensation | — | — | — | 3,298 | — | — | 3,298 |
| Balance at December 31, 2015 | $15,745,914 | $16 | $— | $430,054 | $(421,448) | $(121,692) | $(113,070) |

See accompanying notes.

XERIUM TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (dollars in thousands) | | |
| Operating activities | | | |
| Net (loss) income | $(4,380) | $(7,382) | $4,153 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Stock-based compensation | 3,298 | 2,548 | 1,736 |
| Depreciation | 28,952 | 32,752 | 34,631 |
| Amortization of other intangibles | 298 | 1,540 | 1,772 |
| Deferred financing cost amortization | 3,462 | 3,303 | 2,963 |
| Unrealized foreign exchange (gain) loss on revaluation of debt | (3,426) | (259) | 1,706 |
| Deferred taxes | (2,785) | (4,857) | (5,686) |
| Asset impairments | 1,536 | 136 | 1,354 |
| (Gain) loss on disposition of property and equipment | (1,383) | (1,036) | 202 |
| Pension settlement losses | 1,108 | — | — |
| Loss on extinguishment of debt | 388 | — | 3,123 |
| Provision for doubtful accounts | 1,117 | 274 | 425 |
| Change in assets and liabilities which (used) provided cash: | | | |
| Accounts receivable | 5,234 | (3,461) | (6,283) |
| Inventories | 2,985 | (9,009) | (8,777) |
| Prepaid expenses | 757 | (837) | 979 |
| Other current assets | (3,219) | (3,278) | (1,444) |
| Accounts payable and accrued expenses | 3,176 | 597 | 6,799 |
| Deferred and other long-term liabilities and assets | (5,955) | (4,139) | (1,539) |
| Net cash provided by operating activities | 31,163 | 6,892 | 36,114 |
| Investing activities | | | |
| Capital expenditures | (50,871) | (45,218) | (44,145) |
| Proceeds from disposals of property and equipment | 3,266 | 3,430 | 2,276 |
| Net cash used in investing activities | (47,605) | (41,788) | (41,869) |
| Financing activities | | | |
| Proceeds from borrowings (maturities longer than 90 days) | 106,707 | 102,159 | 199,321 |
| Principal payments on debt | (88,058) | (79,121) | (199,349) |
| Principal payments on capital leases | (1,413) | (821) | — |
| Payment of deferred financing fees | (662) | (1,524) | (3,246) |
| Net cash provided by financing activities | 16,574 | 20,693 | (3,274) |
| Effect of exchange rate changes on cash flows | 190 | (1,996) | (32) |
| Net decrease in cash | 322 | (16,199) | (9,061) |
| Cash and cash equivalents at beginning of year | 9,517 | 25,716 | 34,777 |
| Cash and cash equivalents at end of year | $9,839 | $9,517 | $25,716 |
| | | | |
| Cash paid for interest | $34,129 | $33,519 | $33,691 |
| Cash paid for income taxes | $10,517 | $33,213 | $7,840 |
| Non-cash accrual for new facility | $1,937 | $5,695 | $— |
| Non-cash capitalized leases | $4,792 | $3,945 | $— |

See accompanying notes.

Xerium Technologies, Inc.

Notes to Consolidated Financial Statements

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

## 1. Company Description

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.

## 2. Accounting Policies

### Basis of Presentation and Consolidation

The consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles ("U.S. GAAP"). The consolidated financial statements include the accounts of Xerium Technologies, Inc. and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated.

### Revenue Recognition

Revenue on product sales is recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery including transfer of title has occurred and there is a reasonable assurance of collection of the sales proceeds. The Company generally obtains written purchase authorizations from customers for a specific product at a specified price and considers delivery and transfer of title to have occurred primarily at the time of shipment. Revenue is recorded net of applicable allowances, including estimated allowances for returns, rebates and other discounts. In the machine clothing segment, a small portion of the business has been conducted pursuant to consignment arrangements under which the Company does not recognize a sale of a product to a customer until the customer places the product into use, which typically occurs some period after the product is shipped to the customer or to a warehouse location near the customer’s facility. As part of the consignment agreement, the Company delivers the goods to a location designated by the customer. In addition, the customer and the Company agree to a “sunset” date, which represents the date by which the customer must accept all risks and rewards of ownership of the product and payment terms begin. For consignment sales, revenue is recognized on the earlier of the actual product installation date or the “sunset” date.

### Classification of Costs and Expenses

Cost of products sold includes raw materials, manufacturing labor, direct and indirect overhead costs, product freight, and depreciation of manufacturing plant and equipment. Warehousing costs incurred as a result of customer-specific delivery terms are also included in cost of products sold.

Selling expenses include direct sales force salaries, commissions, travel and entertainment expenses and other expenses as well as agents’ commissions and fees, other warehousing costs, advertising costs and marketing costs.

General and administrative expenses include costs relating to management and administrative staff such as employee compensation and benefits, travel and entertainment (non-sales), non-manufacturing facility occupancy costs, including rent expense and professional fees, as well as depreciation on non-manufacturing equipment and office supplies and expenses.

Research and development expenses are comprised of engineering staff wages and associated fringe benefits, as well as the cost of prototypes, testing materials and non-capitalizable testing equipment.

### Advertising Costs

Selling expenses include advertising expenses of $1,208, $1,300 and $895 in 2015, 2014 and 2013, respectively. The Company expenses all advertising costs as incurred.

### Translation of Financial Statements

The reporting currency of the Company is U.S. Dollars. Assets and liabilities of non-U.S. operations are translated at year-end rates of exchange and the Consolidated Statements of Operations and Cash Flows are translated at the average rates of exchange during the year. Gains and losses resulting from translating non-U.S. Dollar denominated financial statements are recorded in accumulated other comprehensive income (loss) as a component of stockholders’ deficit.

### Foreign Exchange

Foreign exchange gains and losses arising out of transactions denominated in currencies other than a subsidiary's functional currency are recorded in the Consolidated Statements of Operations. Net exchange gains and losses are recorded in "Foreign exchange loss" and amounted to a gain (loss) of $1,872, $(719) and $(1,052) for the years ended December 31, 2015, 2014 and 2013, respectively. Certain intercompany loans have been determined to be permanent, and accordingly, foreign exchange gains or losses related to such loans are recorded in accumulated other comprehensive income (loss).

Derivatives and Hedging

As required by ASC Topic 815, Derivatives and Hedging ("Topic 815"), the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transaction in a cash flow hedge.

The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under Topic 815. See Note 6 "Derivatives and Hedging" for further discussion on the Company's derivatives.

Freight Costs

The Company incurred $10,172 and $12,362 in freight costs in the years ended December 31, 2015 and 2014, respectively. These costs are includes in cost of good sold in the Consolidated Income Statements.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with maturities of three months or less when acquired. Short-term investments consist of time deposits or money market accounts at investment-grade banks. As of December 31, 2015, certain of the Company's deposits in U.S. bank accounts exceeded the FDIC guarantee of $250 per depositor.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at cost and do not bear interest. Bad debt provisions are included in general and administrative expense. The amounts recorded are derived based upon the general aging of receivables, specific customer credit history and payment trends and new business conditions.

Inventories

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:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Raw materials | $12,389 | $18,018 |
| Work in process | 25,203 | 28,756 |
| Finished goods (includes consigned inventory of $6,513 in 2015 and $8,582 in 2014) | 40,058 | 43,072 |
| Inventory allowances | (5,952) | (6,296) |
| | $71,698 | $83,550 |

In 2015, in connection with the closure of the Warwick, Quebec, Canada machine clothing facility, the Company reserved $587 of obsolete inventory. This charge is included in cost of products sold expense in the Consolidated Statements of Operations for the year ended December 31, 2015.

Financial Instruments

The carrying value of cash and cash equivalents, trade receivables, other current assets, accounts payable, notes payable and amounts included in accruals meeting the definition of a financial instrument under U.S. GAAP approximate fair value due to their short-term nature. The carrying value of long-term debt is less than its fair value (see Note 5 "Long-term Debt"). The Company determines estimated fair values based upon quoted market values where applicable or management estimates.

Long-lived Assets

Property and equipment

Property and equipment are recorded at cost. Property and equipment acquired in connection with acquisitions are recorded at fair value as of the date of the acquisition, and subsequent additions are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

| Asset | | Years |
|---|---|---|
| Buildings and improvements | | 3-50 |
| Machinery and equipment | — Heavy | 16-25 |
| | — General | 13-15 |
| | — Light | 6-12 |
| | — Molds, tools, office and computers | 2-5 |

Property and equipment consist of the following at:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Land | $20,664 | $22,863 |
| Building and improvements | 140,362 | 145,975 |
| Machinery and equipment | 606,958 | 641,147 |
| Construction in progress | 13,640 | 41,024 |
| Assets under capital lease | 15,710 | 4,181 |
| Total | 797,334 | 855,190 |
| Less accumulated depreciation | (500,251) | (551,573) |
| | $297,083 | $303,617 |

The Company recorded $29.0 million, $32.8 million and $34.6 million in depreciation expense in 2015, 2014 and 2013, respectively. In addition, in 2015, the Company wrote off approximately $494 of idle machinery and equipment. Amortization related to assets under capital lease is included in depreciation expense.

Assets held for sale or sold

During the first quarter of 2016, the Company determined that the Middletown, VA. facility, with a NBV of $3.1 million met the criteria under ASC Topic 360, Property, Plant, and Equipment ("Topic 360") to be classified as held for sale.

Accordingly, the related assets were reclassified out of property, plant and equipment to other assets in the Company's Consolidated Balance Sheet.

During 2015, the Company determined that the Warwick, Quebec, Canada facility, with a NBV of $1.7 million met the criteria under ASC Topic 360, Property, Plant, and Equipment ("Topic 360") to be classified as held for sale. Accordingly, the related assets were reclassified out of property, plant and equipment to other assets in the Company's Consolidated Balance Sheet. This facility has not been sold as of December 31, 2015.

Impairment

The Company reviews its long-lived assets that have finite lives for impairment in accordance with Topic 360. This topic requires that companies evaluate the fair value of long-lived assets based on the anticipated un-discounted 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 restructuring expense in the Consolidated Statements of Operations. Impairment charges associated with restructuring are discussed in Note 11 "Restructuring Expense".

During the fourth quarter of 2015, the Company determined that there was $494 of idle machinery and equipment on its Consolidated Balance Sheet. In accordance with Topic 360, these assets were written off.

Intangible assets

Intangible assets consist of patents, licenses and trademarks. Patents, licenses and trademarks are amortized on a straight-line basis over their useful lives, which range from three to fifteen years.

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 at least annually for impairment or whenever events or business conditions warrant. Goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of the Company's reporting unit to its carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit carrying amount is greater than the fair value then the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of the net assets of the reporting unit from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference. The Company performs an annual test for goodwill impairment as of December 31 at the reporting unit level. The Company has two reporting units: machine clothing and roll covers. For the purpose of performing the annual impairment test, the Company allocates all shared assets and liabilities to the reporting units based on the percentage of each reporting unit's revenue to total revenue. Shared operating expenses are allocated to the reporting unit to the extent necessary to allow them to operate as independent businesses. To determine if impairment exists, the fair value of each reporting unit is compared to its carrying value. The fair value of the Company's reporting unit is determined by using a weighted combination of both a market multiple approach and an income approach. The market multiple approach utilizes the Company's and its competitors' proprietary information that is used to value its reporting units. The income approach is a present value technique used to measure the fair value of future cash flows produced by each reporting unit. As a result of the annual tests for goodwill impairment performed as of December 31, 2015 and 2014, the Company determined that no goodwill impairment exists.

Stock-Based Compensation

The Company records stock-based compensation expense in accordance with ASC Topic 718, Compensation—Stock Compensation ("Topic 718") which generally requires that such transactions be recognized in the statement of operations based on their fair values at the date of grant. See Note 10 "Stock-Based Compensation and Stockholders' Deficit" for further discussion.

Net (Loss) Income Per Common Share

Net (loss) income per common share has been computed and presented pursuant to the provisions of ASC Topic 260, Earnings per Share ("Topic 260"). Net (loss) income per share is based on the weighted-average number of shares outstanding during the period.

As of December 31, 2015, 2014 and 2013, the Company had outstanding restricted stock units (“RSUs”) (See Note 10 "Stock-Based Compensation and Stockholders' Deficit"). Diluted average shares outstanding were computed using (i) the average market price for time-based RSUs and (ii) the actual grant date market price for non-employee director RSUs. The calculation of diluted earnings per share excludes the Company’s performance-based RSUs that are based on Adjusted EBITDA targets whose performance criteria have not been contingently achieved and therefore the RSUs have not been issued or are not contingently issuable. For the years ended December 31, 2015 and 2014, the dilutive effect of potential future issuances of common stock underlying the Company’s RSUs was excluded from the calculation of diluted average shares outstanding because their effect would have been anti-dilutive as the Company incurred a net loss.

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Weighted-average common shares outstanding—basic | 15,640,836 | 15,458,810 | 15,359,445 |
| Dilutive effect of stock-based compensation awards outstanding | — | — | 522,931 |
| Weighted-average common shares outstanding—diluted | 15,640,836 | 15,458,810 | 15,882,376 |

Dilutive securities aggregating approximately 1.1 million, 1.3 million and 2.1 million outstanding during the years ended December 31, 2015, 2014 and 2013, respectively, were not included in the computation of diluted earnings per share because the impact would be anti-dilutive to the earnings per share calculation.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, Income Taxes (“Topic 740”), which requires the recognition of deferred tax assets and liabilities for the expected future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, representing future tax benefits, are reduced by a valuation allowance when the determination can be made that it is “more likely than not” that all or a portion of the related tax asset will not be realized. The deferred tax provision or benefit represents the annual change in deferred tax assets and liabilities, excluding any amounts accounted for as components of goodwill or accumulated other comprehensive income (loss), including the effect of foreign currency translation thereon. While the Company believes it has adequately provided for its income tax receivable or liabilities and its deferred tax assets or liabilities in accordance with Topic 740 income tax guidance, adverse determination by taxing authorities or changes in tax laws and regulations could have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows. Income taxes are further discussed in Note 7.

Warranties

The Company offers warranties on certain rolls 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 Company estimates the costs that may be incurred under its warranties and records a liability 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 included in accrued expenses for 2015 and 2014:

| | Balance at Beginning of Year | Charged to Cost of Products Sold | Effect of Foreign Currency Translation | Deduction from Reserves | Balance at End of Year |
|---|---|---|---|---|---|
| For the year-ended December 31, 2015 | $2,685 | $1,134 | $ (153 ) | $(1,491 ) | $2,175 |
| For the year-ended December 31, 2014 | $1,629 | $2,013 | $ (128 ) | $(829 ) | $2,685 |

Commitments and Contingencies

The Company provides accruals for all direct costs associated with the estimated resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Costs accrued have been estimated based on consultation with legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes.

Reclassifications

During the first quarter of 2014, while implementing a new financial reporting system, the Company redesigned its chart of accounts in order to provide more consistent internal and external reporting globally. In addition to this change, the Company's corporate management organizational structure was changed from primarily a geographic regional management organization to a more centralized functional management organization. These changes drove certain changes in the mappings of the related accounts in the chart of accounts. As these changes are reflected in the 2015 and 2014 Consolidated Financial Statements, these changes resulted in reclassifications in the Consolidated Statement of Operations for the year ended December 31, 2013. Management performed a SAB 99 "Materiality" analysis on these reclassifications and determined these were immaterial to the Company's Consolidated Financial Statements as a whole. However, for comparability purposes, management elected to make the reclassifications of $2.2 million in the year ended December 31, 2013 from research and development expenses to selling expenses as a result of moving certain personnel from the research and development department to the selling department.

## New Accounting Standards

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 2018. 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 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 to 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 adopted this pronouncement at December 31, 2015, and the adoption of ASU 2015-03 did not have a material impact on its Consolidated Financial Statements. See Note 5 for further discussion.

In November of 2015, the FASB issued ASC 2015-17 Income Taxes (Topic 740), Balance Sheet Classification of deferred Taxes ("ASC 2015-17"). This guidance requires companies to classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. For public companies, the guidance is effective for financial statements issued for annual periods beginning after 15 December 2016 (i.e., 2017 for a calendar-year company) and interim periods within those annual periods. For all other entities, the guidance is effective for financial statements issued for annual periods beginning after 15 December 2017 (i.e., 2018 for a calendar-year company), and interim periods within annual periods beginning a year later. Early adoption of the guidance is permitted. Companies can adopt the guidance either prospectively or retrospectively. The Company is in the process of evaluating this accounting standard update and does not expect that adopting ASC 2015-17 will have a material impact on its consolidated financial statements.

## and Intangible Assets

At December 31, 2015 and 2014, the Company had cumulative goodwill impairment of $265.9 million. The following table provides changes in the carrying amount of goodwill by segment for the years ended December 31, 2015 and 2014:

| | Machine Clothing | Roll Covers | Total |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Balance at December 31, 2013 | $49,444 | $19,531 | $68,975 |
| Goodwill impairment | — | — | — |
| Foreign currency translations | (6,075) | (973) | (7,048) |
| Balance at December 31, 2014 | 43,369 | 18,558 | 61,927 |
| Goodwill impairment | — | — | — |
| Foreign currency translations | (2,426) | (902) | (3,328) |
| Balance at December 31, 2015 | $40,943 | $17,656 | $58,599 |

The components of intangible assets are summarized as follows at:

| | December 31,<br>2015 | 2014 |
|---|---|---|
| Patents and licenses | $32,562 | $32,636 |
| Less accumulated amortization | (31,173) | (30,971) |
| Net patents and licenses | 1,389 | 1,665 |
| Trademarks | 18,920 | 18,920 |
| Less accumulated amortization | (18,920) | (18,920) |
| Net trademarks | — | — |
| Other intangibles | 1,006 | 1,024 |
| Less accumulated amortization | (848) | (753) |
| Net other intangibles | 158 | 271 |
| Net amortizable intangible assets | $1,547 | $1,936 |

Amortization expense for patents, licenses, trademarks and other intangibles amounted to $298, $1,540 and $1,772 for the years ended December 31, 2015, 2014 and 2013, respectively.

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, rather than a definite-lived intangible. The Company adopted this pronouncement at December 31, 2015 and removed debt issuance costs from the above table. See Note 5 for further discussion.

As of December 31, 2015, the estimated amortization expense for patents, licenses, trademarks and other intangibles for each of the following periods total $1,547 as follows:

| | |
|---|---|
| 2016 | $359 |
| 2017 | 323 |
| 2018 | 275 |
| 2019 | 275 |
| 2020 and thereafter | 315 |

4. Notes Payable

At December 31, 2015 and December 31, 2014, the balances of the Austrian working capital loan is $6,556 and $244. At December 31, 2015, this loan bears interest at a variable rate of 1.65% and has a maturity date of June 30, 2016, with a twelve month roll-over option.

5. Long-Term Debt

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Senior secured term loan facility, payable quarterly, U.S. Dollar denominated–LIBOR (minimum 1.25%) plus 5.0% (6.25%) net of $0.7 million discount. Matures May of 2019. | $223,937 | $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 1.65%. Matures June 30, 2016, with one-year rollover option. | 6,556 | 244 |
| Fixed asset loan contract, variable interest rate of 5.78%. Matures June of 2020. | 8,548 | — |
| Other debt | 6,278 | 2,784 |
| Total debt | 481,729 | 465,490 |
| Less deferred financing costs | (7,293) | (9,771) |
| Less current maturities of long term debt and notes payable | (11,966) | (4,650) |
| Total long term debt | $462,470 | $451,069 |

During 2015, 2014 and 2013, the Company recorded $38.4 million, $36.8 million and $40.7 million in interest expense, respectively.

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 deferred financing 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. The Company adopted this pronouncement at December 31, 2015, as reflected in the above table.

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 U.S. 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 facility limit under the ABL Facility to $55.0 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 $30.0 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.

On July 17, 2015 (the "Closing Date"), Xerium China, Co., Ltd. ("Xerium China"), a wholly-owned subsidiary of the Company, entered into and closed a Fixed Assets Loan Contract (the "Loan Agreement") with the Industrial and Commercial Bank of China Limited, Shanghai-Jingan Branch (the “Bank”) with respect to a RMB 58.5 million loan, which was approximately $9.4 million U.S. Dollars on July 17, 2015. The loan is secured by pledged machinery and equipment of Xerium China and guaranteed by Xerium Asia Pacific (Shanghai) Limited and Stowe Woodward (Changzhou) Roll Technologies Co. Ltd., which are wholly-owned subsidiaries of the Company, pursuant to guarantee agreements (the "Guarantee Agreements"). Interest on the outstanding principal balance of the loan accrues at a benchmark rate plus a margin. The current interest rate is approximately 5.8%. The interest rate will be adjusted every 12 months during the term of the loan, based on the benchmark interest rate adjustment. Interest under the loan is payable quarterly in arrears. Principal on the loan is to be repaid in part every six months following the Closing Date, in accordance with a predetermined schedule set forth in the Loan Agreement. Proceeds of the Loan will be used by Xerium China to purchase production equipment. The Loan Agreement contains certain customary representations and warranties and provisions relating to events of default.

On November 3, 2015, the Company refinanced its existing ABL Facility and entered into a new Revolving Credit and Guaranty Agreement (as amended, the "New ABL Facility"). The New ABL Facility will continue to provide aggregate availability of $55 million and the collateral pledged thereunder will also remain the same, however the New ABL Facility provides improved terms, an extended maturity date of November of 2020 and lower interest rates.

The aggregate scheduled principal payments over the term of the Credit Facility, (excluding the $688 discount), the Notes and other long-term debt are shown below.

| | Total Scheduled Principal Payments Including Balloon Payments |
|---|---|
| 2016 | $11,966 |
| 2017 | 3,725 |
| 2018 (1) | 461,627 |
| 2019 | 2,692 |
| 2020 | 2,127 |
| 2021 and thereafter | 280 |
| | $482,417 |

(1) The Credit Facility will mature in March 2018 if any of the Company's 8.875% senior unsecured notes due 2018 in the aggregate principal amount of $240 million (the “Notes”) remain outstanding at that time;

Additionally, the following table outlines the estimated future interest payments to be made under the Credit Facility, the Notes and other long-term debt over the term of the obligations:

| | Total Estimated Interest Payments at December 31, 2015 |
|---|---|
| 2016 | $35,715 |
| 2017 | 35,326 |
| 2018 | 17,726 |
| 2019 | 236 |
| 2020 | 83 |
| 2021 and thereafter | 24 |

| | |
|---|---|
| | $89,110 |

As of December 31, 2015, there was a $460.3 million balance of loans outstanding under the Company's senior secured term loan facility and notes. At December 31, 2015, the Company had $31.4 million available for additional borrowings under the ABL revolver. This availability represents the $37.8 million under the ABL revolver that is currently collateralized by certain assets of the Company less $3.3 million of that facility committed for letters of credit and $3.1 million revolver borrowings. Additionally, at December 31, 2015, the Company had approximately $0.7 million available for borrowings under other small lines of credit.

As of December 31, 2015 the carrying value of the Company's long-term debt was $469.8 million (excluding deferred financing costs) and its fair value was approximately $468.9 million. The Company determined the fair value of its debt utilizing significant other observable inputs, provided by Bloomberg (Level 2 of the fair value hierarchy).

## 6. 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

The Company's objectives when using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company may use interest rate caps and interest rate swaps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges protect the Company from increases in interest rates above the strike rate of the interest rate cap. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counter-party in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. At December 31, 2015, the Company had no open cash flow hedges of interest rate risk as all such contracts settled in 2015.

### 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 to 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 December 31, 2015 and 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 (liabilities) on the Consolidated Balance Sheet. The fair value of these derivatives at December 31, 2015 and 2014 was $(1,188) and $(524), respectively. The change in fair value of these contracts is included in foreign exchange (loss) gain and was $(3,732), $(1,679) and $1,065 for the years ended December 31, 2015, 2014 and 2013, respectively, and is recorded in the Consolidated Statements of Operations.

The following represents the notional amounts sold and purchased for the year ended December 31, 2015:

| Foreign Currency Derivative | Notional Sold | Notional Purchased | |
|---|---|---|---|
| Non-designated hedges of foreign exchange risk | $2,817 | $(39,610 | ) |

### 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).

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.

To comply with Topic 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counter-party's nonperformance risk in the fair value measurements. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counter-parties. However, as of December 31, 2015 and December 31, 2014, respectively, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were classified in Level 2 of the fair value hierarchy. The Company does not have any derivatives valued using significant unobservable inputs (Level 3) as of December 31, 2015 or 2014. The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014, aggregated by the level in the fair value hierarchy within which those measurements fall.

As of December 31, 2015

| Liabilities | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observables Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Derivatives | $(1,188) | $ — | $(1,188) | $— |
| Total | $(1,188) | $ — | $(1,188) | $— |

As of December 31, 2014

| Liabilities | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observables Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Derivatives | $(524) | $ — | $(524) | $— |
| Total | $(524) | $ — | $(524) | $— |

## 7. Income Taxes

The components of domestic and foreign (loss) income before the provision for income taxes are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| U.S. | $(38,240) | $(16,311) | $(14,230) |
| Foreign | 47,325 | 39,009 | 22,746 |
| Total | $9,085 | $22,698 | $8,516 |

The components of the income tax provision (benefit) are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Current: | | | |
| U.S. | $1,196 | $247 | $222 |
| Foreign | 15,054 | 34,690 | 9,827 |
| Total current | 16,250 | 34,937 | 10,049 |
| Deferred: | | | |
| U.S. | (195) | 330 | 113 |
| Foreign | (2,590) | (5,187) | (5,799) |
| Total deferred | (2,785) | (4,857) | (5,686) |
| Total provision | $13,465 | $30,080 | $4,363 |

For the years ended December 31, 2015 and 2014, the provision for income taxes was $13,465 and $30,080

The Company's effective income tax rate for the year ended December 31, 2015 was 148.2% as compared with our effective rate for the year ended December 31, 2014 of 132.5%. The Company's effective income tax rate is primarily impacted by income the Company earns in tax paying jurisdictions relative to income it earns in non-tax paying jurisdictions. The majority of income recognized for purposes of computing the Company's effective tax rate is earned in countries where the statutory income tax rates range from 15% to 37.11%. The Company generates losses in certain jurisdictions for which it receives no tax benefit as the deferred tax assets in these jurisdictions (including the net operating losses) are fully reserved by a 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 its pre-tax earnings has a direct correlation with how high or low its annual effective tax rate is relative to consolidated earnings.

The provision for income taxes differs from the amount computed by applying the U.S. statutory tax rate (35)% to income before income taxes, due to the following:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Book income at U.S. 35% statutory rate | $3,180 | $7,944 | $2,981 |
| State income and other taxes due, net of federal benefit | 1,556 | 1,095 | 1,017 |
| Foreign tax rate differential | (1,927) | (3,110) | (840) |
| Dividends and other foreign (loss) income | 11,079 | (2,922) | 1,679 |
| Change in valuation allowance | (544) | 2,084 | (4,885) |
| Tax rate changes | (103) | 454 | 1,922 |
| Tax credits and refunds | (372) | (449) | (185) |
| Goodwill | — | — | (2,292) |
| Change in unrecognized tax benefits and tax reserves | (372) | (136) | (89) |
| Provision to return adjustments | (68) | (251) | (209) |
| Non-deductible expenses | 1,246 | 1,906 | 1,446 |
| Statute expiration of tax attributes | — | (30) | 2,764 |
| Other, net | (455) | 259 | 1,054 |
| Other Brazil permanent items | (314) | — | — |
| Settlement of tax assessments | 559 | 23,236 | — |
| Total | $13,465 | $30,080 | $4,363 |

The effective tax rate on continuing operations for the year ended December 31, 2015 varied from the statutory rate of 35% primarily due to the tax effect of dividends and other foreign income, foreign rate differentials and changes in valuation allowances. The amount for dividends and other foreign income of $11,079 was primarily related to residual U.S. taxes provided on foreign earnings no longer considered permanently reinvested. The foreign rate differential arises as a result of income earned in countries where the statutory income tax rates vary from the U.S. statutory rate of 35%, for which Austria creates the Company’s largest tax rate benefit. The change in the valuation allowance of $(544) relates primarily to a decrease in domestic deferred tax assets of $(357), a removal of a portion of the Australian valuation allowance of $(1,086) and an increase of pre-tax losses generated in other foreign jurisdictions for which the Company has determined no benefit should be recorded.

The effective tax rate on continuing operations for the year ended December 31, 2014 varied from the statutory rate of 35% primarily due to the tax effect on dividends and other foreign income, foreign rate differentials, settling a tax assessment in Brazil and changes in valuation allowances. The amount for dividends and other foreign income of $(2,922) was primarily related to residual U.S. taxes provided on foreign earnings no longer considered permanently reinvested. The foreign rate differential arises as a result of income earned in countries where the statutory income tax rates vary from the U.S. statutory rate of 35%, for which Austria creates the Company's largest tax rate benefit. The settlement of a assessment in Brazil also resulted in current tax expense of $23,386 and utilization of tax attributes of $1,912 and tax deductible interest of $(2,062). The change in the valuation allowance of $2,084 relates primarily to a increase in domestic deferred tax assets of $9,214, a removal of a portion of the U.K. holding company valuation allowance of $(6,625) and approximately $(505) of pre-tax losses generated in foreign jurisdictions for which the Company has determined no benefit should be recorded.

The effective tax rate on continuing operations for the year ended December 31, 2013 varied from the statutory rate of 35% primarily due to the tax effect on dividends and other foreign income, statute expirations of tax attributes, tax rate changes and changes in valuation allowances. The amount for dividends and other foreign income was $1,679, primarily related to residual U.S. taxes provided on foreign earnings no longer considered permanently reinvested including $327 of foreign withholding taxes, offset by residual U.S. taxes no longer provided on foreign earnings considered permanently reinvested for Argentina for years prior to 2014. The statute expiration of tax attributes relates to net operating loss carry-forwards in China and France and resulted in a corresponding decrease to the valuation allowance. Enacted tax rates changes of $1,922, primarily relate to the revaluation of the United Kingdom ("U.K.") deferred tax assets as a result of an enacted law change, which are fully offset by a corresponding valuation allowance. The change in the valuation allowance of $(4,885) relates primarily to a decrease in domestic deferred tax assets of $(2,590), a removal of the Canadian valuation allowance of $6,194 and approximately $(15,871) of pre-tax losses generated in foreign jurisdictions for which the Company has determined no benefit should be recorded.

For the years ended December 31, 2015 and 2014, tax expense included a benefit of approximately $190 and $171 for a Chinese tax holiday expired in the year ending December 31, 2015.

The Company utilizes the asset and 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.

The tax effect of temporary differences which give rise to deferred income tax assets and liabilities are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Deferred tax assets arising from: | | |
| Loss carryforwards | $105,096 | $104,890 |
| Intangible assets, net | — | — |
| Pension and other benefit accruals | 14,161 | 18,180 |
| Tax credits | 1,421 | 1,567 |
| Investments | 3,384 | 2,821 |
| Interest and finance fees | 1,229 | 1,697 |
| Other allowances and accruals, net | 11,670 | 13,334 |
| Total | 136,961 | 142,489 |
| Deferred tax liabilities arising from: | | |
| Property and equipment, net | 22,906 | 23,897 |
| Intangible assets, net | 3,866 | 4,188 |
| Foreign income inclusions | 12,615 | 7,178 |
| Other allowances and accruals, net | 126 | 165 |
| Total | 39,513 | 35,428 |
| Valuation allowance | 94,330 | 102,795 |
| Net deferred tax (asset) liability | $(3,118) | $(4,266) |

Deferred taxes are recorded as follows in the consolidated balance sheets:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Current deferred tax asset, net | $4,912 | $4,853 |
| Current deferred tax liability, net | 2,349 | 833 |
| Noncurrent deferred tax asset, net | 9,325 | 10,662 |
| Noncurrent deferred tax liability, net | 8,770 | 10,416 |
| Net deferred tax (asset) liability | $(3,118) | $(4,266) |

As of December 31, 2015, the Company has pre-tax net operating loss carry-forwards for U.S. federal income tax purposes of approximately $195,354 that expire on various dates from 2025 through 2035 and federal tax credits of approximately $166 that either expire on various dates or can be carried forward indefinitely. As of December 31, 2015, the Company has pre-tax net operating loss carry-forwards for U.S. state income tax purposes of approximately $207,804 that expire on various dates from 2016 through 2035. As of December 31, 2015, the U.S. federal and U.S. state net operating loss carry-forwards and federal tax credits are fully reserved in our valuation allowance. The Company has foreign federal net operating loss carry-forwards of approximately $115,060 and capital loss carry forwards of $7,176, the majority of which can be carried forward indefinitely, and federal and provincial tax credits of approximately $1,255 that begin to expire primarily in 2024 or are carried forward indefinitely. As of December 31, 2015, $58,523, $7,166 and $155, of foreign federal net operating loss carry-forwards, capital loss carry-forwards and federal and provincial tax credits, respectively, are reserved in our valuation allowance. Historic and future ownership changes could potentially reduce the amount of net operating loss carry-forwards available for use.

As a result of certain realization requirements of ASC 718, the table of deferred assets and liabilities shown above does not include certain deferred tax assets as of December 31, 2015 that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation recognized for financial reporting. Equity will be increased by $839 if and when such deferred tax assets are ultimately realized.

As of December 31, 2015, the Company had a valuation allowance in place for certain of its deferred tax assets due to the Company's accumulated loss position and its uncertainty around the future profitability in certain of its tax jurisdictions. The valuation allowance primarily relates to deferred tax assets for available net operating loss carry forwards in the United States, the U.K., Germany, Sweden, France, Australia, China, Turkey and Spain. While the Company believes it has adequately provided for its income tax assets and liabilities in accordance with Topic 740, it recognizes that adverse determinations by taxing authorities, or changes in tax laws and regulations could have a material adverse effect on its consolidated financial position, results of operations or cash flows.

During the year ended December 31, 2015, the Company reassessed its valuation allowance requirements related to its Australian operations, evaluating all available evidence in its analysis, both positive and negative, including historical and projected income and losses before the provision for income taxes, as well as reversals of temporary differences. The Company also considered tax planning strategies that are prudent and can be reasonably implemented if needed in order to realize the related tax benefits.  During the year ended December 31, 2015, the Company recorded $1,087 of tax benefits related to the reversal of a portion of its valuation allowance previously established against its Australian net deferred tax assets.  The Company believes that the deferred tax assets are more likely than not to be realized based on estimates of future taxable income generated by future earnings of its Australian business.

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. The most material unrecognized deferred tax asset relates to the U.S. By 2029, future U.S. earnings ranging between $30 million and $120 million, generated by U.S. earnings from continuing operations or qualified tax planning strategies, would be required in order to full recognize the U.S. deferred tax asset.

Undistributed earnings of the Company’s foreign subsidiaries amounted to approximately $107,169 at December 31, 2015. Earnings generated prior to 2013 are considered to be indefinitely reinvested for continued use in foreign operations except for a portion of the earnings generated by our Brazil operations.  As a result of the 2014 settlement of the income tax assessment with the Federal Revenue Department of the Ministry of Finance of Brazil, approximately $15,100 of unremitted earnings in Brazil generated before 2013 are considered permanently reinvested to support debt obligations related to the tax assessment, meet capital expenditures and reinvest in the operations. All earnings generated prior to 2013 related to our Mexico operations have been distributed for U.S. income tax purposes. The earnings generated in all foreign subsidiaries for 2013 through 2015 are not considered to be permanently reinvested, because of our desire to manage global cash and liquidity related to ongoing financial obligations, capital expenditures, restructuring payments and other changes in business conditions going forward.  The amount of undistributed earnings not considered to be permanently reinvested, for which we have recorded a deferred tax liability, is $76,488. U.S. Federal income taxes and foreign withholding taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the United States and be taxable. For the earnings generated prior to 2013 considered to be indefinitely reinvested, no provision for U.S. income taxes or foreign withholding taxes has been provided. Upon distribution of those earnings in the form of dividends or otherwise, the Company may be subject to both U.S. income taxes and foreign withholding taxes payable to the various jurisdictions. The earnings that are considered indefinitely reinvested relate to on-going operations and were approximately $30,680 as of December 31, 2015.

The Company accrues for certain known and reasonably anticipated income tax obligations after assessing the likely outcome. In the event that actual results differ from these accruals or if the Company becomes subject to a tax obligation for which the Company has made no accrual, the Company may need to make adjustments, which could materially impact the financial condition and results of operations. For example, taxing authorities may disagree with the Company’s tax accounting methodologies and may subject the Company to inquiries regarding such taxes, which potentially could result in additional income tax assessments. In accordance with ASC 740-10-25-6, the Company does not accrue for potential income tax obligations if management deems a particular tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. In making this determination, the Company assumes that the taxing authorities will have access to all relevant facts and information in accordance with ASC 740-10-25-7.

As of December 31, 2015, the Company had a gross unrecognized tax benefit of $7,527, exclusive of interest and penalties. The unrecognized tax benefit increased by approximately $25 during the year ended December 31, 2015. The unrecognized tax benefit increased as a result of positions taken related to the current period. The unrecognized tax benefit decreased as a result of foreign currency effects.

A reconciliation of the balances of the unrecognized tax benefits is as follows, excluding interest and penalties:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Balance as of January 1 | $7,502 | $7,492 | $7,181 |
| Gross decreases-tax positions in prior period due to settlements | — | (286) | (446) |
| Gross increases (decreases)-tax positions in prior period-other | (104) | 100 | 867 |
| Gross decreases-related to lapse in statute of limitations | (209) | (251) | (1,004) |
| Gross increases-tax positions in current period | 688 | 911 | 820 |
| Currency effects | (350) | (464) | 74 |
| Balance at December 31 | $7,527 | $7,502 | $7,492 |

The Company’s policy is to recognize interest and penalties related to income tax matters as income tax expense, and accordingly, the Company recorded a $451 benefit, including currency effects, and a $318 benefit, including currency effects, for interest and penalties during the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Company had accrued interest and penalties related to uncertain tax positions of approximately $813 and $1,533, respectively. The Company's unrecognized tax benefits increased by approximately $25 and $10 during the years ended December 31, 2015 and 2014, respectively. If the Company were to prevail on all unrecognized tax benefits recorded, approximately $3,710 would benefit the effective tax rate. During the next twelve months, management estimates a range between $0 and $221 of the Company's gross unrecognized tax benefit will reverse due to expected settlements and statute of limitations expiring which relate to various items and will benefit the effective tax rate. The company regularly evaluates, assesses and adjusts the related liabilities in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period. The tax years 2005 through 2015 remain open to examination in the Company's U.S. Federal jurisdiction, and the tax years 2002 through 2015 remain open to examination in the Company's U.S. state jurisdictions. The tax years 2006 through 2015 remain open to examination in the major foreign tax jurisdictions to which the Company and its subsidiaries are subject. There are currently no U.S. Federal audits or examinations underway. The Company has ongoing audits or tax litigation in Italy. During 2015, tax audits related to Canada, Germany, Austria and France were closed, with no significant changes.

The Company believes that it has made adequate provisions for all income tax uncertainties.

## 8. Pensions and Other Post Retirement Benefits

### Pension Plans

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. Approximately $43,300 of the total underfunded status of $62,795 and $51,200 of the total underfunded status of $80,685 relate to these unfunded pension plans as of December 31, 2015 and 2014, respectively. 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. Additional discretionary contributions are made when deemed appropriate to meet the long-term obligations of the plans.

In accordance with the provisions of Topic 715, the measurement date for defined benefit plans is December 31.

### Benefit Obligations and Plan Assets

A summary of the changes in benefit obligations and plan assets as of December 31, 2015 and 2014 is presented below.

| | Defined Benefit Plans | |
|---|---|---|
| | 2015 | 2014 |
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $178,165 | $161,101 |
| Service cost | 3,256 | 3,532 |
| Interest cost | 5,656 | 6,483 |
| Plan participants’ contributions | 93 | 101 |
| Actuarial (gain) loss | (10,177) | 27,965 |
| Currency translation impact | (10,237) | (10,583) |
| Administrative expenses paid | (234) | (511) |
| Settlement/curtailment | (9,456) | (694) |
| Benefits paid | (7,958) | (9,229) |
| Benefit obligation at end of year | 149,108 | 178,165 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | 97,480 | 93,550 |
| Actual return on plan assets | 755 | 10,493 |
| Employer contributions | 6,700 | 8,168 |
| Plan participants’ contributions | 93 | 101 |
| Settlement/curtailment | (4,825) | (694) |
| Administrative expenses paid | (234) | (511) |
| Currency translation impact | (5,698) | (4,398) |
| Benefits paid | (7,958) | (9,229) |
| Fair value of plan assets at end of year | 86,313 | 97,480 |
| Funded status (1) | $(62,795) | $(80,685) |

(1) In accordance with Topic 715, $2,981 and $3,568 of this amount is recorded in accrued expenses as of December 31, 2015 and 2014, respectively.

With the exception of the Canadian Plan in 2015, which has net assets of $452, all of the Company’s pension plans that comprise the pension obligation amounts above have a projected benefit obligation equal to or in excess of plan assets as of the years ended December 31, 2015 and 2014. The accumulated benefit obligation was $144,231 and $167,679 as of the years ended December 31, 2015 and 2014, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows:

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Projected benefit obligation | $149,108 | $178,165 |
| Accumulated benefit obligation | $144,231 | $167,679 |
| Fair value of plan assets | $86,313 | $97,480 |

Components of Net Periodic Benefit Cost

| | Defined Benefit Plan | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Service cost | $3,256 | $3,532 | $3,633 |
| Interest cost | 5,656 | 6,483 | 6,221 |
| Expected return on plan assets | (6,221) | (6,156) | (5,555) |
| Amortization of prior service cost | — | — | 11 |
| Settlement losses | 1,108 | — | — |
| Amortization of net loss | 2,139 | 1,124 | 2,323 |
| Net periodic benefit cost | $5,938 | $4,983 | $6,633 |

The total unrecognized net loss recorded in Other Comprehensive Income (Loss) at December 31, 2015 is $38,828. For defined benefit plans, the estimated net loss and prior service cost to be amortized from accumulated other comprehensive loss during 2016 is expected to be $1,973 and $0, respectively.

| Additional Information | Defined Benefit Plans | |
|---|---|---|
| | 2015 | 2014 |
| Change in funded status included in accumulated other comprehensive loss, net of tax | $(11,057) | $17,135 |

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

| | Defined Benefit Plans | |
|---|---|---|
| | 2015 | 2014 |
| Discount rate | 3.67% | 3.40% |
| Rate of compensation increase | 3.50% | 3.64% |

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

| | Defined Benefit Plans | |
|---|---|---|
| | 2015 | 2014 |
| Discount rate | 3.40% | 4.25% |
| Expected long-term return on plan assets | 6.62% | 6.63% |
| Rate of compensation increase | 3.64% | 3.75% |

The expected long-term return on plan assets is calculated based on a building-block approach, whereby the components are weighted based on the long-term allocation of pension plan assets.

Plan Assets

The percentage of fair value of total plan assets for funded plans are invested as follows:

| | Plan Assets at December 31, | |
|---|---|---|
| Asset Category | 2015 | 2014 |
| Marketable equities | 54% | 56% |
| Fixed income securities | 46% | 44% |
| Total | 100% | 100% |

The Company’s plan assets are invested in the U.S., the U.K. and Canada. Plan asset investments are accounted for at cost on the trade date and are reported at fair value. Canadian plan assets totaling $23,085,U.K. plan assets totaling $30,582 and U.S. plan assets totaling $32,645 are classified as Level 2 within the fair value heirarchy. Level 2 valuations are based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

In general, plan assets are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the plan assets. The investment objective of the plans is to maximize the return on plan assets over a long time horizon, while meeting the plan obligations. Investment risk is substantially reduced by diversification of investments within particular asset classes. The expected future rate of return on plan assets is based on historic performance of bonds and equities and the higher returns expected by equity-based capital relative to debt capital. The agreements with the fund managers include a number of restrictions which are designed to ensure that only suitable investments are held. Generally, investment performance is provided to and reviewed by the Company on a quarterly basis. If any changes take place in the legal, regulatory or tax environment which impact the investment of the portfolios or the investment returns, the fund manager is expected to notify the Company immediately and to advise on their anticipated impact.

Details relating to the Company’s plan assets are as follows:

U.S. Plan Assets: Approximately 88% of the Company’s U.S. plan assets are invested in the U.S., of which 51% are invested in marketable equity securities and 49% are invested in fixed income securities managed by the fund manager. This allocation is in accordance with the strategic allocation adopted by the Company’s pension committee comprising of approximately 50% equity investment and 50% bond investment.

U.K. Plan Assets: Approximately 81% of the Company’s U.K. plan assets are invested in the U.K., of which 30% are invested in marketable equity securities and 70% are invested in fixed income securities managed by the fund manager. The trustees of the U.K. pension plan have adopted a strategic allocation comprising of 50% equity investment and 50% bond investment.

Canadian Plan Assets: Approximately 58% of the Company’s Canadian plan assets are invested in Canada, of which 46% are invested in marketable equity securities, 54% are invested in fixed income securities managed by the fund manager. The Company’s pension committee has adopted a strategic allocation comprising of approximately 66% equity investment and 34% bond investment.

Contributions and Benefit Payments

The Company expects to make contributions and benefit payments of approximately $5,644 under its defined benefit plans in 2016.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | Defined Benefit Plans |
|---|---|
| 2016 | $6,520 |
| 2017 | 6,483 |
| 2018 | 6,499 |
| 2019 | 6,707 |
| 2020 | 6,980 |
| Years 2021 and thereafter | 39,116 |

The Company sponsors various unfunded defined contribution plans that provide for retirement benefits to employees, some in accordance with local government requirements. The Company also maintains a funded retirement savings plan for U.S. employees which is qualified under Section 401(k) of the U.S. Internal Revenue Code. The plan allows eligible employees to contribute up to 99% of their compensation (subject to certain Internal Revenue Service limitations), with the Company matching 100% of the first 3% of employee compensation and 50% of the next 2% of employee compensation. The following represents the approximate matching contribution expense for the years ended

December 31, 2015, 2014 and 2013:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Matching contribution expense | $1,333 | $1,420 | $1,604 |

9. Commitments and Contingencies

Leases

The Company leases office buildings, vehicles and computer equipment for its worldwide operations. Minimum rent is expensed on a straight-line basis over the term of the leases. Operating lease rental expense was $3,224, $4,754 and $3,893 during the years ended December 31, 2015, 2014 and 2013, respectively. These leases expire at various dates through 2023. At December 31, 2015, future minimum rental payments due under non-cancelable operating leases were as follows:

| | |
|---|---|
| 2016 | $2,834 |
| 2017 | 2,078 |
| 2018 | 1,392 |
| 2019 | 1,280 |
| 2020 | 1,019 |
| Thereafter | 804 |
| Total minimum operating lease payments | $9,407 |

The Company entered into a capitalized lease during 2013 for its corporate headquarter location and entered into various machinery and equipment capitalized leases in 2014 and 2015. These leases expire at various dates through 2024. In addition, the Company entered into a sale-leaseback transaction in the fourth quarter of 2015 for various machinery and equipment. These leases expire at various dates through 2019.

| | |
|---|---|
| 2016 | $3,101 |
| 2017 | 3,083 |
| 2018 | 2,842 |
| 2019 | 2,229 |
| 2020 | 981 |
| Thereafter | 2,796 |
| Total minimum capital lease payments | $15,032 |

Collective Bargaining and Union Agreements

Approximately 69% of the Company’s employees either are subject to various collective bargaining agreements or are members of trade unions, employee associations or workers councils predominantly outside of the United States. Approximately 9% of those employees subject to collective bargaining agreements, or 6% of the Company’s total employees, are covered by agreements that are set to expire during 2016.

Legal Proceedings

The Company and its subsidiaries are involved in various legal matters, which have arisen in the ordinary course of business as a result of various labor claims, taxing authority reviews and other legal matters. As of December 31, 2015, the Company had accrued an immaterial amount in its financial statements for these matters for which (1) management believed the possibility of loss was either probable or possible and (2) was able to estimate the damages. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company’s assumptions or the effectiveness of our strategies related to these proceedings.

Environmental Matters

The Company’s operations and facilities are subject to a number of national, state and local laws and regulations protecting the environment and human health in the United States and foreign countries that govern, among other things, the handling, storage and disposal of hazardous materials, discharges of pollutants into the air and water and workplace safety. Because of the Company’s operations, the history of industrial uses at some of these facilities, the operations of predecessor owners or operators of some of the businesses, and the use and release of hazardous substances at these sites, the liability provisions of environmental laws may affect the Company. The Company is not aware of any material unasserted claims.

The Company believes that any additional liability in excess of amounts provided which may result from the resolution of such 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 ("Topic 718") and has used the straight-line attribution method to recognize expense for time-based restricted stock units ("RSUs") and deferred stock units ("DSUs") and recognizes expense for the performance and market-based restricted stock units based on management's estimate of performance against the targets in each plan. The Company recorded stock-based compensation expense during the years ended December 31, 2015, 2014 and 2013 as follows:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| RSU and DSU Awards (1) | $2,740 | $2,176 | $1,457 |
| Other Awards (2) | 558 | 372 | 279 |
| Total | $3,298 | $2,548 | $1,736 |

(1) Related to RSUs and DSUs awarded to certain employees and non-employee directors.

(2) This amount relates to options awarded on August 15, 2012 to the Chief Executive Officer.

The related tax impact on stock-based compensation was a tax benefit of $26, $28 and $7 for the years ended December 31, 2015, 2014 and 2013, respectively.

2010 Equity Incentive Plan

The Company adopted the 2010 Equity Incentive Plan (the “2010 Plan”) in May of 2010. The 2010 Plan provides for the grant of awards consisting of any or a combination of stock options, stock appreciation rights, restricted stock, unrestricted stock or stock unit awards.

Long-Term Incentive Program—2015 LTIP

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 35th 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 35th 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 55th percentile TSR of companies in the S&P Global Small Cap Index. TSR performance between the 35th and 55th 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%. At December 31, 2015, based on the current financial performance and current stock price of the Company, management performed a valuation on the performance-based and market-based stock units, and determined the estimated payout to be at 25.5%, or 12,454 shares for the performance-based stock units and 28.5%, or 13,920 shares for the market-based stock units.

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.

Long-Term Incentive Program—2014 LTIP

On May 8, 2014, the Board approved the granting of awards under the 2014 Executive Long-Term Incentive Plan (the "2014 Executive LTIP") under the 2010 Plan. Awards under the 2014 Executive LTIP are time-based, performance-based and market-based and will be paid in the form of RSUs or shares of common stock of the Company. Time-based awards, or 35% of the total award, were granted in the form of 60,339 time-based RSUs under the Company’s 2010 Plan. These time-based awards will cliff vest on May 8, 2017, and will be converted to common stock, net of applicable tax withholdings.

The performance-based awards, which constitute 32.5% of the total award, were granted in the form of 56,029 performance-based RSUs under the Company’s 2010 Plan. These awards will vest based on a targeted Adjusted EBITDA performance. The targeted Adjusted EBITDA performance portion of the award measures the Company’s performance against a three-year cumulative Adjusted EBITDA metric, adjusted for currency fluctuations during the term of the 2014 – 2016 Executive LTIP. These awards will convert into shares of the Company’s common stock and be paid after the close of a three-year performance period of January 1, 2014 through December 31, 2016. The amount of the payment will range from 0% to 100% of the employee's total Adjusted EBITDA performance shares. Upon attainment of cumulative Adjusted EBITDA equal to 80% or less of the target, none of the Adjusted EBITDA performance shares will vest. Upon attainment of more than 80% of the target, the adjusted EBITDA performance shares will begin vesting on a straight-line basis from 0% at 80% of the target to 100% at 100% of the target, up to a maximum payout of 100% of the Adjusted EBITDA performance shares.

The market-based awards, which constitute 32.5% of the total award, were granted in the form of 56,029 market-based RSU's under the Company's 2010 Plan. These awards will vest, based on the performance of the Company's common stock against the performance of listed companies on the S&P Global Small Cap Index, on the third anniversary of the grant date, or May 8, 2017. These awards will convert into shares of the Company’s common stock and be paid after the close of the three-year performance period of May 8, 2014 through May 8, 2017. The shares that may vest will be up to 100%, with a lower threshold of a a 50% payout for 35th percentile performance and full payout at 100% for 55th percentile performance. Performance between the 35th and 55th percentile performance will result in an interpolated payout percentage between 50% and 100%.

At December 31, 2015, based on the current financial performance and current stock price of the Company, management performed a valuation on the performance-based and market-based stock units, and determined the estimated payout to be at 32.0%, or 17,929 shares for the performance-based stock units and 32.8%, or 18,378 shares for the market-based stock units.

Long-Term Incentive Program—2013 LTIP

On June 13, 2013, the Board approved the granting of awards under the 2013 Executive Long-Term Incentive Plan (the "2013 Executive LTIP") under the 2010 Plan. Awards under the 2013 Executive LTIP are both time-based and market-based and will be paid in the form of RSUs or shares of common stock of the Company. Time-based awards, or 50% of the total target award, were granted in the form of 179,571 time-based RSUs under the Company's 2010 Plan. These time-based awards will cliff vest on March 11, 2016, and will be converted to common stock, net of applicable tax withholdings. Market-based awards, which constitute the remaining 50% of the total award, will vest depending on the Company's common stock price performance during the three-year participant service period from March 11, 2013 through March 10, 2016. If the awards vest, they will convert into shares of the Company's common stock and be paid after the close of the three-year period. At December 31, 2015, the Company's common stock price had exceeded all stock price performance targets and is expected to payout at 100% at the end of the three-year period.

Other Stock Compensation Plans

On August 15, 2012, the Company granted Mr. Bevis a sign-on award of 204,208 RSUs and options to acquire 781,701 shares of the Company's common stock, par value $0.001 per share. Both the RSUs and the options will vest over a three year period, beginning on the second anniversary of the August 15, 2012 grant date. The options have a 10-year term and an exercise price of $4.00 per share, the August 15, 2012 closing price of the Company's common stock on the New York Stock Exchange. On August 15, 2015, one third, or 68,063, of Mr. Bevis's RSUs vested and were converted to 35,596 shares of the Company's common stock, net of withholdings. In addition, on August 15, 2015, one third, or 260,541, of Mr. Bevis's options vested. Mr. Bevis exercised his options through a cashless exercise, and after withholding taxes, he received 99,632 shares of the Company's common stock.

Directors' Deferred Stock Unit Plan

On March 15, 2011, the Board approved a new compensation plan for non-management directors (the "2011 DSU Plan"). Under this plan, each director is to receive an annual retainer of $132, to be paid on a quarterly basis in arrears. Half of the annual retainer is payable in DSUs, with the remaining half payable in cash. The non-management directors were awarded an aggregate 30,051 DSUs under the 2011 DSU Plan for service during the year ended December 31, 2015. In addition, in accordance with the 2011 DSU Plan, 21,931 DSUs were settled in common stock during the year ended December 31, 2015.

A summary of RSUs outstanding as of December 31, 2015 and their vesting dates is as follows.

| Plan Description | Remaining Vesting Dates | Number of RSUs |
|---|---|---|
| DSUs | Vest immediately upon grant, on a quarterly basis | 79,444 |
| Executive time-based RSUs granted during 2013 | March 10, 2016 | 172,573 |
| Executive market-based RSUs granted during 2013 | March 10, 2016 | 172,578 |
| Time-based RSUs granted to CEO during 2012 | August 15, 2016 | 68,082 |
| Executive time-based RSUs granted during 2014 | March 10, 2017 | 60,339 |
| Executive market and performance based RSUs granted during 2014 | March 10, 2017 | 112,058 |
| Executive time-based RSUs granted during 2015 | March 2, 2018 | 52,600 |
| Executive market and performance based RSUs granted during 2015 | March 2, 2018 | 97,682 |
| | | 815,356 |

RSU activity during years ended December 31, 2013, 2014 and 2015, are presented below.

| | Number of RSUs | Price Range of Grant-Date Fair Value Per RSU | Weighted Average Grant-Date Fair Value Price Per RSU |
|---|---|---|---|
| Outstanding, December 31, 2012 | 460,704 | $4.04 – $21.69 | $6.57 |
| Granted | 371,152 | 9.33 – 9.83 | 9.81 |
| Forfeited | (47,602) | 4.07 – 21.69 | 3.71 |
| Issued or withheld for tax withholding purposes | (86,650) | 4.07 – 21.69 | 11.26 |
| Outstanding, December 31, 2013 | 697,604 | 4.04 – 21.69 | 6.57 |
| Granted | 176,118 | 12.00 - 15.05 | 12.06 |
| Forfeited | (702) | 4.07 – 21.69 | 3.71 |
| Issued or withheld for tax withholding purposes | (134,296) | 4.07 – 21.69 | 5.18 |
| Outstanding, December 31, 2014 | 738,724 | 4.04 – 21.69 | 8.61 |
| Granted | 181,831 | 9.71 – 15.97 | 14.93 |
| Forfeited | (282) | 8.25 | 8.25 |
| Issued or withheld for tax withholding purposes | (104,917) | 4.04 – 9.71 | 5.35 |
| Outstanding, December 31, 2015 | 815,356 | $4.04 – $15.97 | $10.93 |
| Exercisable, December 31, 2015 (1) | 79,444 | $2.90 – $24.05 | $9.71 |

(1) The Company had 79,444 non-employee director DSUs that have vested, but have not yet been converted to common stock. These DSUs have a weighted average exercise price of $9.71, an intrinsic value of $320 and a total grant-date fair value of $771. As the non-employee director can elect to exercise these DSUs six months following their retirement from the Board of Directors, there is no definite weighted average life of these DSUs.

Assumptions

In accordance with Topic 718, the Company uses the following assumptions in determining compensation expense:

Grant-Date Fair Value

The Company calculates the grant-date fair value of time-based RSUs, performance-based RSUs and non-employee directors' DSUs based on the closing price of the Company's common stock on the date of grant.

Forfeitures

As the time-based and performance-based RSUs require continued employment or service up to the time of vesting, the amount of stock-based compensation recognized during a period is required to include an estimate of forfeitures. No estimate of forfeitures has been made for RSUs and DSU's awarded to non-employee directors because they vest immediately upon grant. Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is related to employee attrition and based on a historical analysis of its employee turnover. This analysis is re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will be only for those shares that meet the requirements of continued employment up to the time of vesting. As of December 31, 2015, the forfeiture rates for the 2013, 2014 and 2015 plans are estimated at 0%.

As of December 31, 2015, there was approximately $1.9 million of total unrecognized compensation expense related to un-vested share-based awards which is expected to be recognized over a weighted average period of 1.52 years years.

The Company's Credit Facility generally prohibits the payment of dividends and accordingly, no such payments were made during the years ended December 31, 2015 and 2014.

11. Restructuring Expense

Restructuring expense included in the Company's statements of operations are the result of its long-term strategy to reduce production costs and improve long-term competitiveness. Restructuring and impairments expense consists principally of severance costs related to reductions in work force and of facility costs and impairments of assets principally related to closing facilities and/or the relocation of production to another facility. Impairment amounts for assets held for sale reflect estimated selling prices less costs to sell and are considered to be a Level 2 within the fair value hierarchy. Facility costs are principally comprised of costs to relocate assets to the Company's other facilities, operating lease termination costs and other associated costs.

During 2015, we incurred restructuring expenses of $14.6 million, a decrease of $(3.5) million, or (19.3)% from $18.1 million in 2014. These included $4.4 million of charges related to the closure of the Joao Pessoa, Brazil clothing facility, $4.9 million of charges related to the closure of Warwick, Canada machine clothing facility, as described above, and $6.4 million of charges relating to headcount reductions and other costs relating to previously announced plant closures. These charges were partially offset by a gain of $1.1 million on the sale of the Joao Pessoa, Brazil machine clothing facility in the fourth quarter of 2015.

During 2014, the Company incurred restructuring expenses of $18.1 million. These charges were related to $4.0 million in headcount reductions, $4.5 million of charges related to the closure of the Heidenheim rolls facility, $4.8 million in impairment charges and severance and other charges due to the closing of the Joao Pessoa, Brazil clothing facility, a $1.6 million charge in Italy to terminate a sales agency contract, $1.5 million in severance charges relating to the closure of the Argentina press felt facility, $1.2 million of charges relating to the closed France rolls facility, including costs related moving certain assets to China and other locations in Europe, $0.2 million of costs associated with liquidating the Vietnam facility, and $1.2 million in severance and facility charges relating to the Spain closure. These costs were partially offset by a gain of $0.9 million recorded in connection with the sale of the Spain and France facilities in the third and fourth quarters of 2014.

During 2013, the Company recorded restructuring and impairment expenses of approximately $14.8 million, of which $8.2 million, $5.6 million and $1.0 million were in the machine clothing, rolls and corporate segments. These included charges relating to the reduction of base costs via previously announced headcount reductions, the closure of two machine clothing facilities in Spain and Argentina and the closure of three rolls facilities in Germany, France and U.S. $8.8 million of the 2013 charges relate to plant closures announced in previous years. Of this amount, $4.6

million are increases in 2012 severance estimates and $4.2 million are 2013 period costs. $6.0 million of the 2013 charges relate to the 2013 announced closure of a Rolls facility located in Germany and ongoing headcount reduction initiatives.

In the fourth quarter of 2015, the Company sold the Joao Pessoa facility for $2.8 million. Their carrying value at the time of sale was $1.7 million, and the Company recorded a gain on this sale of $1.1 million, which was an offset to restructuring expense on the Company's Consolidated Statement of Operations.

In the fourth quarter of 2014, the Company sold the France and Spain facilities for $2.1 million and $1.1 million, respectively. Their carrying values at the time of sale were $1.8 million and $0.2 million, and the Company recorded a gain on these sales of $0.9 million, which was an offset to restructuring expense on the Company's Consolidated Statement of Operations.

The Company expects to continue to review its business to determine if additional actions will be taken to further improve its cost structure. Restructuring expenses of approximately $11.0 million are estimated during 2016, primarily related to the continuation of streamlining the operating structure and improving long-term competitiveness of the Company. Actual restructuring costs for 2016 may substantially differ from estimates at this time, depending on actual operating results in 2016 and the timing of the restructuring activities.

The table below sets forth the significant components and activity in the restructuring program during the years ended December 31, 2015, 2014 and 2013:

| 2015 | Balance at December 31, 2014 | Charges (1) | Currency Effects | Cash Payments | Balance at December 31, 2015 (2) |
|---|---|---|---|---|---|
| Severance | $4,880 | $8,006 | $(728) | $(6,850) | $5,308 |
| Facility costs and other | 818 | 6,486 | (122) | (6,279) | 903 |
| Total | $5,698 | $14,492 | $(850) | $(13,129) | $6,211 |

(1) Amount excludes $986 related to impairment charges, $243 in other non-cash charges and $(1,072) related to the gain on sale of certain asset sales.

(2) Amount included in Accrued Expenses on the Consolidated Balance Sheets at December 31, 2015.

| 2014 | Balance at December 31, 2013 | Charges (1) | Currency Effects | Cash Payments | Balance at December 31, 2014 (2) |
|---|---|---|---|---|---|
| Severance | $6,466 | $13,095 | $(786) | $(13,895) | $4,880 |
| Facility costs and other | 1,468 | 5,638 | (333) | (5,955) | 818 |
| Total | $7,934 | $18,733 | $(1,119) | $(19,850) | $5,698 |

(1) Amount excludes $263 related to impairment charges and $(854) related to the gain on sale of certain asset sales.

(2) Amount included in Accrued Expenses on the Consolidated Balance Sheets at December 31, 2014.

| 2013 | Balance at December 31, 2012 | Charges (1) | Currency Effects | Cash Payments | Balance at December 31, 2013 (2) |
|---|---|---|---|---|---|
| Severance | $15,577 | $10,574 | $57 | $(19,742) | $6,466 |
| Facility costs and other | 335 | 3,583 | 133 | (2,583) | 1,468 |
| Total | $15,912 | $14,157 | $190 | $(22,325) | $7,934 |

(1) Amount excludes $687 related to impairment charges.

(2) Amount included in Accrued Expenses on the Consolidated Balance Sheets at December 31, 2013.

## 12. Business Segment Information

The Company is a global manufacturer and supplier of consumable products primarily used in the production of paper, and is organized into two reportable segments: machine clothing and roll covers. The machine 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 a papermaking machine. The Company manages each of these operating segments separately.

Management evaluates segment performance based on earnings before interest, taxes, depreciation and amortization 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 these segments are the same as those described in Accounting Policies in Note 2. Inter-segment net sales and inter-segment eliminations are not material for any of the periods presented.
The corporate column consists of the Company's headquarters, related assets and expenses that are not allocable to reportable segments. Significant corporate assets include cash, investments in subsidiaries and deferred financing costs. Corporate depreciation and amortization consists primarily of deferred financing costs. Corporate segment earnings (loss) consists of general and administrative expenses. The eliminations column represents eliminations of investments in subsidiaries.
Summarized financial information for the Company's reportable segments is presented in the tables that follow for each of the three years ended December 31, 2015.

| | Machine clothing | Roll Covers | Corporate | Eliminations | Total |
|---|---|---|---|---|---|
| 2015 | | | | | |
| Net sales | $299,991 | $177,252 | $— | $— | $477,243 |
| Depreciation and amortization (1) | $18,889 | $8,754 | $1,607 | $— | $29,250 |
| Segment Earnings (Loss) | $84,743 | $35,045 | $(16,061 ) | $— | |
| Total assets | $441,742 | $228,477 | $627,121 | $(746,966 ) | $550,374 |
| Capital expenditures | $25,560 | $17,914 | $7,397 | $— | $50,871 |
| 2014 | | | | | |
| Net sales | $347,003 | $195,929 | $— | $— | $542,932 |
| Depreciation and amortization (1) | $23,457 | $9,666 | $1,169 | $— | $34,292 |
| Segment Earnings (Loss) | $89,305 | $41,172 | $(14,508 ) | $— | |
| Total assets | $475,945 | $222,355 | $661,217 | $(775,244 ) | $584,273 |
| Capital expenditures | $22,964 | $10,918 | $11,336 | $— | $45,218 |
| 2013 | | | | | |
| Net sales | $352,336 | $194,556 | $— | $— | $546,892 |
| Depreciation and amortization (1) | $26,148 | $10,133 | $122 | $— | $36,403 |
| Segment Earnings (Loss) (2) | $79,852 | $41,256 | $(13,783 ) | $— | |
| Total assets | $497,109 | $229,105 | $701,626 | $(814,854 ) | $612,986 |
| Capital expenditures | $18,799 | $10,029 | $15,317 | $— | $44,145 |

(1) Depreciation and amortization excludes amortization of financing costs, included in interest expense of $3,462, $3,303, and $2,963 for 2015, 2014 and 2013, respectively.

(2) During 2014, the Company adopted a global policy for allocating overhead costs to segments. As a result of this change, segment earnings reclassifications were made to 2013 to be on a consistent basis with 2014 and 2015, increasing Clothing Segment Earnings and decreasing Rolls Segment Earnings by $3,922 or the year ending December 31, 2013.

Provided below is a reconciliation of Segment Earnings (Loss) to income before provision for income taxes for each of the three years in the period ended December 31:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Segment Earnings : | | | |
| Machine clothing | $84,743 | $89,305 | $79,852 |
| Roll Covers | 35,045 | 41,172 | 41,256 |
| Corporate | (16,060) | (14,508) | (13,783) |
| Stock-based compensation | (3,298) | (2,548) | (1,736) |
| Inventory write-off related to closed facilities | (587) | — | (954) |
| Idle facility asset impairment | (494) | — | (667) |
| Pension settlement losses | (1,108) | — | — |
| Plant startup costs | (3,886) | (1,521) | (401) |
| Non-recurring expenses | (2,570) | — | — |
| Interest expense, net | (38,413) | (36,768) | (40,681) |
| Depreciation and amortization (1) | (29,250) | (34,292) | (36,403) |
| Restructuring expenses | (14,649) | (18,142) | (14,844) |
| Loss on debt extinguishment | (388) | — | (3,123) |
| Income before provision for income taxes | $9,085 | $22,698 | $8,516 |

(1) Excludes amortization of deferred finance costs that are charged to interest expense.

Information concerning principal geographic areas is set forth below. Net sales amounts are for the years ended December 31, 2015, 2014 and 2013 and property, plant and equipment amounts are as of December 31, 2015, 2014 and 2013.

| | North America | Europe | Asia Pacific | Other | Total |
|---|---|---|---|---|---|
| 2015 | | | | | |
| Net sales | $185,929 | $154,180 | $91,471 | $45,663 | $477,243 |
| Property, plant and equipment | $97,451 | $100,022 | $69,164 | $30,446 | $297,083 |
| 2014 | | | | | |
| Net sales | $207,839 | $182,788 | $101,596 | $50,709 | $542,932 |
| Property, plant and equipment | $98,421 | $113,217 | $50,038 | $41,941 | $303,617 |
| 2013 | | | | | |
| Net sales | $208,746 | $189,696 | $101,516 | $46,934 | $546,892 |
| Property, plant and equipment | $103,179 | $125,857 | $30,733 | $49,895 | $309,664 |

## 13. 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, the following 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.

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

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $3,105 | $(2) | $6,736 | $— | $9,839 |
| Accounts receivable, net | 20 | 18,585 | 49,957 | — | 68,562 |
| Intercompany (payable) receivable | (110,541) | 113,736 | (3,195) | — | — |
| Inventories | — | 14,694 | 57,929 | (925) | 71,698 |
| Prepaid expenses | 510 | 1,330 | 4,809 | — | 6,649 |
| Other current assets | — | 2,849 | 14,020 | — | 16,869 |
| Total current assets | (106,906) | 151,192 | 130,256 | (925) | 173,617 |
| Property and equipment, net | 9,518 | 68,075 | 219,490 | — | 297,083 |
| Investments | 837,064 | 207,443 | — | (1,044,507) | — |
| Goodwill | — | 17,737 | 40,862 | — | 58,599 |
| Intangible assets | — | 1,389 | 158 | — | 1,547 |
| Non-current deferred tax asset | — | — | 9,325 | — | 9,325 |
| Other assets | — | — | 10,203 | — | 10,203 |
| Total assets | $739,676 | $445,836 | $410,294 | $(1,045,432) | $550,374 |
| | | | | | |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | | | | |
| Current liabilities: | | | | | |
| Notes payable | $— | $— | $6,556 | $— | $6,556 |
| Accounts payable | 2,642 | 11,100 | 26,954 | — | 40,696 |
| Accrued expenses | 12,661 | 9,668 | 33,747 | — | 56,076 |
| Current maturities of long-term debt | 2,663 | 1,937 | 810 | — | 5,410 |
| Total current liabilities | 17,966 | 22,705 | 68,067 | — | 108,738 |
| Long-term debt, net of current maturities and deferred financing costs | 451,923 | — | 10,547 | — | 462,470 |
| Liabilities under capital lease | 3,276 | 4,425 | 1,036 | — | 8,737 |
| Non-current deferred tax liability | (1,515) | 1,243 | 9,042 | — | 8,770 |
| Pension, other post-retirement and post-employment obligations | 19,950 | 2,619 | 41,037 | — | 63,606 |
| Other long-term liabilities | — | — | 11,123 | — | 11,123 |
| Intercompany loans | 341,412 | (403,154) | 61,742 | — | — |
| Total stockholders' (deficit) equity | (93,336) | 817,998 | 207,700 | (1,045,432) | (113,070) |
| Total liabilities and stockholders' equity (deficit) | $739,676 | $445,836 | $410,294 | $(1,045,432) | $550,374 |

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

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $605 | $(15) | $8,927 | $— | $9,517 |
| Accounts receivable, net | 50 | 22,358 | 60,661 | — | 83,069 |
| Intercompany (payable) receivable | (107,064) | 107,590 | (526) | — | — |
| Inventories | — | 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 | — | 1,664 | 272 | — | 1,936 |
| Non-current deferred tax asset | — | — | 10,662 | — | 10,662 |
| Other assets | — | 364 | 5,445 | — | 5,809 |
| Total assets | $689,135 | $459,056 | $448,600 | $(1,012,518) | $584,273 |
| | | | | | |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | | | | |
| Current liabilities: | | | | | |
| Notes payable | $— | $— | $244 | $— | $244 |
| Accounts payable | 2,679 | 10,212 | 28,936 | — | 41,827 |
| Accrued expenses | 8,511 | 8,301 | 39,297 | — | 56,109 |
| 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 and deferred financing costs | 451,839 | — | (770) | — | 451,069 |
| Liabilities under capital lease | 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' equity (deficit) | $689,135 | $459,056 | $448,600 | $(1,012,518) | $584,273 |

Xerium Technologies, Inc.
Consolidating Statement of Operations and Comprehensive (Loss) Income
For the year ended December 31, 2015
(Dollars in thousands)

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| Net sales | $— | $167,986 | $343,024 | $(33,767) | $477,243 |
| Costs and expenses: | | | | | |
| Cost of products sold | (290) | 116,041 | 206,379 | (33,618) | 288,512 |
| Selling | 1,073 | 19,804 | 43,537 | — | 64,414 |
| General and administrative | 14,022 | 4,968 | 37,260 | — | 56,250 |
| Research and development | 921 | 4,526 | 1,957 | — | 7,404 |
| Restructuring | 8,498 | 1,537 | 4,614 | — | 14,649 |
| | 24,224 | 146,876 | 293,747 | (33,618) | 431,229 |
| (Loss) income from operations | (24,224) | 21,110 | 49,277 | (149) | 46,014 |
| Interest (expense) income, net | (38,239) | 3,732 | (3,906) | — | (38,413) |
| Foreign exchange (loss) gain | (73) | (410) | 2,355 | — | 1,872 |
| Equity in subsidiaries income | 41,480 | 27,828 | — | (69,308) | — |
| Loss on debt extinguishment | (388) | — | — | — | (388) |
| Dividend income | 17,204 | — | — | (17,204) | — |
| (Loss) income before provision for income taxes | (4,240) | 52,260 | 47,726 | (86,661) | 9,085 |
| Provision for income taxes | (140) | (861) | (12,464) | — | (13,465) |
| Net (loss) income | $(4,380) | $51,399 | $35,262 | $(86,661) | $(4,380) |
| Comprehensive (loss) income | $(1,925) | $53,194 | $(4,742) | $(86,661) | $(40,134) |

Xerium Technologies, Inc.
Consolidating Statement of Operations and Comprehensive (Loss) Income
For the year ended December 31, 2014
(Dollars in thousands)

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| Net sales | $— | $184,053 | $395,751 | $(36,872) | $542,932 |
| Costs and expenses: | | | | | |
| Cost of products sold | (1,372) | 126,004 | 239,576 | (37,047) | 327,161 |
| Selling | 945 | 20,628 | 51,429 | — | 73,002 |
| General and administrative | 8,718 | 8,448 | 39,373 | — | 56,539 |
| Research and development | 1,007 | 4,676 | 2,220 | — | 7,903 |
| Restructuring | 576 | 936 | 16,630 | — | 18,142 |
| | 9,874 | 160,692 | 349,228 | (37,047) | 482,747 |
| (Loss) income from operations | (9,874) | 23,361 | 46,523 | 175 | 60,185 |
| Interest (expense) income, net | (35,016) | 5,469 | (7,221) | — | (36,768) |
| Foreign exchange (loss) gain | (827) | (215) | 323 | — | (719) |
| Equity in subsidiaries income | 38,777 | 8,014 | — | (46,791) | — |
| (Loss) income before provision for income taxes | (6,940) | 36,629 | 39,625 | (46,616) | 22,698 |
| Provision for income taxes | (442) | (135) | (29,503) | — | (30,080) |

| | | | | | |
|---|---|---|---|---|---|
| Net (loss) income | $(7,382 ) | $36,494 | $10,122 | $(46,616 ) | $(7,382 ) |
| Comprehensive (loss) income | $(20,810) | $36,072 | $(31,914 ) | $(46,616 ) | $(63,268 ) |

Xerium Technologies, Inc.
Consolidating Statement of Operations and Comprehensive (Loss) Income
For the year ended December 31, 2013
(Dollars in thousands)

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| Net sales | $— | $182,935 | $411,931 | $(47,974) | $546,892 |
| Costs and expenses: | | | | | |
| Cost of products sold | (1,690) | 125,834 | 261,157 | (48,045) | 337,256 |
| Selling | — | 22,672 | 50,676 | — | 73,348 |
| General and administrative | 8,114 | 4,958 | 47,143 | — | 60,214 |
| Research and development | — | 5,489 | 2,369 | — | 7,858 |
| Restructuring | 1,016 | 847 | 12,981 | — | 14,844 |
| | 7,440 | 159,800 | 374,326 | (48,045) | 493,520 |
| (Loss) income from operations | (7,440) | 23,135 | 37,605 | 72 | 53,372 |
| Interest (expense) income, net | (32,279) | 5,665 | (14,067) | — | (40,681) |
| Foreign exchange loss | (585) | (172) | (295) | — | (1,052) |
| Equity in subsidiaries income | 47,997 | 15,563 | — | (63,560) | — |
| Loss on extinguishment of debt | (3,123) | — | — | — | (3,123) |
| Dividend income | — | 1,555 | — | (1,555) | — |
| Income before provision for income taxes | 4,570 | 45,746 | 23,243 | (65,043) | 8,516 |
| (Provision) benefit for income taxes | (417) | 9 | (3,955) | — | (4,363) |
| Net income | $4,153 | $45,755 | $19,288 | $(65,043) | $4,153 |
| Comprehensive income | $12,495 | $46,059 | $22,483 | $(65,043) | $15,994 |

Xerium Technologies, Inc.
Consolidating Statement of Cash Flows
For the year ended December 31, 2015
(Dollars in thousands)

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| Operating activities | | | | | |
| Net (loss) income | $(4,380) | $51,399 | $35,262 | $ (86,661) | $(4,380) |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: | | | | | |
| Stock-based compensation | 3,007 | — | 291 | — | 3,298 |
| Depreciation | 1,545 | 7,180 | 20,227 | — | 28,952 |
| Amortization of other intangibles | — | 275 | 23 | — | 298 |
| Deferred financing cost amortization | 3,367 | — | 95 | — | 3,462 |
| Pension settlement losses | — | 1,108 | | | 1,108 |
| Unrealized foreign exchange gain on revaluation of debt | (3,426) | — | — | — | (3,426) |
| Deferred taxes | (196) | — | (2,589) | — | (2,785) |
| Asset impairment | 61 | 421 | 1,054 | | 1,536 |
| (Gain) loss on disposition of property and equipment | 4 | (45) | (1,342) | — | (1,383) |
| Provision for doubtful accounts | — | 266 | 851 | — | 1,117 |
| Loss on extinguishment of debt | 388 | — | — | — | 388 |
| Undistributed equity in earnings of subsidiaries | (41,480) | (27,828) | — | 69,308 | — |
| Change in assets and liabilities which provided (used) cash: | | | | | |
| Accounts receivable | 29 | 3,508 | 1,697 | — | 5,234 |
| Inventories | — | 2,615 | 220 | 150 | 2,985 |
| Prepaid expenses | 36 | 139 | 582 | — | 757 |
| Other current assets | — | (620) | (2,599) | — | (3,219) |
| Accounts payable and accrued expenses | (19) | 2,254 | 941 | — | 3,176 |
| Deferred and other long-term liabilities | 459 | 1,282 | (7,696) | — | (5,955) |
| Intercompany loans | (14,972) | (6,050) | 21,022 | — | — |
| Net cash (used in) provided by operating activities | (55,577) | 35,904 | 68,039 | (17,203) | 31,163 |
| Investing activities | | | | | |
| Capital expenditures | (7,396) | (11,788) | (31,687) | — | (50,871) |
| Intercompany property and equipment transfers, net | 8,588 | (1,568) | (7,020) | — | — |
| Proceeds from disposals of property and equipment | 157 | 117 | 2,992 | — | 3,266 |
| Net cash provided by (used) in investing activities | 1,349 | (13,239) | (35,715) | — | (47,605) |
| Financing activities | | | | | |
| Increase in notes payable | — | — | 6,759 | | 6,759 |
| Proceeds from borrowings | 73,094 | 4,076 | 22,778 | — | 99,948 |
| Principal payments on debt | (75,318) | — | (12,740) | — | (88,058) |
| Payment of deferred financing fees | (893) | — | 231 | — | (662) |
| Payment of obligations under capital leases | (597) | (708) | (108) | | (1,413) |
| Dividends paid | — | (15,410) | (1,793) | 17,203 | — |
| Intercompany loans | 54,942 | (10,610) | (44,332) | — | — |
| Other financing activities | 5,500 | — | (5,500) | | — |
| Net cash provided by (used in) financing activities | 56,728 | (22,652) | (34,705) | 17,203 | 16,574 |
| Effect of exchange rate changes on cash flows | — | — | 190 | — | 190 |

| | | | | | |
|---|---|---|---|---|---|
| Net increase (decrease) in cash | 2,500 | 13 | (2,191) | — | 322 |
| Cash and cash equivalents at beginning of period | 605 | (15) | 8,927 | — | 9,517 |
| Cash and cash equivalents at end of period | $3,105 | $(2) | $6,736 | $— | $9,839 |

Xerium Technologies, Inc.
Consolidating Statement of Cash Flows
For the year ended December 31, 2014
(Dollars in thousands)

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| Operating activities | | | | | |
| Net (loss) income | $(7,382) | $36,494 | $10,122 | $(46,616) | $(7,382) |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: | | | | | |
| Stock-based compensation | 2,295 | — | 253 | — | 2,548 |
| Depreciation | 1,168 | 7,102 | 24,482 | — | 32,752 |
| Amortization of other intangibles | — | 1,430 | 110 | — | 1,540 |
| Deferred financing cost amortization | 3,227 | — | 76 | — | 3,303 |
| Unrealized foreign exchange loss on revaluation of debt | (259) | — | — | — | (259) |
| Deferred taxes | 330 | — | (5,187) | — | (4,857) |
| Asset impairment | — | — | 136 | | 136 |
| Loss (gain) on disposition of property and equipment | — | 100 | (1,136) | — | (1,036) |
| Gain on extinguishment of debt | — | — | — | | — |
| Provision for doubtful accounts | — | 67 | 207 | — | 274 |
| Undistributed equity in earnings of subsidiaries | (38,777) | (8,014) | — | 46,791 | — |
| Change in assets and liabilities which provided (used) cash: | | | | | |
| Accounts receivable | (50) | (237) | (3,174) | — | (3,461) |
| Inventories | — | 14 | (8,848) | (175) | (9,009) |
| Prepaid expenses | (148) | (534) | (155) | — | (837) |
| Other current assets | 514 | (297) | (3,495) | — | (3,278) |
| Accounts payable and accrued expenses | (2,689) | (27) | 3,313 | — | 597 |
| Deferred and other long-term liabilities | (666) | 28 | (3,501) | — | (4,139) |
| Intercompany loans | (5,785) | 2,928 | 2,857 | — | — |
| Net cash (used in) provided by operating activities | (48,222) | 39,054 | 16,060 | — | 6,892 |
| Investing activities | | | | | |
| Capital expenditures | (11,336) | (6,259) | (27,623) | — | (45,218) |
| Intercompany property and equipment transfers, net | 17,290 | (101) | (17,189) | — | — |
| Proceeds from disposals of property and equipment | — | 79 | 3,351 | — | 3,430 |
| Other investing activities | (26,100) | 25,600 | 500 | | — |
| Net cash used in investing activities | (20,146) | 19,319 | (40,961) | — | (41,788) |
| Financing activities | | | | | |
| Net decrease in notes payable | — | — | (7,168) | | (7,168) |
| Proceeds from borrowings | 85,463 | | 16,696 | | 102,159 |
| Principal payments on debt | (56,743) | (12) | (15,198) | — | (71,953) |
| Payment of deferred financing fees | (729) | — | (795) | — | (1,524) |
| Payments under capitalized leases | (511) | (310) | — | — | (821) |
| Intercompany loans | 54,423 | (58,056) | 3,633 | — | — |
| Other financing activities | (17,050) | — | 17,050 | | |
| Net cash provided by (used in) financing activities | $64,853 | $(58,378) | $14,218 | $— | $20,693 |

| | | | | | |
|---|---|---|---|---|---|
| Effect of exchange rate changes on cash flows | — | — | (1,996) | — | (1,996) |
| Net decrease in cash | (3,515) | (5) | (12,679) | — | (16,199) |
| Cash and cash equivalents at beginning of period | 4,120 | (10) | 21,606 | — | 25,716 |
| Cash and cash equivalents at end of period | $605 | $(15) | $8,927 | $— | $9,517 |

Xerium Technologies, Inc.
Consolidating Statement of Cash Flows
For the year ended December 31, 2013
(Dollars in thousands)

| | Parent | Total Guarantors | Total Non Guarantors | Other Eliminations | The Company |
|---|---|---|---|---|---|
| Operating activities | | | | | |
| Net income | $4,153 | $45,755 | $19,288 | $(65,043) | $4,153 |
| Adjustments to reconcile net income to net cash used in) provided by operating activities: | | | | | |
| Stock-based compensation | 1,736 | — | — | — | 1,736 |
| Depreciation | 122 | 7,413 | 27,096 | — | 34,631 |
| Amortization of other intangibles | — | 1,682 | 90 | — | 1,772 |
| Deferred financing cost amortization | (808) | — | 3,771 | — | 2,963 |
| Unrealized foreign exchange (gain) loss on revaluation of debt | (30) | (45) | 1,781 | — | 1,706 |
| Deferred taxes | 327 | — | (6,013) | — | (5,686) |
| Asset impairment | 17 | 351 | 986 | | 1,354 |
| Gain on disposition of property and equipment | 132 | 52 | 18 | — | 202 |
| Loss on extinguishment of debt | 3,123 | — | — | | 3,123 |
| (Credit) provision for doubtful accounts | — | (27) | 452 | — | 425 |
| Undistributed equity in earnings of subsidiaries | (47,998) | (15,562) | — | 63,560 | — |
| Change in assets and liabilities which provided (used) cash: | | | | | |
| Accounts receivable | — | (1,189) | (5,094) | — | (6,283) |
| Inventories | — | (2,405) | (6,300) | (72) | (8,777) |
| Prepaid expenses | (239) | 757 | 461 | — | 979 |
| Other current assets | (530) | 426 | (1,340) | — | (1,444) |
| Accounts payable and accrued expenses | 5,278 | 2,529 | (2,563) | 1,555 | 6,799 |
| Deferred and other long-term liabilities | 92 | 182 | (1,813) | — | (1,539) |
| Intercompany loans | 10,442 | (2,509) | (7,933) | — | — |
| Net cash (used in) provided by operating activities | (24,183) | 37,410 | 22,887 | — | 36,114 |
| Investing activities | | | | | |
| Capital expenditures | (15,317) | (5,315) | (23,513) | — | (44,145) |
| Intercompany property and equipment transfers, net | 3 | 798 | (801) | — | — |
| Proceeds from disposals of property and equipment | — | 5 | 2,262 | — | 2,267 |
| Other investing activities | (1,000) | | 1,009 | | 9 |
| Net cash used in investing activities | (16,314) | (4,512) | (21,043) | — | (41,869) |
| Financing activities | | | | | |
| Proceeds from borrowings | 199,321 | — | — | — | 199,321 |
| Principal payments on debt | (105,558) | — | (93,791) | — | (199,349) |
| Payment of deferred financing fees | (3,246) | — | — | — | (3,246) |
| Intercompany loans | (52,371) | (32,943) | 85,314 | — | — |
| Net cash provided by (used in) financing activities | 38,146 | (32,943) | (8,477) | — | (3,274) |
| Effect of exchange rate changes on cash flows | — | (1) | (31) | — | (32) |
| Net decrease in cash | (2,351) | (46) | (6,664) | — | (9,061) |
| Cash and cash equivalents at beginning of period | 6,471 | 36 | 28,270 | — | 34,777 |

| | | | | | |
|---|---|---|---|---|---|
| Cash and cash equivalents at end of period | $4,120 | $(10 ) | $21,606 | $— | $25,716 |

14. Comprehensive Loss and Accumulated Other Comprehensive Loss

Comprehensive loss for the years ended December 31, 2015 and 2014 is as follows (net of taxes):

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Net loss | $(4,380) | $(7,382) |
| Foreign currency translation adjustments | (46,968) | (38,878) |
| Pension liability changes under Topic 715 | 11,057 | (17,135) |
| Change in value of derivative instruments | 157 | 127 |
| Comprehensive loss | $(40,134) | $(63,268) |

The components of accumulated other comprehensive loss for the year ended December 31, 2015 are as follows (net of
tax benefits of $7,021 in 2015.)

| | 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 loss before reclassifications | (46,968) | — | — | (46,968) |
| Amounts reclassified from other comprehensive (loss) income: | | | | |
| Amortization of actuarial losses | — | 11,057 | — | 11,057 |
| Amortization of interest expense | — | — | 157 | 157 |
| Net current period other comprehensive (loss) income | (46,968) | 11,057 | 157 | (35,754) |
| Balance at December 31, 2015 | $(85,982) | $(35,759) | $49 | $ (121,692) |

15. Quarterly Financial Data (Unaudited)

The following table presents our unaudited consolidated statements of operations data for each quarter in the two years ended December 31, 2015. We believe that all necessary adjustments, consisting only of normal recurring adjustments, have been made to present fairly the unaudited quarterly results when read in conjunction with our audited consolidated financial statements and the notes thereto appearing elsewhere in this document. These operating results are not necessarily indicative of the results of operations that may be expected for any future period.

| | For the Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2015 | Sept. 30, 2015 | June 30, 2015 | Mar. 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 | June 30, 2014 | Mar. 31, 2014 |
| | | | (in thousands, except per share data) | | | | | |
| Net sales | $115,347 | $117,739 | $123,128 | $121,029 | $130,967 | $138,858 | $139,723 | $133,384 |
| Costs and expenses: | | | | | | | | |
| Cost of products sold | 71,099 | 71,252 | 73,686 | 72,476 | 78,207 | 83,364 | 84,372 | 81,218 |
| Selling | 15,770 | 15,889 | 16,429 | 16,326 | 17,641 | 18,195 | 18,988 | 18,178 |
| General and administrative | 15,987 | 14,370 | 12,045 | 13,846 | 13,202 | 14,133 | 14,407 | 14,797 |
| Research and development | 1,709 | 1,841 | 1,892 | 1,962 | 2,004 | 1,909 | 2,044 | 1,946 |
| Restructuring | 1,916 | 5,001 | 5,509 | 2,224 | 2,430 | 3,466 | 7,595 | 4,651 |
| Total operating costs and expenses | 106,481 | 108,353 | 109,561 | 106,834 | 113,484 | 121,067 | 127,406 | 120,790 |
| Income from operations | 8,866 | 9,386 | 13,567 | 14,195 | 17,483 | 17,791 | 12,317 | 12,594 |
| Other income (expense): | | | | | | | | |
| Interest expense, net | (10,269) | (9,775) | (8,705) | (9,664) | (9,782) | (9,412) | (8,917) | (8,657) |
| Loss on extinguishment of debt | (388) | — | — | — | — | — | — | — |
| Foreign exchange (loss) gain | (278) | 2,059 | (885) | 977 | 98 | 367 | (307) | (877) |
| Income before (provision) benefit for income taxes | (2,069) | 1,670 | 3,977 | 5,508 | 7,799 | 8,746 | 3,093 | 3,060 |
| (Provision) benefit for income taxes | (4,256) | (755) | (4,680) | (3,775) | 3,360 | (29,218) | (2,329) | (1,893) |
| Net (loss) income | $(6,325) | $915 | $(703) | $1,733 | $11,159 | $(20,472) | $764 | $1,167 |
| Comprehensive (loss) income | $(6,428) | $(11,012) | $6,704 | $(29,398) | $(23,785) | $(41,003) | $2,278 | $(758) |
| Net (loss) income per common share—basic | $(0.40) | $0.06 | $(0.05) | $0.11 | $0.71 | $(1.32) | $0.05 | $0.08 |
| Net (loss) income per common share—diluted | $(0.40) | $0.06 | $(0.05) | $0.11 | $0.71 | $(1.32) | $0.05 | $0.08 |

EXHIBIT INDEX

| Exhibit No. | Description of Exhibit |
|---|---|
| 2.1(1)* | Joint Prepackaged Plan of Reorganization, as confirmed by the bankruptcy court on May 12, 2010. |

| | |
|---|---|
| 2.2(2) | Confirmation Order, dated May 12, 2010. |
| 3.1(3) | Second Amended and Restated Certificate of Incorporation of Xerium Technologies, Inc. |
| 3.2(4) | Amended and Restated By-Laws of Xerium Technologies, Inc. |
| 4.2(5) | Form of Stock Certificate. |
| 4.4(6) | Dividend Reinvestment Plan. |
| 4.5(7) | Indenture among the Company, the guarantor parties thereto and U.S. Bank National Association as Trustee, dated May 26, 2011. |
| 4.6(8) | Registration Rights Agreement among the Company, the guarantor parties thereto and the Initial Purchasers, dated May 26, 2011. |
| 4.7(9) | Form of 8.875% Senior Notes due 2018 (included in exhibit 4.5). |
| 10.1.1(10) | $200 million Term Credit Facility among the Company, certain direct and indirect U.S. subsidiaries of the Company, and certain financial institutions, dated May 17, 2013. |
| 10.1.2(10) | $40 million revolving credit facility among the Company, certain direct and indirect U.S. and Canadian subsidiaries of the Company, and certain financial institutions, dated March 3, 2014 (filed herewith). |
| 10.2(52) | First Amendment to the Term Credit Facility among the Company |
| 10.3(53) | First Amended and Restated Revolving Credit and Guaranty Agreement among the Company, Xerium Canada Inc., and the Company's German subsidiaries as borrowers, and certain other direct and indirect subsidiaries as guarantors, and certain financial institutions, dated March 3, 2014. |
| 10.5(11) | Director Nomination Agreement entered into by and among the Company, Carl Marks Strategic Investments, L.P., and Carl Marks Strategic Opportunities Fund, L.P., dated May 25, 2010. |
| 10.11(12)+ | 2009 Director Restricted Stock Units Agreement dated as of June 9, 2009. |
| 10.12(13)+ | 2009 Director Restricted Stock Units Agreement dated as of August 4, 2009. |
| 10.13(14)+ | 2010 Equity Incentive Plan. |
| 10.14(15)+ | Amendment No. 1 to 2010 Equity Incentive Plan. |
| 10.15(16)+ | Amendment No. 2 to 2010 Equity Incentive Plan. |
| 10.16(17)+ | Performance Award Program for 2010. |
| 10.17(18)+ | Long Term Incentive Plan. |
| 10.18(19)+ | 2011-2013 Long-Term Incentive Plan. |
| 10.19(20)+ | 2012-2014 Executive Long-Term Incentive Plan. |
| 10.20(21)+ | Form of Time-Based Restricted Stock Units Agreement under the Long Term Incentive Plan. |
| 10.21(22)+ | 2013-2015 Executive Long-Term Incentive Plan and Form of Award Agreement. |
| 10.22(23) | Form of 2013 Management Incentive Plan. |
| 10.23(24)+ | Form of Independent Director Indemnification Agreement entered into between the Registrant and certain independent directors. |
| 10.24(25)+ | Form of 2010 Director Option Agreement. |
| 10.25(26)+ | Non-Management Director Compensation Policy. |
| 10.26(27)+ | Directors’ Deferred Stock Unit Plan. |
| 10.27(28)+ | Employment Agreement with Harold C. Bevis. |
| 10.28(29)+ | Restricted Stock Unit Agreement with Harold C. Bevis. |
| 10.29(30)+ | Option Agreement with Harold C. Bevis. |
| 10.31(31)+ | Employment Agreement with Clifford E. Pietrafitta. |
| 10.32(32)+ | Amended and Restated Employment Agreement with David Pretty. |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.33(33)+ | Amendment to Amended and Restated Employment Agreement with David Pretty. |
| 10.34(34)+ | Amendment No. 3 to Employment Agreement with David Pretty. |
| 10.37(35)+ | Employment Agreement with Eduardo Fracasso. |
| 10.38(36)+ | Employment Agreement with Kevin McDougall. |
| 10.39(37)+ | Amendment to Employment Agreement with Kevin McDougall. |
| 10.40(38)+ | Form of December 2011 Amendment to Employment Agreements with senior executive officers. |
| 10.41(39)+ | Employment Agreement with Michael Bly. |
| 10.42(40)+ | Employment Agreement with William Butterfield. |
| 10.43(41)+ | Form of 2014 Management Incentive Plan |
| 10.44(42)+ | Employment Agreements with Wern-Lirn "Paul" Wang |
| 10.45(43)+ | 2014-2016 Executive Long Term Incentive Plan and Form of Agreement |
| 10.46(44) | Second Amendment to Credit and Guaranty Agreement dated as of August 18, 2014 |
| 10.47(45) | Second Amendment to First Amended and Restated Revolving Credit and Guaranty Agreement, dated September 9, 2014. |
| 10.48(46) | Amended and Restated Non-Management Director Compensation Policy |
| 10.49(47) | Form of 2015 Management Incentive Plan Award Agreement |
| 10.50(48) | Form of 2015 Long Term Incentive Plan Award Agreement |
| 10.51(49) | Translated version of Fixed Asset Loan Agreement by and between Xerium China, Co., Ltd and Industrial and Commercial Bank of China Limited, Shanghai-Jingan Branch dated July 17, 2015. |
| 10.52(50) | Translated version of Guarantee Agreement between Stowe Woodward (Changzhou) Roll Technologies Co. Ltd. and Industrial and Commercial Bank of China Limited, Shanghai-Jingan Branch dated July 17, 2015. |
| 10.53(51) | Translated version of Guarantee Agreement between Xerium Asia Pacific (Shanghai) Limited and Industrial and Commercial Bank of China Limited, Shanghai-Jingan Branch dated July 17, 2015. |
| 10.54 | Revolving Credit and Guarantee Agreement, dated as of November 3, 2015 |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Ernst & Young LLP. |
| 31.1 | Certification Statement of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification Statement of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification Statement of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Statement of 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.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Filed as Exhibit 2.1 to the Registrant’s Quarterly Report on Form 10-Q filed on May 14, 2010, and incorporated herein by reference.

(2) Filed as Exhibit 2.2 to the Registrant’s Quarterly Report on Form 10-Q filed on May 14, 2010, and incorporated herein by reference.

(3) Filed as Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed on May 28, 2010, and incorporated herein by reference.

(4) Filed as Exhibit 3.2 to the Registrant’s Quarterly Report on Form 10-Q filed on May 11, 2015, and incorporated herein by reference.

(5) Filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed on May 28, 2010, and incorporated herein by reference.

(6) Filed as Exhibit 99.2 to the Registrant’s Current Report on Form 8-K filed on February 20, 2007, and incorporated herein by reference.

(7) Filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed on June 2, 2011, and incorporated herein by reference.

(8) Filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on June 2, 2011, and incorporated herein by reference.

(9) Filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed on June 2, 2011, and incorporated herein by reference.

(10) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 23, 2013, and incorporated herein by reference.

(11) Filed as Exhibit 10.6 to the Registrant’s Current Report on Form 8-K filed on May 28, 2010, and incorporated herein by reference.

(12) Filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q filed on November 6, 2009, and incorporated herein by reference.

(13) Filed as Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q filed on November 6, 2009, and incorporated herein by reference.

(14) Filed as Exhibit 10.7 to the Registrant’s Current Report on Form 8-K filed on May 28, 2010, and incorporated herein by reference.

(15) Filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q filed on August 9, 2011, and incorporated herein by reference.

(16) Filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q filed on August 1, 2013, and incorporated herein by reference.

(17) Filed as Exhibit 10.8 to the Registrant’s Current Report on Form 8-K filed on May 28, 2010, and incorporated herein by reference.

(18) Filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q filed on November 5, 2010 and incorporated herein by reference.

(19) Filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q filed on May 5, 2011, and incorporated herein by reference.

(20) Filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed on August 7, 2012, and incorporated herein by reference.

(21) Filed as Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q filed on November 5, 2010 and incorporated herein by reference.

(22) Filed as Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q filed on August 1, 2013, and incorporated herein by reference.

(23) Filed as Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q filed on May 7, 2013, and incorporated herein by reference.

(24) Filed as Exhibit 10.5 to the Registrant’s Quarterly Report on Form 10-Q filed on November 10, 2008, and incorporated herein by reference.

(25) Filed as Exhibit 10.11 to the Registrant’s Quarterly Report on Form 10-Q filed on August 13, 2010, and incorporated herein by reference.

(26) Filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed on May 7, 2013, and incorporated herein by reference.

(27) Filed as Exhibit 10.8 to the Registrant’s Quarterly Report on Form 10-Q filed on May 5, 2011 and incorporated herein by reference.

(28) Filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed on November 5, 2012, and incorporated herein by reference.

(29) Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on November 5, 2012, and incorporated herein by reference.

(30) Filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on November 5, 2012, and incorporated herein by reference.

(31) Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 5, 2011, and incorporated herein by reference.

(32) Filed as Exhibit 10.36 to the Registrant's Annual Report on Form 10-K filed on March 12, 2009, and incorporated herein by reference.

(33) Filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on May 5, 2011, and incorporated herein by reference.

(34) Filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q filed on November 5, 2012, and incorporated herein by reference.

(35) Filed as Exhibit 10.46 to the Registrant’s Annual Report on Form 10-K filed on March 26, 2010, and incorporated herein by reference.

(36) Filed as Exhibit 10.10 to the Registrant’s Quarterly Report on Form 10-Q filed on August 13, 2010, and incorporated herein by reference.

(37) Filed as Exhibit 10.6 to the Registrant’s Quarterly Report on Form 10-Q filed on May 5, 2011, and incorporated herein by reference.

(38) Filed as Exhibit 10.56 to the Registrant’s Registration Statement on Form S-4 filed on December 22, 2011, and incorporated herein by reference.

(39) Filed as Exhibit 10.5 to the Registrant’s Quarterly Report on Form 10-Q filed on August 1, 2013, and incorporated herein by reference.

(40) Filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed on November 6, 2013, and incorporated herein by reference.

(41) Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2014 and incorporated herein by reference.

(42) Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2014 and incorporated herein by reference.

(43) Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 5, 2014 and incorporated herein by reference.

(44) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 18, 2014 and incorporated herein by reference.

(45) Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on November 3, 2014 and incorporated herein by reference.

(46) Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 11, 2015 and incorporated herein by reference.

(47) Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 11, 2015 and incorporated herein by reference.

(48) Filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on May 11, 2015 and incorporated herein by reference.

Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 22, 2015 and incorporated herein by reference.

(49) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 22, 105 and incorporated herein by reference.

(50) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 10-Q filed on July 22, 2015 and incorporated herein by reference.

(51) Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 22, 2015 and incorporated herein by reference.

+ Management contract or compensatory arrangement or plan.

* The following exhibits to the Joint Prepackaged Plan of Reorganization were filed with the bankruptcy court, which, as permitted by Item 601(b)(2) of Regulation S-K, have been omitted from this Annual Report on Form 10-K. We will furnish supplementally a copy of any exhibit to the Joint Prepackaged Plan of

Reorganization to the Securities and Exchange Commission upon request.

| | |
|---|---|
| Exhibit A | Amended and Restated Credit Facility |
| Exhibit B | Commitment Letter |
| Exhibit C | New Management Incentive Plan |
| Exhibit D | New Warrants |
| Exhibit E | Executory Contracts and Unexpired Leases to be Rejected |
| Exhibit F | Amended and Restated Pledge and Security Agreement |
| Exhibit G | Austria Contribution Agreement |
| Exhibit H | Austria Note |
| Exhibit I | Austria Purchase Agreement |
| Exhibit J | Canada Direction Letter Agreement |
| Exhibit K | Exit Facility Credit Agreement |
| Exhibit L | Exit Facility Pledge and Security Agreement |
| Exhibit M | Germany Assumption Agreement |
| Exhibit N | Intercreditor Agreement |

| | |
|---|---|
| Exhibit O | Nominating Agreement |
| Exhibit P | Registration Rights Agreement |
| Exhibit Q | Restated Bylaws of each Reorganized Debtor |
| Exhibit R | Restated Charters of each Reorganized Debtor |
| Exhibit S | Shareholder Rights Plan |
| Exhibit T | U.S. Direction Letter Agreement |
| Exhibit U | Initial Directors and Initial Officers of the Reorganized Debtors |
| Exhibit V | Retained Actions |
| Exhibit W | Additional Intercompany Transactions |

XERIUM TECHNOLOGIES, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(dollars in thousands)

ALLOWANCE FOR DOUBTFUL ACCOUNTS
For the years ended:

| | Balance at Beginning of Year | Charged to Cost and Expense | Effect of Foreign Currency Translation | Deduction from Reserves | Balance at End of Year |
|---|---|---|---|---|---|
| 2015 | $5,002 | $1,117 | $(641) | $(294) | $5,184 |
| 2014 | $5,553 | $274 | $(579) | $(246) | $5,002 |
| 2013 | $5,300 | $425 | $(47) | $(125) | $5,553 |

ALLOWANCE FOR SALES RETURNS
For the years ended:

| | Balance at Beginning of Year | Charged to Revenue | Effect of Foreign Currency Translation | Deduction from Reserves | Balance at End of Year |
|---|---|---|---|---|---|
| 2015 | $5,052 | $2,173 | $(687) | $(2,502) | $4,036 |
| 2014 | $7,074 | $5,453 | $(6,937) | $(538) | $5,052 |
| 2013 | $5,336 | $7,660 | $(397) | $(5,525) | $7,074 |

ALLOWANCE FOR CUSTOMER REBATES
For the years ended:

| | Balance at Beginning of Year | Charged to Revenue | Effect of Foreign Currency Translation | Deduction from Reserves | Balance at End of Year |
|---|---|---|---|---|---|
| 2015 | $1,595 | $1,296 | $(101) | $(1,105) | $1,685 |
| 2014 | $1,314 | $1,009 | $(129) | $(599) | $1,595 |
| 2013 | $1,364 | $647 | $(34) | $(663) | $1,314 |

INCOME TAX VALUATION ACCOUNT
For the years ended:

| | Balance at Beginning of Year | Charged to (Credited to) Income Tax Provision | Effect of Foreign Currency Translation (1) | Deduction from Reserves | Balance at End of Year |
|---|---|---|---|---|---|
| 2015 | $102,795 | $2,422 | $(8,932) | $(1,955) | $94,330 |
| 2014 | $99,859 | $7,519 | $2,042 | $(6,625) | $102,795 |
| 2013 | $112,143 | $(2,973) | $(2,840) | $(6,471) | $99,859 |

(1) This includes amounts recorded to accumulated other comprehensive income (loss).