THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION WITHIN THE MEANING OF SECTION 1125(a) OF THE BANKRUPTCY CODE

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re	:	Chapter 11
XERIUM TECHNOLOGIES, INC., et al.,	:	Case No. 10-_____ ( )
Debtors.	:	Joint Administration Requested

DISCLOSURE STATEMENT RELATING TO THE DEBTORS' JOINT PREPACKAGED PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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THIS SOLICITATION OF VOTES IS BEING CONDUCTED TO OBTAIN SUFFICIENT ACCEPTANCES OF THE PROPOSED PLAN OF REORGANIZATION BEFORE THE FILING OF VOLUNTARY REORGANIZATION CASES UNDER CHAPTER 11 OF THE BANKRUPTCY CODE. BECAUSE CHAPTER 11 CASES HAVE NOT YET BEEN COMMENCED, THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION WITHIN THE MEANING OF SECTION 1125(a) OF THE BANKRUPTCY CODE. FOLLOWING THE COMMENCEMENT OF THE CHAPTER 11 CASES, THE DEBTORS EXPECT TO PROMPTLY SEEK ORDERS OF THE BANKRUPTCY COURT (I) APPROVING THIS DISCLOSURE STATEMENT AS CONTAINING ADEQUATE INFORMATION, (II) APPROVING THE SOLICITATION OF VOTES AS BEING IN COMPLIANCE WITH SECTIONS 1125 AND 1126(b) OF THE BANKRUPTCY CODE, AND (III) CONFIRMING THE PROPOSED PLAN OF REORGANIZATION.

DISCLOSURE STATEMENT, DATED MARCH 2, 2010

Solicitation of Votes on the Joint Prepackaged Plan of Reorganization of

XERIUM TECHNOLOGIES, INC., and certain of its direct and indirect subsidiaries

from the holders of outstanding

CREDIT FACILITY CLAIMS
SECURED SWAP TERMINATION CLAIMS
UNSECURED SWAP TERMINATION CLAIMS

THE VOTING DEADLINE TO ACCEPT OR REJECT THE JOINT PREPACKAGED PLAN OF REORGANIZATION IS 4:00 P.M. (PREVAILING EASTERN TIME) ON MARCH 22, 2010, UNLESS EXTENDED BY XERIUM TECHNOLOGIES, INC.

RECOMMENDATION BY THE DEBTORS
The board of directors of Xerium Technologies, Inc. ("Xerium"), and the board of directors or other governing body of each of the direct and indirect subsidiaries of Xerium identified in the Introduction below have unanimously approved the solicitation, the form of proposed joint prepackaged plan of reorganization attached as Exhibit A to this Disclosure Statement (the "Plan"), and the transactions contemplated thereby, and recommend that prior to the voting deadline of 4:00 p.m. (prevailing Eastern time) on March 22, 2010, all creditors whose votes are being solicited submit ballots indicating their acceptance of the Plan.

RECOMMENDATION BY THE SECURED LENDER AD HOC WORKING GROUP
The Plan is supported by members of the Secured Lender Ad Hoc Working Group holding 51.9% of the Debtors' obligations under the Credit Facility. The Secured Lender Ad Hoc Working Group also strongly urges all creditors to vote in favor of the Plan. The Secured Lender Ad Hoc Working Group was actively involved in the formulation of the Plan and believes that the Plan provides the highest and best recoveries for the Debtors' creditors.

READERS SHOULD NOT CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT (THIS "DISCLOSURE STATEMENT") AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL, OR TAX ADVICE. HOLDERS OF CLAIMS ENTITLED TO VOTE SHOULD CONSULT WITH THEIR OWN ADVISORS BEFORE CASTING A VOTE ON THE PLAN.

CERTAIN STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING PROJECTED FINANCIAL INFORMATION AND OTHER FORWARD-LOOKING STATEMENTS, ARE BASED ON ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES. FORWARD-LOOKING STATEMENTS PROVIDED IN THIS DISCLOSURE STATEMENT ARE SUBJECT TO THE SAFE HARBOR ESTABLISHED UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND SHOULD BE EVALUATED IN THE CONTEXT OF THE ESTIMATES, ASSUMPTIONS, UNCERTAINTIES, AND RISKS DESCRIBED HEREIN.

FURTHER, READERS ARE CAUTIONED THAT ANY FORWARD-LOOKING STATEMENTS HEREIN ARE BASED ON ASSUMPTIONS THAT ARE BELIEVED TO BE REASONABLE, BUT ARE SUBJECT TO A WIDE RANGE OF RISKS INCLUDING, WITHOUT LIMITATION, RISKS ASSOCIATED WITH (I) FUTURE FINANCIAL RESULTS AND LIQUIDITY, (II) VARIOUS FACTORS THAT MAY AFFECT THE VALUE OF THE NEW COMMON STOCK TO BE ISSUED UNDER THE PLAN, (III) THE RELATIONSHIPS WITH, AND PAYMENT TERMS PROVIDED BY, TRADE CREDITORS, (IV) ADDITIONAL FINANCING REQUIREMENTS POST-RESTRUCTURING, (V) FUTURE DISPOSITIONS AND ACQUISITIONS, (VI) THE PROPOSED RESTRUCTURING AND COSTS ASSOCIATED THEREWITH, (VII) THE ABILITY TO OBTAIN RELIEF FROM THE BANKRUPTCY COURT TO FACILITATE THE SMOOTH OPERATION OF THE DEBTORS' BUSINESSES UNDER CHAPTER 11, (VIII) THE CONFIRMATION AND CONSUMMATION OF THE PLAN, (IX) THE RISKS DESCRIBED UNDER THE HEADING "RISK FACTORS" IN XERIUM'S ANNUAL REPORT ON FORM

10-K FOR THE YEAR ENDED DECEMBER 31, 2008 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND SUBSEQUENT FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, AND (X) EACH OF THE OTHER RISKS IDENTIFIED IN THIS DISCLOSURE STATEMENT. DUE TO THESE UNCERTAINTIES, READERS CANNOT BE ASSURED THAT ANY FORWARD-LOOKING STATEMENTS WILL PROVE TO BE CORRECT. THE DEBTORS ARE UNDER NO OBLIGATION (AND EXPRESSLY DISCLAIM ANY OBLIGATION) TO UPDATE OR ALTER ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE, UNLESS INSTRUCTED TO DO SO BY THE BANKRUPTCY COURT.

STATEMENTS IN THIS DISCLOSURE STATEMENT, INCLUDING, WITHOUT LIMITATION, THE INFORMATION SET FORTH AS TO FUTURE FINANCIAL AND OPERATING INFORMATION, THAT ARE NOT CURRENT OR HISTORICAL FACTUAL STATEMENTS MAY CONSTITUTE "FORWARD-LOOKING" INFORMATION WITHIN THE MEANING OF CANADIAN PROVINCIAL AND TERRITORIAL SECURITIES LAWS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS THAT MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE, OR ACHIEVEMENTS OF XERIUM, OR INDUSTRY RESULTS, TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE, OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS DISCLOSURE STATEMENT SUCH STATEMENTS MAY INCLUDE, WITHOUT LIMITATION, SUCH WORDS AS "MAY", "WILL", "EXPECT", "BELIEVE", "PLAN", "ANTICIPATE", "INTEND", "ESTIMATE", AND OTHER SIMILAR TERMINOLOGY. THESE STATEMENTS REFLECT CURRENT EXPECTATIONS, ESTIMATES, AND PROJECTIONS REGARDING FUTURE EVENTS AND OPERATING PERFORMANCE AND SPEAK ONLY AS TO THE DATE OF THIS DISCLOSURE STATEMENT.

READERS SHOULD NOT PLACE UNDUE IMPORTANCE ON FORWARD-LOOKING STATEMENTS AND SHOULD NOT RELY UPON THIS INFORMATION AS OF ANY OTHER DATE. THESE FORWARD-LOOKING STATEMENTS INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES. SOME OF THE FACTORS FACING XERIUM THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN OR UNDERLYING SUCH FORWARD-LOOKING STATEMENTS INCLUDE THOSE FACTORS IDENTIFIED ABOVE. READERS ARE CAUTIONED THAT FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE, AND SHOULD NOT PLACE UNDUE RELIANCE ON THEM. IN FORMULATING THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, IT HAS BEEN ASSUMED THAT BUSINESS AND ECONOMIC CONDITIONS AFFECTING XERIUM WILL CONTINUE SUBSTANTIALLY IN THE ORDINARY COURSE. THESE ASSUMPTIONS, ALTHOUGH CONSIDERED REASONABLE AT THE TIME OF PREPARATION, MAY PROVE TO BE INCORRECT.

THE PLAN PROVIDES FOR XERIUM TO ISSUE SHARES OF NEW COMMON STOCK AND NEW WARRANTS AS MORE FULLY DESCRIBED IN SECTION IV OF THIS DISCLOSURE STATEMENT.

TO THE EXTENT IT IS DEEMED THAT ANY OFFER OF COMMON STOCK IS MADE TO HOLDERS OF ALLOWED CLAIMS PRIOR TO THE COMMENCEMENT OF THE REORGANIZATION CASES, THE OFFER OF SUCH SECURITIES IS BEING OFFERED UNDER THE PRIVATE PLACEMENT EXEMPTION PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT OF 1933, RULE 506 OF REGULATION D, OR REGULATION S PROMULGATED UNDER THE SECURITIES ACT OF 1933, AND SIMILAR PROVISIONS OF APPLICABLE STATE SECURITIES LAWS.

VOTES ARE NOT BEING SOLICITED FROM ANY HOLDERS OF EQUITY INTERESTS IN XERIUM. ACCORDINGLY, FOR THE AVOIDANCE OF DOUBT, XERIUM HAS NOT MADE, AND SHALL NOT MAKE, AN OFFER OF SECURITIES TO ANY OF THE EXISTING HOLDERS OF EQUITY INTERESTS IN XERIUM PRIOR TO THE COMMENCEMENT OF THE REORGANIZATION CASES.

THE DEBTORS WILL RELY ON SECTION 1145 OF THE BANKRUPTCY CODE TO EXEMPT THE ISSUANCE OF SHARES OF NEW COMMON STOCK AND NEW WARRANTS PURSUANT TO THE PLAN FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR SIMILAR PROVISIONS OF APPLICABLE STATE SECURITIES LAWS.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES DESCRIBED HEREIN OR THIS DISCLOSURE STATEMENT OR PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED HEREIN IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

HOLDERS OF PREPETITION TRADE CLAIMS AND THE DEBTORS' CUSTOMERS AND EMPLOYEES WILL NOT BE IMPAIRED BY THE PLAN, AND AS A RESULT THE RIGHT TO RECEIVE PAYMENT IN FULL ON ACCOUNT OF EXISTING OBLIGATIONS IS NOT ALTERED BY THE PLAN.

NO INDEPENDENT AUDITOR HAS REVIEWED OR APPROVED THE FINANCIAL PROJECTIONS OR THE LIQUIDATION ANALYSIS HEREIN.

THE DEBTORS HAVE NOT AUTHORIZED ANY ENTITY TO GIVE ANY INFORMATION OR ADVICE, OR TO MAKE ANY REPRESENTATION, IN CONNECTION WITH THE PLAN AND THIS DISCLOSURE STATEMENT.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED. THE TERMS OF THE PLAN GOVERN IN THE EVENT OF ANY INCONSISTENCY WITH THE SUMMARIES IN THIS DISCLOSURE STATEMENT.

ALL EXHIBITS TO THIS DISCLOSURE STATEMENT ARE INCORPORATED INTO, AND ARE A PART OF, THIS DISCLOSURE STATEMENT AS IF SET FORTH IN FULL HEREIN.

INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE:

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF ALLOWED CLAIMS AND ALLOWED EQUITY INTERESTS ARE HEREBY NOTIFIED THAT: (I) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF SUCH CLAIMS OR EQUITY INTERESTS FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE, OR LOCAL TAX PENALTIES, (II) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS DISCUSSED HEREIN, AND (III) HOLDERS OF ALLOWED CLAIMS AND ALLOWED EQUITY INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

INTRODUCTION

IMPORTANT — PLEASE READ

Xerium Technologies, Inc. ("Xerium"); Huyck Licensco Inc.; Stowe Woodward Licensco LLC; Stowe Woodward LLC; Wangner Itelpa I LLC; Wangner Itelpa II LLC; Weavexx, LLC; Xerium Asia, LLC; Xerium III (US) Limited; Xerium IV (US) Limited; Xerium V (US) Limited; XTI LLC; Xerium Canada Inc.; Huyck.Wangner Austria GmbH; Xerium Germany Holding GmbH; and Xerium Italia S.p.A. (collectively with Xerium, the "Debtors"), submit this disclosure statement (the "Disclosure Statement") in connection with (a) the solicitation from eligible holders of acceptances of the joint prepackaged plan of reorganization substantially in the form set forth in Exhibit A (the "Plan") to be filed by the Debtors with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") and (b) the hearing to consider confirmation of the Plan (the "Confirmation Hearing"), which will be scheduled by the Bankruptcy Court after the commencement of the Debtors' chapter 11 cases (the "Reorganization Cases"). The date on which the Clerk of the Bankruptcy Court enters the order confirming the Plan (the "Confirmation Order") pursuant to section 1129 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (as amended, the "Bankruptcy Code") will be the "Confirmation Date". The date on which the Plan is substantially consummated will be the "Effective Date".

Capitalized terms used in this Disclosure Statement but not defined herein have the meanings ascribed to them in the Plan. **Please note that to the extent any inconsistencies exist between this Disclosure Statement and the Plan, the Plan shall govern.**

The Debtors have not commenced Reorganization Cases. This solicitation is being conducted at this time in order to obtain sufficient acceptances of the Plan that will enable the Plan to be confirmed by the Bankruptcy Court in the event the Debtors are unable to reach an agreement on the terms of an out-of-court restructuring with the holders of Credit Facility Claims, Secured Swap Termination Claims, and Unsecured Swap Termination Claims against the Debtors. In order to enable the Debtors to pursue and effect an out-of-court restructuring in lieu of commencing Reorganization Cases and seeking confirmation of the Plan, the ballots delivered to holders of Credit Facility Claims, Secured Swap Termination Claims, and Unsecured Swap Termination Claims, which enable such holders to vote on the Plan, also allow for (a) holders of Credit Facility Claims to agree to (i) waive (x) any defaults that were waived in the Fourth Credit Facility Waiver and (y) any defaults that may occur under the Credit Facility as a result of failure by Xerium, XTI, Xerium Germany, Xerium Canada, Xerium Italy, or Xerium Austria to pay principal or interest due March 31, 2010 under the Credit Facility and (ii) forbear from exercising any remedies as a result of such defaults through April 30, 2010 and (b) holders of Secured Swap Termination Claims and Unsecured Swap Termination Claims to agree to forbear from exercising any rights or remedies under their respective Swap Termination Agreements through April 30, 2010.

****IMPORTANT NOTE WITH RESPECT TO XERIUM CANADA INC., HUYCK.WANGNER AUSTRIA GmbH, XERIUM GERMANY HOLDING GmbH, AND XERIUM ITALIA S.p.A. (COLLECTIVELY, THE "NON-U.S. BORROWERS"):**

THIS SOLICITATION INCLUDES A SOLICITATION OF (I) THE HOLDERS OF CREDIT FACILITY CLAIMS AGAINST NON-U.S. BORROWERS AND (II) THE HOLDERS OF UNSECURED SWAP TERMINATION CLAIMS AGAINST NON-U.S. BORROWERS, TO EXCHANGE THEIR CREDIT FACILITY CLAIMS OR UNSECURED SWAP TERMINATION CLAIMS, AS APPLICABLE, AGAINST NON-U.S. BORROWERS FOR THE TREATMENT AND CONSIDERATION PROVIDED TO CLASS 2 AND CLASS 5, AS APPLICABLE, UNDER THE PLAN. IF 100% OF THE HOLDERS OF IMPAIRED CLAIMS AGAINST ANY NON-U.S. BORROWER OBLIGATED WITH RESPECT THERETO ACCEPT THE PLAN, SUCH NON-U.S. BORROWER MAY DETERMINE TO EFFECTUATE THE EXCHANGE WITHOUT COMMENCING A REORGANIZATION CASE. IF THE PLAN IS ACCEPTED BY LESS THAN 100% OF THE HOLDERS OF IMPAIRED CLAIMS AGAINST ANY NON-U.S. BORROWER SUCH NON-U.S. BORROWER INTENDS TO COMMENCE A REORGANIZATION CASE AND EFFECTUATE THE EXCHANGE THEREUNDER.**

Under the Bankruptcy Code, only holders of Claims or Equity Interests in Impaired Classes are entitled to vote on the Plan (unless, for reasons discussed in more detail below, such holders are presumed to accept or deemed to reject the Plan). Pursuant to section 1124 of the Bankruptcy Code, a Class of Claims or Equity Interests is deemed to be Impaired under the Plan unless (a) the Plan leaves unaltered the legal, equitable, and contractual rights to which such Claim or Equity Interest entitles the holder thereof or (b) notwithstanding any legal right to an accelerated payment of such Claim or Equity Interest, the Plan cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such Claim or Equity Interest as it existed before the default.

Through this vote, the Debtors' goal is to consummate a financial restructuring transaction that will significantly reduce the Debtors' institutional indebtedness and place the Debtors in a stronger financial position for future growth and stability.

Pursuant to the Plan, and as discussed more fully below, on the Effective Date, the Reorganized Debtors will enter into the Exit Facility, the Credit Facility will be amended and restated as the Amended and Restated Credit Facility (including, without limitation, amended to terminate the revolving credit facility commitments thereunder), and in full and final satisfaction of all Allowed Credit Facility Claims, Allowed Secured Swap Termination Claims, and Allowed Unsecured Swap Termination Claims, the holders of such Claims will receive their ratable shares of (a) $10 million in Cash, (b) $410 million in principal amount of Term Notes, to be issued pursuant to the Amended and Restated Credit Facility, and (c) 82.6% of the shares of the New Common Stock to be issued on the Effective Date prior to any dilution by (i) equity incentive awards to be granted under the New Management Incentive Plan on or after the Effective Date and (ii) the exercise of the New Warrants. Holders of all other Claims will be unimpaired. Moreover, pursuant to the Plan, on the Effective Date, the Existing Common Stock will be canceled and holders of Allowed Equity Interests in Class 8 will receive their Pro Rata Share of (a) a number of shares of New Common Stock that is equal to the difference between (i) 17.4%

of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan and (ii) the number of shares of New Common Stock to be reserved pursuant to Section 5.2(a)(iii) of the Plan and (b) New Warrants to purchase up to 10% of the issued and outstanding shares of New Common Stock as of the Effective Date (on a fully diluted basis).

The following table summarizes the treatment and estimated recovery for creditors and stockholders under the Plan. For a complete explanation, please refer to the discussion in Section IV of this Disclosure Statement, entitled "THE PLAN," and the Plan itself:

Class	**Description**	**Treatment**	**Entitled to Vote**	**Estimated Recovery**
1	Priority Non-Tax Claims	Unimpaired. Except to the extent that a holder of an Allowed Priority Non-Tax Claim agrees to a less favorable treatment, on the latest of (a) the Effective Date, (b) the date on which such Priority Non-Tax Claim is Allowed, and (c) the date on which such Allowed Priority Non-Tax Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder of such Claim, or, in each case, as soon as practicable thereafter, each Allowed Priority Non-Tax Claim shall be paid in Cash in an amount equal to the Allowed amount of such Claim, together with postpetition interest to the extent required to render such Claim unimpaired.	No (presumed to accept)	100%
2	Shared Collateral Claims	Impaired. Except to the extent that a holder of an Allowed Shared Collateral Claim agrees to a less favorable treatment, on the Effective Date or as soon as practicable thereafter, each holder of an Allowed Shared Collateral Claim shall receive (a) its Distributable Share of (i) Cash in an amount equal to $10,000,000, (ii) the Term Notes, and (iii) 82.6% of the shares of New Common Stock to be issued on the Effective Date (subject to dilution by equity incentive awards to be granted under the New Management Incentive Plan on or after the Effective Date and the exercise of the New Warrants) and (b) Cash in an amount equal to (i) the unpaid interest on the principal amount of such holder's Allowed Credit Facility Claim or Allowed Secured Swap Termination Claim, as the case may be, accrued through the date immediately prior to the Effective Date at the rate set forth in section 4 of the Fourth Credit Facility Waiver, with respect to Allowed Credit Facility Claims, and at the rate set forth in section 3(a) of the Secured Swap Termination Agreement, with respect to Allowed Secured Swap Termination Claims less (ii) any amounts paid to such holder during the Reorganization Cases, as adequate protection or otherwise.	Yes	100%

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
3	Other Secured Claims	Unimpaired. Except to the extent that a holder of an Allowed Other Secured Claim agrees to a less favorable treatment, on the Effective Date, or as soon as practicable thereafter, each Allowed Other Secured Claim shall be, at the option of the Debtors or Reorganized Debtors, as applicable, (a) reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, (b) paid in full, in Cash, together with postpetition interest to the extent required to render such Claim unimpaired, (c) satisfied by the surrender of the Collateral securing such Claim, or (d) otherwise rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed Other Secured Claim to demand or receive payment of such Claim prior to its stated maturity from and after the occurrence of default. Notwithstanding the foregoing, the Allowed Deferred Waiver Claim shall be paid by the Debtors or the Reorganized Debtors, as applicable, in full, in Cash, on the Effective Date, together with postpetition interest at the rate set forth in section 4 of the First Credit Facility Waiver, to the Administrative Agent and the Administrative Agent shall thereafter distribute such Cash to the applicable lender under the Credit Facility.	No (presumed to accept)	100%
4	General Unsecured Claims	Unimpaired. Except to the extent that a holder of an Allowed General Unsecured Claim agrees to a less favorable treatment, on the latest of (a) the Effective Date, (b) the date on which such General Unsecured Claim is Allowed, and (c) the date on which such General Unsecured Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder of such Claim, or, in each case, as soon as practicable thereafter, each Allowed General Unsecured Claim shall, at the Reorganized Debtors' option, (i) be paid in full, in Cash, together with postpetition interest to the extent required to render such claim unimpaired or (ii) otherwise be rendered unimpaired in accordance with section 1124 of the Bankruptcy Code.	No (presumed to accept)	100%
5	Unsecured Swap Termination Claims	Impaired. Except to the extent that a holder of an Allowed Unsecured Swap Claim agrees to a less favorable treatment, on the Effective Date or as soon as thereafter practicable, each holder of an Allowed Unsecured Swap Claim shall receive its (a) Distributable Share of (i) Cash in an amount equal to $10,000,000, (ii) the Term Notes, and (iii) 82.6 % of the shares of New Common Stock to be issued on the Effective Date (subject to dilution by equity incentive awards to be granted under the New Management Incentive Plan on or after the Effective Date and the exercise of the New	Yes	100%

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
		Warrants) and (b) Pro Rata Share of Cash in an amount equal to the Unsecured Swap Termination Interest Component.		
6	Intercompany Claims	Unimpaired. On the Effective Date or as soon as practicable thereafter, all Allowed Intercompany Claims shall either be reinstated to the extent determined to be appropriate by the Reorganized Debtors or adjusted, continued or capitalized, either directly or indirectly, in whole or in part.	No (presumed to accept)	100%
7	Equity Interests in Subsidiary Debtors	Unimpaired. On the Effective Date, all Allowed Equity Interests in the Subsidiary Debtors shall be reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code.	No (presumed to accept)	100%
8	Equity Interests in Xerium	Impaired. On the Effective Date, the Existing Common Stock shall be canceled and each holder of an Allowed Equity Interest in Class 8 shall receive its Pro Rata Share of (a) a number of shares of New Common Stock that is equal to the difference between (i) 17.4% of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan and (ii) the number of shares of New Common Stock to be reserved pursuant to Section 5.2(a)(iii) of the Plan and (b) New Warrants to purchase up to 10% of the issued and outstanding shares of New Common Stock as of the Effective Date (on a fully diluted basis).	No (deemed to reject)	

WHERE TO FIND ADDITIONAL INFORMATION: For detailed historical and projected financial information and financial estimates, see Section VI of this Disclosure Statement, entitled "PROJECTIONS AND VALUATION ANALYSIS," and the following documents: (a) Xerium's Form 10-K for the fiscal year ended December 31, 2008, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 12, 2009, (b) Xerium's Form 10-Q for the quarterly period ended March 31, 2009, filed with the SEC on May 7, 2009, (c) Xerium's Form 10-Q for the quarterly period ended June 30, 2009, filed with the SEC on August 6, 2009, (d) Xerium's Form 10-Q for the quarterly period ended September 30, 2009, filed with the SEC on November 6, 2009, each as attached to this Disclosure Statement as Exhibits B, C, D, and E, respectively, and (e) Xerium's subsequent filings with the SEC, available at http://www.xerium.com.

A ballot to be used to vote to accept or reject the Plan is enclosed with this Disclosure Statement submitted to the holders (as of the February 23, 2010 voting record date) of Allowed Credit Facility Claims, Allowed Secured Swap Termination Claims, and Allowed Unsecured Swap Termination Claims entitled to vote on the Plan. If you hold Claims in more than one Class entitled to vote, you will receive more than one ballot.

The Debtors are commencing this solicitation after extensive discussions with the Administrative Agent under the Credit Facility and the Secured Lender Ad Hoc Working Group,

as well as discussions with the holders of Secured Swap Termination Claims and Unsecured Swap Termination Claims. The members of the Secured Lender Ad Hoc Working Group hold, in the aggregate, 51.9% in principal amount of the Debtors' outstanding obligations under the Credit Facility. The members of the Secured Lender Ad Hoc Working Group are American Securities LLC, on behalf of its affiliated funds, ING Investment Management Co., on behalf of its affiliated funds, Carl Marks Strategic Investments, L.P., Citicorp North America, Inc., Cerberus Capital Management, L.P., on behalf of its affiliated funds and accounts, and Harbourmaster Capital Management Ltd. The Administrative Agent under the Credit Facility has been represented by the law firm of Chadbourne & Parke LLP. The Administrative Agent's financial advisor is Lazard Ltd. and its restructuring advisor is Capstone Advisory Group, LLC.

The Debtors have not commenced Reorganization Cases. This solicitation is being conducted at this time in order to obtain sufficient acceptances of the Plan that will enable the Plan to be confirmed by the Bankruptcy Court in the event that the Debtors are unable to reach an agreement on the terms of an out-of-court restructuring with the holders of Credit Facility Claims, Secured Swap Termination Claims, and Unsecured Swap Termination Claims against the Debtors. In order to enable the Debtors to pursue and effect an out-of-court restructuring in lieu of commencing Reorganization Cases and seeking confirmation of the Plan, the ballots delivered to holders of Credit Facility Claims, Secured Swap Termination Claims, and Unsecured Swap Termination Claims, which enable such holders to vote on the Plan, also allow for (a) holders of Credit Facility Claims to agree to (i) waive (x) any defaults that were waived in the Fourth Credit Facility Waiver and (y) any defaults that may occur under the Credit Facility as a result of failure by Xerium, XTI, Xerium Germany, Xerium Canada, Xerium Italy, or Xerium Austria to pay principal or interest due March 31, 2010 under the Credit Facility and (ii) forbear from exercising any remedies as a result of such defaults through April 30, 2010 and (b) holders of Secured Swap Termination Claims and Unsecured Swap Termination Claims to agree to forbear from exercising any rights or remedies under their respective Swap Termination Agreements through April 30, 2010.

If the Debtors are unable to reach agreement on an out-of-court restructuring and do commence Reorganization Cases, the Debtors anticipate that by conducting the solicitation in advance of commencing chapter 11 Reorganization Cases, the pendency of the cases will be shortened sufficiently and their administration will be simplified and less costly. Subject to the qualification described on page 2 of this Introduction with respect to the Non-U.S. Borrowers, the Debtors intend to commence chapter 11 Reorganization Cases if votes are received in number and amount sufficient to enable the Bankruptcy Court to confirm the Plan, and to seek as promptly as practicable thereafter, a hearing before the Bankruptcy Court to (a) approve this Disclosure Statement as complying with any applicable nonbankruptcy law, rule, or regulation governing the adequacy of disclosure or as otherwise containing adequate information of a kind, and in sufficient, detail to enable hypothetical investors of the relevant Classes to make an informed judgment whether to accept or reject the Plan and (b) confirm the Plan. If the Plan is confirmed, the Claims against, and Equity Interests in, the Debtors will be classified and treated as described in this Disclosure Statement. In the event that sufficient votes are not received to confirm the Plan, the Debtors may nevertheless file petitions for relief under chapter 11 of the Bankruptcy Code.

The Debtors' legal advisors are Cadwalader, Wickersham & Taft LLP and Richards, Layton & Finger, P.A. The Debtors' restructuring advisor is AlixPartners, LLP and the Debtors' financial advisor and investment banker is Rothschild Inc. The Debtors' advisors can be contacted at:

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-and-

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(212) 490-2500
Attn: Mr. Brian J. Fox

The Debtors, the Administrative Agent, and the Secured Lender Ad Hoc Working Group strongly urge holders of Claims entitled to vote, to vote to accept the Plan.

Summary of Voting Procedures

To be counted, your vote must be received, pursuant to the following instructions, by the Garden City Group, Inc. (the "Voting Agent") at the following address, on or before 4:00 p.m. (prevailing Eastern time) on March 22, 2010 (the "Voting Deadline"):

If by mail:

Xerium Ballot Processing
The Garden City Group, Inc.
P.O. Box 9572
Dublin, Ohio 43017-4872

If by personal delivery or overnight courier:

Xerium Ballot Processing
The Garden City Group, Inc.
5151 Blazer Parkway, Suite A
Dublin, Ohio 43017

IF YOU HAVE ANY QUESTIONS CONCERNING THE BALLOT OR THE VOTING PROCEDURES, OR IF YOU NEED A BALLOT OR ADDITIONAL COPIES OF THE DISCLOSURE STATEMENT OR OTHER ENCLOSED MATERIALS, YOU MAY CONTACT THE VOTING AGENT AT:

U.S. and Canada 1-866-249-8108 (toll-free)

International countries +1-614-553-1930

ONLY HOLDERS OF CERTAIN CLAIMS AGAINST THE DEBTORS AS OF THE FEBRUARY 23, 2010 VOTING RECORD DATE ARE ELIGIBLE TO VOTE ON THE PLAN. IT IS IMPORTANT THAT THE HOLDERS OF CREDIT FACILITY CLAIMS AND SECURED SWAP TERMINATION CLAIMS IN CLASS 2 (DEFINED IN THE PLAN AS "SHARED COLLATERAL CLAIMS") AND THE HOLDERS OF UNSECURED SWAP TERMINATION CLAIMS IN CLASS 5 EXERCISE THEIR RIGHTS TO VOTE TO ACCEPT OR REJECT THE PLAN.

Please complete the information requested on the ballot, sign, date, indicate your vote on the ballot, and return your completed and signed ballot in the enclosed pre-addressed postage-paid envelope so that it is actually received by the Voting Agent before the Voting Deadline.

IF YOU ARE ENTITLED TO VOTE AND YOU HAVE RETURNED YOUR BALLOT BUT FAILED TO INDICATE ON THE BALLOT WHETHER YOU ACCEPT OR REJECT THE PLAN, YOUR VOTE WILL NOT BE COUNTED.

***

For detailed voting instructions, see Section VIII below, entitled "VOTING PROCEDURES AND REQUIREMENTS," and the instructions on your ballot.

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Exhibit C Xerium's Form 10-Q for the quarterly period ended March 31, 2009, filed with the SEC on May 7, 2009
Exhibit D Xerium's Form 10-Q for the quarterly period ended June 30, 2009, filed with the SEC on August 6, 2009
Exhibit E Xerium's Form 10-Q for the quarterly period ended September 30, 2009, filed with the SEC on November 6, 2009
Exhibit F Xerium Organizational Chart
Exhibit G Projected Financial Information
Exhibit H Liquidation Analysis

I.

GENERAL INFORMATION

A. Description of the Debtors

Xerium is a public company, whose shares of Existing Common Stock are traded on the New York Stock Exchange under the ticker symbol "XRM." The prospective Debtors in the Reorganization Cases include Xerium and the following direct and indirect subsidiaries of Xerium:

Huyck Licensco Inc.
Stowe Woodward Licensco LLC
Stowe Woodward LLC
Wangner Itelpa I LLC
Wangner Itelpa II LLC
Weavexx, LLC
Xerium Asia, LLC
Xerium III (US) Limited
Xerium IV (US) Limited
Xerium V (US) Limited
XTI LLC
Xerium Canada Inc.
Huyck.Wangner Austria GmbH
Xerium Germany Holding GmbH
Xerium Italia S.p.A.

In the event, however, that 100% of the holders of Impaired Claims (i.e., Credit Facility Claims or Unsecured Swap Termination Claims) against any of the Non-U.S. Borrowers (Xerium Canada Inc., Huyck.Wangner Austria GmbH, Xerium Germany Holding GmbH, or Xerium Italia S.p.A.) vote to accept the Plan, such respective Non-U.S. Borrower may determine to effectuate the transactions contemplated by the Plan with respect to such holders without commencing a Reorganization Case. In such event, the treatment and distributions afforded under the Plan in respect of Credit Facility Claims and Unsecured Swap Termination Claims will be afforded to the holders of, and in exchange for and in full and final satisfaction, discharge, and release of, such Claims against the Non-U.S. Borrowers, including those which have not commenced Reorganization Cases, and of any guarantees thereof.

The organizational chart set forth in Exhibit F to this Disclosure Statement illustrates the Debtors' corporate family and includes Entities in which the Debtors have a substantial or controlling interest, which are not publicly traded and are not anticipated to commence Reorganization Cases.

1. The Debtors' Businesses

The Debtors, together with their non-Debtor subsidiaries and affiliates (collectively, the "Company"), are a leading global manufacturer and supplier of two categories of consumable products installed in paper-making machines, which are used in the production of paper machine clothing products (the "Clothing Segment") and roll technology products (the "Roll Covers Segment"). The Clothing Segment consists of engineered synthetic textile belts, which range in size from 15 feet in width to more than 460 feet in length, that allow for the extraction of water while transporting paper through a paper-making machine. The Roll Covers Segment encompasses the covering and servicing of large metal rolls (up to 39 feet in length, six feet in diameter, and 140,000 pounds) upon which paper machine clothing products are often mounted and between which paper travels as it is processed from a "wet slurry" to a finished paper product. Both paper machine clothing and certain rolls are in constant contact with paper as it is produced and have a significant effect on the paper's quality and the paper producer's ability to differentiate its products. Because paper-making machines vary widely in size and design, the Company customizes clothing and roll covers to each individual paper-making machine. Paper machine clothing and roll covers must be replaced regularly to sustain high quality paper output and to ensure efficient paper production. Rolls and roll covers also require regular refurbishment, a service that the Company provides to its customers.

The Company's customers include paper and container manufacturers, such as International Paper Company, MeadWestvaco Corporation, and Smurfit-Stone Corporation. The Company's key competitors include Albany International Corporation (a publicly held U.S. corporation), Voith AG (a privately held German company), and Metso Corporation (a publicly owned Finnish company).

(a) The Clothing Segment

The Company manufactures three general types of clothing products that are utilized at various stages of the paper making process: forming fabrics, press felts, and dryer fabrics, which accounted for approximately 45%, 38%, and 5%, respectively, of the Clothing Segment's net sales in 2008. Forming fabrics receive wet paper slurry and allow water to drain from paper stock in order to create an initial wet sheet. Press felts carry paper through the paper pressing process and facilitate water removal. Dryer fabrics are used to transport a paper sheet through the drying section of paper-making machines. The Company's Clothing Segment also produces certain machine clothing products used in other (non-paper) industrial applications, such as steel, plastics, leather, and textiles manufacturing, sales of which accounted for approximately 11% of the Company's net clothing sales in 2008. Finally, sales of certain auto-joining equipment accounted for approximately 1% of the Clothing Segment's net sales in 2008.

The Company operates its Clothing Segment through two brands: Weavexx, in North America, and Huyck.Wangner, outside North America. In North America, clothing products are manufactured by Xerium's domestic operating subsidiary Weavexx, LLC and by Xerium Canada Inc. Outside North America, clothing products are manufactured by various worldwide operating subsidiaries operating in Germany, Austria, Italy, Spain, Argentina, Japan, and Brazil under the Huyck.Wangner name.

(b) The Roll Covers Segment

Paper-making machines contain large steel cylinders known as rolls over which paper machine clothing is mounted and between which paper travels as it is processed. Paper-machine rolls are covered with roll covers comprised of rubber, polyurethane, composite, or ceramic compounds, depending upon the specific function of the roll. The Company manufactures, refurbishes, and replaces roll covers through the Roll Covers Segment. Sale of roll covers accounted for approximately 59% of total sales in the Roll Covers Segment in 2008. Roll cover refurbishment and mechanical services accounted for approximately 15% of total sales in the Roll Covers Segment in 2008. The Company also produces and repairs "spreader rolls," which are small-diameter curved rolls used throughout a paper-making machine to stretch, smooth, and remove wrinkles from the paper and clothing. Sales of spreader rolls accounted for approximately 26% of sales in the Roll Covers Segment in 2008.

The Company operates its Roll Covers Segment worldwide under the brand name Stowe Woodward, and in China, under the brand name Xibe. Roll covers are manufactured by certain of Xerium's Debtor and non-Debtor worldwide subsidiaries operating in the United States, Canada, Germany, Finland, France, Italy, Brazil, China, and Mexico. The Company produces and distributes spreader rolls worldwide under the brand name Mount Hope, and in Europe, under the brand name Robec.

(c) Employees

As of January 1, 2010, the Company employs approximately 3,290 people worldwide, of which approximately 2,500 are manufacturing employees, 400 are sales and marketing employees, 100 employees are in research and development, and 300 are administrative and other employees.

Approximately 72% of the Company's employees are subject to various collective bargaining agreements or are members of trade unions, predominantly outside the United States. The Debtors are parties to collective bargaining agreements with the following unions: (i) the Local #1855 of the International Association of Machinists and Aerospace Workers (AFL-CIO), (ii) the Local #58 of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, Independent, (iii) the General Drivers, Statesmen, and Warehousemen's Local Union 984, an affiliate of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, (iv) the International Association of Machinists and Aerospace Workers, Local 922, CLC-FTQ-AFL-CIO, (v) the Workers United Ontario Council and its Local 2360, (vi) the United Food and Commercial Workers International Union AFL-CIO & CLC, and (vii) the Syndicat Des Salarié(e)s De Weavexx, C.S.D. Approximately 37% of the employees subject to collective bargaining agreements (or approximately 6% of the total number of the Company's employees) are covered by collective bargaining agreements that expire prior to December 31, 2010. Approximately 74% of the employees are subject to job protection as members of trade unions, employee associations, or workers' councils (or approximately 41% of the total number of the Company's employees) for which arrangements expire prior to December 31, 2010.

(d) Benefit Plans

The Debtors maintain various defined benefit plans covering substantially all of the Debtors' U.S. and Canadian employees as well as employees of certain Xerium subsidiaries in other countries. On December 31, 2008, Xerium froze benefit pension accruals under the Xerium Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "U.S. Pension Plan"). Employees vested under the U.S. Pension Plan as of December 31, 2008, are entitled to their pension benefits under the plan as of December 31, 2008. Employees who were not vested under the U.S. Pension Plan as of December 31, 2008 will be entitled to their benefits earned as of December 31, 2008 upon five years of continuous employment from the date of such employee's hire. Salaried employees were notified on May 11, 2009 of Xerium's intent to freeze the Canadian pension plan as of December 31, 2010.

The Debtors also maintain various defined contribution plans that provide for retirement benefits to the Debtors' employees. On January 7, 2009, Xerium suspended its 401(k) match in the United States; the 401(k) match was reinstated as of January 1, 2010.

As of December 31, 2008, Xerium curtailed funding of its U.S. retiree health insurance program under which Xerium offered health care benefits to retired U.S. employees and their covered dependents and beneficiaries. Xerium terminated all retiree health insurance programs except with respect to one individual who was under contract.

(e) Existing Management Incentive Plan

On May 19, 2005, Xerium adopted an equity incentive plan which authorized the issuance of 2,500,000 shares of Existing Common Stock pursuant to equity-based awards granted under the plan (which was subsequently increased to 7,500,000 at Xerium's annual meeting of stockholders on August 6, 2008) (as amended, the "Existing Management Incentive Plan").

Pursuant to the Existing Management Incentive Plan, Xerium has issued performance-based and time-based restricted stock unit ("RSU") awards to executive officers, including Xerium's Chairman, President and Chief Executive Officer, Stephen R. Light and Xerium's Executive Vice President and Chief Financial Officer, David G. Maffucci. The performance-based RSU awards generally would vest if the share price of the Existing Common Stock plus dividends paid thereon satisfied annual targets established by the Equity and Executive Compensation Subcommittee of Xerium's board of directors (the "Compensation Committee") and the officer continued to be employed with Xerium through a certain date. Performance-based RSUs also would vest, in whole or in part, if a change of control occurred and performance-based requirements had been satisfied or were satisfied based on the transaction price. Generally, the time-based RSU awards were scheduled to vest, in substantially equal installments, on the first, second, and third anniversaries of the date of the grant of such awards, provided that the officer continued to be employed by Xerium on the applicable vesting date. The time-based RSUs also would vest, in whole or in part, in connection with a change of control and/or termination of employment under the circumstances set forth in the RSU awards.

During 2009, Xerium issued 77,027 shares of Existing Common Stock in settlement of 120,710 time-based RSUs (net of applicable tax withholdings).

In furtherance of the Debtors' restructuring efforts, the Compensation Committee approved the modification of the terms of certain incentive-based compensation, including RSUs. SEE SECTION II(C) BELOW, ENTITLED "Restructuring Negotiations."

(f) Properties

The Company operates 38 facilities in 13 countries, 32 of which are manufacturing facilities. The Company's facilities are strategically located in the major paper-producing regions of North America, Europe, South America, and Asia-Pacific. Eleven of these facilities manufacture clothing, 20 facilities manufacture and service roll covers, and one facility manufactures both clothing and roll covers. The Company owns substantially all of its manufacturing facilities.

In 2007, the Company began construction of a clothing manufacturing facility in Vietnam; however, in December 2008, the Company discontinued construction of the Vietnam facility. While construction of the Vietnam facility has been discontinued, the Company remains under contractual obligations for certain equipment ordered for the Vietnam facility that the Company has since deployed to its other facilities. In 2009, the Company closed and ceased performance of all manufacturing activities at its roll manufacturing facility in Sherbrooke, Canada and its clothing manufacturing facility in Australia. Additionally, in 2009, the Company sold its Swedish roll manufacturing facility, which the Company had closed in 2008.

The Company also has license agreements with three licensees that manufacture roll cover products for the Company at the licensees' facilities in Japan, South Korea, and India. In addition, the Company has license agreements with a licensee that manufactures the Company's clothing products in North America, various European countries, and certain Pacific Rim countries.

2. **Corporate History**

The Company grew out of the holdings of United Kingdom industrial conglomerate BTR, plc ("BTR") and traces its U.S. origins to the late 1800s. In 1976, BTR acquired two Massachusetts-based producers of roll covers and spreader rolls, Stowe Woodward, Inc., the predecessor to Stowe Woodward LLC ("Stowe Woodward") (the U.S. Stowe Woodward Operating Entity), and Mount Hope Machinery. Stowe Woodward was founded in the late 1800's as a manufacturer of rubber-covered balls and ebonite bowling balls, as well as rubber covers used to protect the steel rolls used in the textile and tannery industries. In 1980, BTR acquired two paper machine clothing producers: Huyck Corporation in upstate New York, one of the oldest machine clothing companies in the United States, and the Becker Company of West Germany. BTR quickly began to act as an industry consolidator, acquiring paper machine clothing manufacturers in Finland, Brazil, Italy, and Canada, among other locations. Over the course of the 1990s, BTR continued to increase its paper machine clothing and roll covers capabilities by implementing targeted global acquisitions and investing in cutting edge research and development.

In 1999, BTR was acquired by Siebe, plc, and the resulting company, which took the name Invensys, plc ("Invensys"), became the world's largest controls-automation company. Invensys sold a 90% stake in BTR's paper technology segment to certain funds managed by Apax Partners in 1999, which incorporated the business as Xerium. Xerium continued to drive the trend of industry consolidation by acquiring additional clothing and rolls businesses in the early 2000s, including holdings in Germany and Italy. Currently, Xerium is the direct or indirect parent of 45 worldwide subsidiaries.

On May 19, 2005, Xerium completed an initial public offering (the "IPO") and a reorganization. In connection with the IPO, Xerium entered into a credit facility and repaid approximately $752.5 million of principal and interest on its previously existing senior bank debt, mezzanine bank debt, and certain non-interest bearing shareholder notes. Today, approximately 51% of the Existing Common Stock is owned by Apax WW Nominees Ltd. and Apax-Xerium APIA LP.

3. Selected Financial Information

For the fiscal year ended December 31, 2008, the Company generated, on a consolidated basis, $638.1 million in net sales. For the nine months ended September 30, 2009, the Company generated, on a consolidated basis, $367.7 million in net sales. As of September 30, 2009, the Company reported, on a consolidated basis, total assets of $784.5 million and total liabilities of $807.9 million, including approximately $5.2 million of long-term debt and $585.2 million of long-term debt that has been reclassified as current.

B. Prepetition Indebtedness and Capital Structure

1. Credit Facility

Xerium is party to an Amended and Restated Credit and Guaranty Agreement, dated as of May 30, 2008 (as amended from time to time, the "Credit Facility"), by and among Xerium; XTI LLC ("XTI"), a Delaware limited liability company; Xerium Italia S.p.A. ("Xerium Italy"), an Italian società per azioni; Xerium Canada Inc. ("Xerium Canada"), a New Brunswick (Canada) corporation resulting from the amalgamation of Stowe-Woodward/Mount Hope Inc. and Weavexx Corporation; Huyck.Wangner Austria GmbH ("Xerium Austria"), an Austrian limited liability company (formerly known as Huyck Austria GmbH); and Xerium Germany Holding GmbH ("Xerium Germany"), a German limited liability company, as borrowers, certain subsidiaries of the borrowers as guarantors, various financial institutions and other persons from time to time, as lenders, and Citicorp North America, Inc., as administrative agent and collateral agent.

The Credit Facility consists of (i) a $50 million revolving credit facility (the "Prepetition Revolver") and (ii) seven term loans with an aggregate original principal balance of $650 million (the "Prepetition Term Loans"). The Prepetition Revolver matures on November 19, 2011, and the Prepetition Term Loans mature on May 19, 2012. As of January 1, 2010, $28.1 million was outstanding on the Prepetition Revolver, and $583.6 million was outstanding on the Prepetition Term Loans. Each of the Debtors is a borrower or a guarantor under the Credit Facility (collectively, the "Prepetition Credit Parties"). The U.S.

Debtors guarantee all obligations under the Credit Facility. The Non-U.S. Debtors guarantee only the non-U.S. obligations under the Credit Facility.

To secure the obligations under the Credit Facility, pursuant to that certain Pledge and Security Agreement, dated as of May 19, 2005, and pursuant to other collateral documents, certain Prepetition Credit Parties granted the lenders a security interest in, and continuing liens on, substantially all of such Prepetition Credit Parties' assets.

2. **Derivative Financial Instruments**

Xerium 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. Such instruments include certain interest rate swaps to hedge variable interest related to the Credit Facility and foreign exchange contracts to protect the value of certain assets and obligations.

With respect to the interest rate swaps, (a) Xerium was counterparty to that certain Confirmation, dated as of November 16, 2007, by and among Xerium and Deutsche Bank AG ("DB"), with an original notional amount of $132,808,000; (b) Xerium Canada was counterparty to that certain Confirmation, dated as of November 17, 2007, by and among Xerium Canada (as successor-in-interest to Weavexx Corporation) and DB, with an original notional amount of C$27,233,000; (c) Xerium Canada was counterparty to that certain Confirmation, dated as of November 17, 2007, by and among Xerium Canada (as successor-in-interest to Stowe-Woodward/Mount Hope Inc.) and DB, with an original notional amount of C$35,908,000; (d) XTI was counterparty to that certain Confirmation, dated as of November 17, 2007, by and among XTI and DB, with an original notional amount of €77,723,000 (collectively with the interest rate swaps referenced in clauses (a) thorough (c) above, the "DB Swaps"); (e) Xerium was counterparty to that certain 1992 ISDA Master Agreement (Multicurrency – Cross Border) and Schedule, dated as of November 16, 2007, and that certain Confirmation, dated as of November 19, 2007, in each case, by and among Xerium and Merrill Lynch Capital Services, Inc. ("MLCS" and together with DB, the "Swap Counterparties"), with an original notional amount of $132,808,000; and (f) XTI was counterparty to that certain 1992 ISDA Master Agreement (Multicurrency - Cross Border) and Schedule, dated as of November 16, 2007, and that certain Confirmation, dated as of November 19, 2007, in each case, by and among XTI and MLCS, with an original notional amount of €77,723,000 (together with the interest rate swap referenced in clause (e) above, the "MLCS Swaps"). The Debtors' obligations under the DB Swaps were unsecured, and the Debtors' obligations under the MLCS Swaps were secured by the prepetition collateral, ratably with the Debtors' obligations under the Credit Facility. As more fully described in Section II(C) below, the DB Swaps and the MLCS Swaps have been terminated.

3. **Unsecured Lines of Credit**

(a) R&D Facility

As of December 31, 2009, Xerium Austria has outstanding borrowings in an amount equal to €1.2 million pursuant to four unsecured term loans from Österreichische Forschungsförderungsgesellschaft mbH (Austrian Research Promotion Agency (FFG)) ("R&D Facility Lender"), the national funding institution for applied industrial research in Austria (each term loan, a "R&D Facility"). Each R&D Facility loan agreement requires Xerium Austria to use loan proceeds for specified research and development projects and in instances of default, Xerium Austria must assign to the R&D Facility Lender all receivables derived from the specified research and development projects.

Each R&D Facility bears interest at rate of 2% per annum, which is subsidized by the Austrian government, and the facilities have maturity dates of June 30, 2011, September 30, 2011, September 30, 2011, and March 31, 2014.

(b) Umbrella Facility

Pursuant to the Umbrella Facility Agreement dated as of July 15, 2008, by and among Xerium Technologies Limited ("Xerium UK"), as borrower, and DB, as lender, Xerium Austria, Xerium Italy, and Xerium Germany draw funds under a Guarantee Facility (defined below) and/or a Margin Facility (defined below). The umbrella facility consists of a (i) €3,000,000 revolving credit facility that may be used for general corporate and working capital purposes, (ii) €1,000,000 guarantee facility that may be used through indemnities or bank guarantees (the "Guarantee Facility"), and (iii) €1,000,000 margin facility that may be used in connection with foreign exchange transactions (the "Margin Facility"). In connection with the Umbrella Facility Agreement, non-Debtor Xerium UK provided a guarantee in the amount of €5,000,000 that permits companies, for which Xerium UK is indirectly or directly the majority shareholder, to execute bank guarantees under the Guarantee Facility and to execute foreign exchange contracts under the Margin Facility. As of January 1, 2010, Xerium Austria, Xerium Italy, and Xerium Germany have been allocated for use portions of the Margin Facility and the Guarantee Facility in the amounts of €100,000, €0, and €0, respectively.

II.

KEY EVENTS LEADING TO THE DECISION TO COMMENCE THE VOLUNTARY CHAPTER 11 REORGANIZATION CASES

A. Industry-Specific Events

Xerium's operations are highly dependent upon general trends in the paper production industry as well as the degree to which the paper production industry is affected by global economic conditions. In recent years, paper producers have seen decreased demand for their products from the newsprint and printing and writing sectors due to the increasing prevalence of electronic media. This trend has been exacerbated by the current global economic crisis, which has prompted a dramatic slow-down in print advertising as well as in packaging

materials. The drop in global demand for paper products has resulted in a surplus of paper inventory at paper-making companies and corresponding curtailments and idling of paper-making machines. In addition, as Xerium's customers have experienced difficulty raising funds in the capital markets, customers' demand for Xerium's products and services has necessarily contracted.

Xerium's revenues have been adversely affected by the reduced capacity of, and demand by, its customers. In response, Xerium has taken a variety of cost cutting initiatives designed to improve its competitive position, including the closure of twelve manufacturing facilities between 2002 and 2008. Xerium's operational restructuring initiatives, however, have not kept pace with the transformation of its customer-base.

B. Liquidity Constraints and Prepetition Negotiations

Xerium anticipated that it would not be in compliance with certain financial covenants under the Credit Facility for the period ended September 30, 2009. Accordingly, the Prepetition Credit Parties and the lenders under the Credit Facility entered into that certain Waiver and Amendment No. 1, dated as of September 29, 2009 (the "First Credit Facility Waiver"), by and among the borrowers, the guarantors and the Administrative Agent. Pursuant to the First Credit Facility Waiver, the lenders agreed to waive any violation of the interest coverage, leverage, and fixed charge covenants under the Credit Facility until the earliest of (a) the occurrence of any other default under the Credit Facility, (b) the Prepetition Credit Parties' failure to comply with any term of the First Credit Facility Waiver, or (c) December 15, 2009 (the "First Waiver Period"). In addition, the issuing banks agreed to issue new letters of credit in accordance with the terms of the Credit Facility in an outstanding amount of up to $3,500,000, for equipment purchases. In return, Xerium agreed, among other things, that during the First Waiver Period, no new revolving loans could be made to Xerium and the lenders would not be required to extend credit to Xerium. In addition, in connection with the First Credit Facility Waiver, Xerium was required to pay an increased interest rate on the Credit Facility from September 29, 2009 through December 15, 2009. Absent the First Credit Facility Waiver, failure to meet these financial covenants would have constituted an event of default under the Credit Facility and potentially could have led to acceleration of Xerium's loan obligations.

C. Restructuring Negotiations

During the First Waiver Period, Xerium engaged in extensive negotiations with the Administrative Agent and the Secured Lender Ad Hoc Working Group regarding possible restructuring scenarios. The negotiations progressed smoothly and the parties worked toward various consensual restructuring scenarios. As a result, the Prepetition Credit Parties and the lenders under the Credit Facility entered into that certain Waiver and Amendment No. 2, dated as of December 14, 2009 (the "Second Credit Facility Waiver"), pursuant to which, the lenders agreed to waive (a) any violation of the interest coverage, leverage, and fixed charge covenants under the Credit Facility that may have occurred but for the First Credit Facility Waiver and (b) any further violation of the interest coverage, leverage, and fixed charge covenants under the Credit Facility that may occur or have occurred until the earliest of (i) the occurrence of any other default under the Credit Facility, (ii) the Prepetition Credit Parties' failure to comply with

any term of the Second Credit Facility Waiver, (iii) the failure of Xerium and the Administrative Agent to negotiate in good faith and execute a term sheet for the restructuring of Xerium's debt and equity by no later than December 31, 2009, or (iv) February 1, 2010. The lenders also agreed to waive any hedging obligation defaults by Xerium, XTI, or Xerium Canada that may have occurred under the Credit Facility. In return, Xerium agreed, among other things, to pay each of the consenting lenders a consent fee equal to 0.05% of the outstanding principal amount of all loans under the Credit Facility (other than the Tranche 1 Revolving Loans) and the Tranche 1 Revolving Commitments of such lender.

On December 22, 2009, Xerium, the Administrative Agent, and the Secured Lender Ad Hoc Working Group reached an agreement in principal to pursue a restructuring on the terms set forth in the proposed Plan.

Also in connection with the restructuring, the Debtors commenced discussions with the Swap Counterparties to address a mutual termination of the swap agreements, establish the amount of the Swap Counterparties' respective termination claims, and reach an agreement on the treatment of those claims under a plan of reorganization. As a result of the parties' discussions, on December 31, 2009, Xerium, XTI, Xerium Canada, and DB entered into the Unsecured Swap Termination Agreement, pursuant to which, the parties thereto terminated the DB Swaps effective as of December 31, 2009, fixed the amounts due to DB with respect to termination of the DB Swaps at (a) CAD 2,922,609.90 with respect to Xerium Canada, (b) $5,950,176.58 with respect to Xerium, and (c) €3,130,475.78 with respect to XTI, and DB agreed to forbear until February 1, 2010 from exercising any of its rights and remedies under the DB Swaps or in respect of DB's Unsecured Swap Termination Claim. In accordance with the terms of the Unsecured Swap Termination Agreement, Xerium, XTI, and Xerium Canada made a partial payment to DB (a) on December 31, 2009 of (i) $48,364.28 and (ii) CAD 23,755.59 and (b) on January 4, 2010 of €25,445.16, in reduction of DB's Unsecured Swap Termination Claim.

In addition, on January 4, 2010, Xerium, XTI, and MLCS entered into the Secured Swap Termination Agreement, pursuant to which, the parties thereto terminated the USD MLCS Swaps effective as of December 31, 2009, and the EUR MLCS Swaps effective as of January 4, 2010, and fixed the amounts due to MLCS with respect to the termination of the MLCS Swaps at (a) $5,989,522.00 with respect to Xerium and (b) €619,097.58 with respect to XTI, and MLCS agreed to forbear until February 1, 2010 from exercising any of its rights and remedies under the MLCS Swaps or in respect of MLCS' Secured Swap Termination Claim. In accordance with the terms of the Secured Swap Termination Agreement, on January 4, 2010, Xerium and XTI made a partial payment to MLCS of $48,684.09 and €5,032.15, in reduction of MLCS' Secured Swap Termination Claim.

Pursuant to the Unsecured Swap Termination Agreement and the Secured Swap Termination Agreement, DB and MLCS agreed in principal to the satisfaction of their respective Swap Termination Claims on the terms set forth in the proposed Plan.

To enable the parties to successfully negotiate the definitive documentation memorializing the parties' agreement in principal and enable the Debtors to solicit votes and pursue the contemplated restructuring set forth in the Plan, the Prepetition Credit Parties and the

lenders under the Credit Facility entered into certain waiver and amendment agreements, Xerium, XTI, Xerium Canada, and DB entered into certain forbearance amendment agreements, and Xerium, XTI, and MLCS entered into certain forbearance amendment agreements, all extending the waiver and forbearances discussed above through April 1, 2010, in exchange for certain consent fees.

On December 24, 2009, the Compensation Committee amended the outstanding performance-based RSUs under the Existing Management Incentive Plan to provide that the performance-based RSUs will vest and settle in full on the completion of a successful debt restructuring of the Company, which will be deemed to occur on the Confirmation Date. The terms of time-based RSUs outstanding on December 24, 2009 were not modified and, accordingly, such awards will continue to vest in accordance with their previously-established time-vesting features.

In addition, on December 24, 2009, the Compensation Committee approved the creation of a $1.25 million discretionary bonus pool, which was paid to Xerium's key employees in January 2010 for performance rendered by employees in 2009, including payments in the aggregate amount of $325,000 to Xerium's chief executive officer and chief financial officer.

On December 31, 2009, Xerium entered into an amendment to the employment agreement by and between Xerium and its President and Chief Executive Officer, Stephen R. Light, dated February 11, 2008 (the "CEO Employment Agreement"), pursuant to which Xerium granted Mr. Light 500,000 performance-based RSUs on January 1, 2010 (in lieu of granting Mr. Light RSUs with an aggregate value of $1.25 million). The RSUs are scheduled to vest in substantially equal annual installments over a three-year period based if the price of the Existing Common Stock meets or exceeds certain price targets approved by the Compensation Committee. In addition to the RSUs, on January 2, 2010, Xerium paid a $825,000 bonus to Mr. Light, the net proceeds of which were used by Mr. Light to purchase shares of Existing Common Stock at a per share price equal to the average closing price over the final twenty trading days in 2009 of $0.6775.

D. Purpose of the Financial Restructuring

The purpose of the financial restructuring is to reduce the Debtors' leverage and to enhance their long-term growth and competitive position. Specifically, the financial restructuring is designed to reduce the notional value of the Debtors' total outstanding debt obligations from approximately $640 million as of December 31, 2009, including swap termination liabilities, to a notional value currently estimated to be approximately $480 million on a pro forma basis as of the consummation of the financial restructuring. The Debtors will also be able to improve their liquidity by extending the maturity dates on the Prepetition Revolver and the Prepetition Term Loans from 2011 and 2012, respectively, to 2015.

The Debtors believe that the financial restructuring will reassure customers and suppliers that the Debtors are financially sound, reduce any reluctance to conduct business with the Debtors and allow the Debtors to improve the terms of transactions with their customers and suppliers. Furthermore, resolution of liquidity concerns and completion of the financial

restructuring will allow the Debtors' management to focus its attention on operations and long-term planning rather than on short-term financial management.

III.

ANTICIPATED EVENTS DURING THE REORGANIZATION CASES

A. Administration of the Reorganization Cases

The Debtors intend to continue to operate their businesses in the ordinary course throughout the Reorganization Cases as they had prior to the Commencement Date. For the Debtors, their employees, and their customers, it is anticipated to be business as usual.

The Debtors do not expect the Reorganization Cases to be protracted. To facilitate the administration of the Reorganization Cases, the Debtors intend to request a series of orders from the Bankruptcy Court designed to minimize any disruption of business operations. The Debtors anticipate that such requests will include requests for authorization of the Debtors, among other things, to satisfy certain pre-Commencement Date obligations that may be outstanding, including wages and benefits that may be due to employees, as well as obligations to certain vendors, customers, and suppliers. The Debtors also intend to request certain orders from the Bankruptcy Court permitting them to continue, on an uninterrupted basis, their centralized cash management systems and their customer service programs.

B. Postpetition Financing

The Debtors anticipate obtaining, subject to the approval of the Bankruptcy Court, a revolving credit facility of up to $20 million and a term loan facility in the approximate amount of $60 million for use in funding the Debtors' working capital needs during the pendency of the Reorganization Cases. The principal terms and conditions of the DIP Facility are set forth in the Commitment Letter, attached as Exhibit B to the Plan.

C. Part IV Proceeding

On or about the Commencement Date, the Debtors may file an application for recognition of the Reorganization Cases under Part IV of the Companies' Creditors Arrangement Act with the appropriate Canadian court. In such event, the Debtors expect that they would request that the Bankruptcy Court appoint Xerium as the Debtors' foreign representative in Canada. The Debtors anticipate that the recognition by the Canadian court of the Reorganization Cases and the orders entered by the Bankruptcy Court will advance the orderly cross-border restructuring of the Debtors' indebtedness.

D. Confirmation Hearing

To facilitate the prompt confirmation and consummation of the Plan, the Debtors anticipate that as soon as practicable after commencing the Reorganization Cases, the Debtors will seek an order of the Bankruptcy Court scheduling the Confirmation Hearing to consider (a) the adequacy of the Disclosure Statement and the solicitation of votes in connection

therewith and (b) confirmation of the Plan. The Debtors anticipate that notice of the Confirmation Hearing will be published and mailed to the Debtors' creditors and equity interest holders.

E. Timetable for the Chapter 11 Cases

Assuming that the Bankruptcy Court approves the scheduling motion with respect to the Confirmation Hearing, the Debtors anticipate that the Confirmation Hearing will occur within approximately forty days of the Commencement Date. The Debtors do not currently anticipate any significant objections to confirmation of the Plan. If such objections were to be raised, the anticipated timing for the Confirmation Hearing could be delayed, perhaps substantially.

IV.

THE PLAN

A. Overview of the Plan

THE FOLLOWING SUMMARY OF THE KEY PROVISIONS OF THE PLAN IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED PROVISIONS SET FORTH IN THE PLAN AND THE PLAN SUPPLEMENT, THE TERMS OF WHICH ARE CONTROLLING.

A COPY OF THE PLAN IS ATTACHED AS EXHIBIT A TO THIS DISCLOSURE STATEMENT. HOLDERS OF CLAIMS AGAINST, AND EQUITY INTERESTS IN, THE DEBTORS, AND OTHER INTERESTED PARTIES ARE URGED TO READ THE PLAN AND THE EXHIBITS THERETO IN THEIR ENTIRETY SO THAT THEY MAY MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN.

B. Classification and Treatment of Claims and Equity Interests Under the Plan

One of the key concepts under the Bankruptcy Code is that "Allowed" Claims and Equity Interests may receive distributions under a chapter 11 plan. The term is used throughout the Plan and in the description below. In general, an "Allowed" Claim or "Allowed" Equity Interest simply means that the Debtor agrees, or in the event of a dispute, that the Bankruptcy Court determines, that the Claim or Equity Interest, including the amount, is in fact, a valid obligation of the Debtor.

The Bankruptcy Code also requires that, for purposes of treatment and voting, the chapter 11 Plan divide the different Claims against, and Equity Interests in, the Debtors into separate Classes based upon their legal nature. Claims of substantially similar legal nature are usually classified together, as are Equity Interests of a substantially similar legal nature. Because an Entity may hold multiple Claims or Equity Interests which give rise to different legal rights, the "Claims" and "Equity Interests" themselves, rather than their holders, are classified. As a result, under the Debtors' Plan, for example, an entity that holds a Shared Collateral Claim and shares of Existing Common Stock would have its Allowed Shared

Collateral Claim classified in Class 2 and its Allowed Equity Interests in Xerium classified in Class 8. To the extent of the holder's Allowed Shared Collateral Claim, the holder would be entitled to the voting and treatment rights that the Plan provides with respect to Class 2, and to the extent of the holders' Allowed Equity Interests in Xerium, the holder would be entitled to the voting and treatment rights that the Plan provides with respect to Class 8.

Under a chapter 11 Plan, the separate Classes of Claims and Equity Interests must be designated either as "impaired" (affected by the Plan) or "unimpaired" (unaffected by the Plan). If a Class of Claims is "impaired," the Bankruptcy Code affords certain rights to the holders of such Claims, such as the right to vote on the Plan (unless the Plan has deemed the Class to reject the Plan), and the right to receive under the chapter 11 Plan, no less value than the holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. Pursuant to section 1124 of the Bankruptcy Code, a Class of Claims or Equity Interests is "impaired" unless the Plan (a) does not alter the legal, equitable, and contractual rights of the holders or (b) irrespective of the holders' acceleration rights, cures all defaults (other than those arising from the Debtors' insolvency, the commencement of the case, or nonperformance of a nonmonetary obligation), reinstates the maturity of the Claims or Equity Interests in the Class, compensates the holders for actual damages incurred as a result of their reasonable reliance upon any acceleration rights, and does not otherwise alter their legal, equitable, and contractual rights. Typically, this means the holder of an unimpaired Claim will receive on the later of the Effective Date and the date on which amounts owing are due and payable, payment in full, in Cash, with postpetition interest to the extent provided under the governing agreement (or if there is no agreement, under applicable nonbankruptcy law), and the remainder of the Debtors' obligations, if any, will be performed as they come due in accordance with their terms. Thus, other than the right to accelerate the Debtors' obligations, the holder of an unimpaired Claim will be placed in the position it would have been in had the Reorganization Cases not been commenced.

Consistent with these requirements, the Plan divides the Allowed Claims against, and Allowed Equity Interests in, the Debtors into the following Classes:

Class	Claims	Status
Unclassified	Administrative Expense Claims	
Unclassified	Priority Tax Claims	
Class 1	Priority Non-Tax Claims	Unimpaired
Class 2	Shared Collateral Claims	Impaired
Class 3	Other Secured Claims	Unimpaired
Class 4	General Unsecured Claims	Unimpaired
Class 5	Unsecured Swap Termination Claims	Impaired
Class 6	Intercompany Claims	Unimpaired
Class 7	Equity Interests in Subsidiary Debtors	Unimpaired
Class 8	Equity Interests in Xerium	Impaired

Because Allowed Priority Non-Tax Claims, Allowed Other Secured Claims, Allowed General Unsecured Claims, Allowed Intercompany Claims, and Allowed Equity Interests in Subsidiary Debtors are unimpaired by the Plan, the Debtors do not anticipate that a deadline (or "bar date") for the filing of proofs of claims or proofs of equity interests will be

established in the Reorganization Cases, except for Claims arising from the rejection of executory contracts and unexpired leases.

For purposes of this Disclosure Statement, the Claim estimates set forth below (a) assume a March 23, 2010 Commencement Date and a May 31, 2010 Effective Date and (b) do not reflect the satisfaction of any prepetition obligations during the Reorganization Cases pursuant to orders that may be entered by the Bankruptcy Court. There can be no assurances that such assumptions will not differ materially from actual Claim amounts and dates.

1. **Unclassified Claims**

Generally, the Plan provides for the payment in full of Allowed Administrative Expense Claims and Allowed Priority Tax Claims. The Debtors estimate that the amount of such Allowed Claims will be approximately $66.1 million in Administrative Expense Claims (of which approximately $12.1 million is estimated for fees and expenses of the Debtors' professionals) and $919,000 in Priority Tax Claims. Delays in the case due to unforeseen events could materially increase the amount of such Claims.

Administrative Expense Claims

Administrative Expense Claims are the costs and expenses of administration of the Reorganization Cases Allowed under and in accordance with, as applicable, sections 330, 364, 365, 503(b), 507(a)(2), and 507(b) of the Bankruptcy Code. Administrative Expense Claims may include, but are not limited to, (a) any actual and necessary costs and expenses of preserving the Debtors' estates or operating the Debtors' businesses, (b) any indebtedness or obligations incurred or assumed by the Debtors, as debtors in possession, during the Reorganization Cases, and (c) any compensation for professional services rendered, and reimbursement of expenses incurred by, a professional retained by order of the Bankruptcy Court or otherwise Allowed pursuant to section 503(b) of the Bankruptcy Code. Pursuant to the Plan, any fees or charges assessed against the estate of any of the Debtors under section 1930, chapter 123 of title 28 of the United States Code are excluded from the definition of Administrative Expense Claim and will be paid in accordance with Section 12.1 of the Plan.

The Plan provides that except to the extent that the holder of an Allowed Administrative Expense Claim agrees to a less favorable treatment, and except as provided in the Plan with respect to compensation of professionals, each Allowed Administrative Expense Claim will be paid in full, in Cash, on the latest of (a) the Effective Date, (b) the date on which such Administrative Expense Claim is Allowed, and (c) the date on which such Administrative Expense Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder of such Allowed Administrative Expense Claim, or, in each case, as soon as practicable thereafter; provided, however, that Allowed Administrative Expense Claims representing obligations incurred in the ordinary course of business or assumed by any of the Debtors will be paid in full, in Cash, or performed by the applicable Debtor or Reorganized Debtor in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements or regulations governing, instruments evidencing, or other documents relating to, such transactions.

All payments to professionals for compensation and reimbursement of expenses and all payments to reimburse expenses of members of statutory committees, if any, will be made in accordance with the procedures established by the Bankruptcy Court and the Bankruptcy Rules relating to the payment of interim and final compensation and expenses. The Bankruptcy Court will review and determine all such requests. In addition to the foregoing, section 503(b) of the Bankruptcy Code provides for payment of compensation to creditors, indenture trustees, and other persons making a "substantial contribution" to a chapter 11 case, and to attorneys for, and other professional advisors to, such persons. Requests for such compensation must be approved by the Bankruptcy Court after notice and an opportunity for a hearing at which the Debtors and other parties in interest may participate, and if appropriate, object to the allowance thereof.

The Plan provides that all Entities seeking awards of compensation for services rendered or reimbursement of expenses incurred through and including the Confirmation Date under section 503(b)(2), 503(b)(3), 503(b)(4), or 503(b)(5) of the Bankruptcy Code (a) must file their respective applications for final allowances of compensation for services rendered and reimbursement of expenses incurred on or before the date that is forty-five days after the Effective Date and (b) will be paid in full, in Cash, in such amounts as are Allowed by the Bankruptcy Court. The Debtors or the Reorganized Debtors, as applicable, will be authorized to pay compensation for services rendered and reimbursement of expenses incurred after the Confirmation Date in the ordinary course and without the need for Bankruptcy Court approval.

Priority Tax Claims

Priority Tax Claims consist of any Claims of governmental authorities of the kind entitled to a statutory priority in right of payment as specified in section 507(a)(8) of the Bankruptcy Code, such as certain income taxes, property taxes, sales and use taxes, excise taxes, and withholding taxes.

The Plan provides that except to the extent that a holder of an Allowed Priority Tax Claim agrees to a less favorable treatment, on the later of (a) the Effective Date and (b) the date on which such Priority Tax Claim is Allowed, or, in each case, as soon as practicable thereafter, each holder of an Allowed Priority Tax Claim will, in full satisfaction, release, and discharge of such Allowed Priority Tax Claim, (i) to the extent such Claim is due and owing on the Effective Date, be paid in full, in Cash, on the Effective Date or (ii) to the extent such Claim is not due and owing on the Effective Date, be paid in full, in Cash (x) in accordance with the terms of any agreement between the Debtors and the holder of such Claim, (y) as may be due and owing under applicable nonbankruptcy law, or (z) in the ordinary course of business.

DIP Financing Claims

Pursuant to the Plan, in satisfaction of the Debtors' respective obligations under the DIP Facility, on the Effective Date or as soon thereafter as practicable, (a) all obligations of the Debtors under the DIP Facility will be assumed under, and become subject to the terms and conditions of, the Exit Facility and (b) all liens and security interests granted to secure the Debtors' obligations under the DIP Facility will be satisfied, discharged, and terminated in full and of no further force or effect.

2. **<u>Classified Claims and Equity Interests</u>**

Class 1 -- Priority Non-Tax Claims
(Unimpaired. Conclusively presumed to accept the Plan and not entitled to vote.)

Priority Non-Tax Claims include certain Allowed employee compensation and benefit Claims of the Debtors' employees incurred within 90 days and 180 days, respectively, prior to the Commencement Date in aggregate amounts up to $10,950 per employee. These Claims are granted priority in payment pursuant to section 507(a) of the Bankruptcy Code. The Debtors estimate that on the Commencement Date, the Allowed Claims in Class 1 will aggregate approximately $7.3 million.

The Plan provides that except to the extent that a holder of an Allowed Priority Non-Tax Claim agrees to a less favorable treatment, on the latest of (a) the Effective Date, (b) the date on which such Priority Non-Tax Claim is Allowed, and (c) the date on which such Allowed Priority Non-Tax Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder of such Claim, or, in each case, as soon as practicable thereafter, each Allowed Priority Non-Tax Claim will be paid in Cash in an amount equal to the Allowed amount of such Claim, together with postpetition interest to the extent required to render such Claim unimpaired.

Class 2 -- Shared Collateral Claims
(Impaired. Entitled to vote.)

Allowed Shared Collateral Claims consist of all Allowed Credit Facility Claims and Allowed Secured Swap Termination Claims, which Claims are secured ratably by the same collateral. Pursuant to the Plan, (a) the Credit Facility Claims will be Allowed in the aggregate principal amount of $597,069,009 and (b) the Secured Swap Termination Claims will be Allowed in the aggregate principal amount of $6,769,826, <u>plus</u>, in each case, any interest accrued thereon through the date immediately prior to the Effective Date, as provided in the Credit Facility or Secured Swap Termination Agreement, as applicable. Notwithstanding that a portion of the Allowed Credit Facility Claims and the Allowed Secured Swap Termination Claims is denominated in a currency other than U.S. dollars, the Allowed amounts set forth in the Plan with respect to the Allowed Credit Facility Claims and Allowed Secured Swap Termination Claims are stated in U.S. dollars after converting the amounts of such Claims using the "New York Closing" conversion rate published online at http://online.wsj.com for February 23, 2010. The final amount of the Allowed Credit Facility Claims and the Allowed Secured Swap Termination Claims will be restated as of the date that is two (2) business days prior to the Effective Date (a) using the "New York Closing" conversion rate published online at http://online.wsj.com for such date and (b) to reflect any payments made thereon during the Reorganization Cases, as adequate protection or otherwise. Distributions required under the Plan with respect to Allowed Credit Facility Claims and Allowed Secured Swap Termination Claims will be made in accordance with such restated amounts.

The Plan provides that except to the extent that a holder of an Allowed Shared Collateral Claim agrees to a less favorable treatment, on the Effective Date or as soon as practicable thereafter, each holder of an Allowed Shared Collateral Claim will receive (a) its proportionate share (together with holders of Unsecured Swap Termination Claims) of (i) Cash in an amount equal to $10 million dollars, (ii) $410 million in principal amount of Term Notes, and (iii) 82.6% of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan, subject to dilution by equity incentive awards to be granted under the New Management Incentive Plan on or after the Effective Date and the exercise of the New Warrants and (b) Cash in an amount equal to (i) the unpaid interest on the principal amount of such holder's Allowed Credit Facility Claim or Allowed Secured Swap Termination Claim, as the case may be, accrued through the date immediately prior to the Effective Date at the rate set forth in section 4 of the Fourth Credit Facility Waiver, with respect to Allowed Credit Facility Claims, and at the rate set forth in section 3(a) of the Secured Swap Termination Agreement, with respect to Allowed Secured Swap Termination Claims less (ii) any amounts paid to such holder during the Reorganization Cases, as adequate protection or otherwise. The Debtors estimate that on the Effective Date, (a) the aggregate interest on the principal amount of Allowed Credit Facility Claims will approximate $17,080,064 and (b) the aggregate interest on the principal amount of Allowed Secured Swap Termination Claims will approximate $192,612 (in each case, without giving effect to payments that may be made during the Reorganization Cases and assuming that current LIBOR/floating rates continue through the Effective Date).

FOR A SUMMARY OF THE TERM NOTES, SEE SECTION IV(C)(2) BELOW, ENTITLED "THE AMENDED AND RESTATED CREDIT FACILITY".

Except as otherwise provided in the Plan, including Section 5.9(i) of the Plan, the Cash and Term Notes distributable pursuant to Section 4.2(c) of the Plan to the holders of Class 2 Claims against (a) U.S. Debtors, will be issued and distributed by Xerium and (b) Non-U.S. Debtors, will be issued and distributed by the respective Non-U.S. Debtor as borrower under the Credit Facility, against which borrower such Class 2 Claim is held. Except as otherwise provide in the Plan, including Section 5.9(i) of the Plan, the New Common Stock distributable pursuant to Section 4.2(c) of the Plan to the holders of Class 2 Claims against (a) U.S. Debtors, will be distributed by Xerium and (b) Non-U.S. Debtors, will be distributed by the respective Non-U.S. Debtor as borrower under the Credit Facility, against which borrower such Class 2 Claim is held.

Except as otherwise provided in Section 5.9(i) of the Plan, on the Effective Date, the applicable Debtors or Reorganized Debtors will make all distributions of (a) Cash and Term Notes required under the Plan with respect to Allowed Credit Facility Claims to the Administrative Agent, and the Administrative Agent will thereafter distribute such Cash and Term Notes to the holders of Allowed Credit Facility Claims and (b) New Common Stock required under the Plan with respect to Allowed Credit Facility Claims to the holders of Allowed Credit Facility Claims. Such distributions by the Debtors or Reorganized Debtors, as applicable, will be in complete satisfaction and discharge of all the obligations of the Debtors and the Non-Debtor Guarantors to the holders of Allowed Credit Facility Claims. Without limiting Section 10 of the Plan or section 524 or 1141 of the Bankruptcy Code, each holder of an Allowed Credit Facility Claim that accepts such distribution will be deemed to consent to the amendment and restatement of the Credit Facility pursuant to the Plan.

Class 3 -- Other Secured Claims
(Unimpaired. Conclusively presumed to accept the Plan and not entitled to vote.)

Class 3 consists of all Allowed Other Secured Claims, which are Secured Claims other than Credit Facility Claims, Secured Swap Termination Claims, and Claims arising under the DIP Facility. Class 3 Claims include, without limitation, the Deferred Waiver Claim and Claims arising under certain equipment leases and other obligations for which a security deposit has been given by the Debtors. Pursuant to the Plan, the Deferred Waiver Claim will be Allowed in the amount set forth in section 4 of the First Credit Facility Waiver. The Debtors estimate that on the Commencement Date, the Allowed Claims in Class 3 will aggregate approximately $1.7 million.

The Plan provides that except to the extent that a holder of an Allowed Other Secured Claim agrees to a less favorable treatment, on the Effective Date, or as soon as practicable thereafter, each Allowed Other Secured Claim will be, at the option of the Debtors or Reorganized Debtors, as applicable, (a) reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, (b) paid in full, in Cash, together with postpetition interest to the extent required to render such Claim unimpaired, (c) satisfied by the surrender of the Collateral securing such Claim, or (d) otherwise rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed Other Secured Claim to demand or receive payment of such Claim prior to its stated maturity from and after the occurrence of default. Notwithstanding the foregoing, the Allowed Deferred Waiver Claim will be paid by the Debtors or the Reorganized Debtors, as applicable, in full, in Cash, on the Effective Date, together with postpetition interest at the rate set forth in section 4 of the First Credit Facility Waiver, to the Administrative Agent and the Administrative Agent will thereafter distribute such Cash to the applicable lender under the Credit Facility. Such payment by the Debtors or the Reorganized Debtors, as applicable, will be in complete satisfaction and discharge of all obligations of the Debtors and the Non-Debtor Guarantors with respect to the Allowed Deferred Waiver Claim.

Class 4 -- General Unsecured Claims
(Unimpaired. Conclusively presumed to accept the Plan and not entitled to vote.)

Class 4 consists of all Allowed General Unsecured Claims. Such Claims include Allowed unsecured Claims of the Debtors' trade creditors, Allowed Claims arising under unsecured credit facilities, and Allowed Claims arising from the rejection, if any, of executory contracts and unexpired leases. The Debtors estimate that on the Commencement Date, the Allowed Claims in Class 4 will aggregate approximately $12.8 million.

The Plan provides that except to the extent that a holder of an Allowed General Unsecured Claim agrees to a less favorable treatment, on the latest of (a) the Effective Date, (b) the date on which such General Unsecured Claim is Allowed, and (c) the date on which such General Unsecured Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder of such Claim, or, in

each case, as soon as practicable thereafter, each Allowed General Unsecured Claim will, at the Reorganized Debtors' option, (i) be paid in full, in Cash, together with postpetition interest to the extent required to render such claim unimpaired or (ii) otherwise be rendered unimpaired in accordance with section 1124 of the Bankruptcy Code.

Class 5 -- Unsecured Swap Termination Claims
(Impaired. Entitled to vote.)

Class 5 consists of all Allowed Unsecured Swap Termination Claims. Pursuant to the Plan, the Unsecured Swap Termination Claims will be Allowed in the aggregate principal amount of $12,837,079, plus the amount of the Unsecured Swap Termination Interest Component. Notwithstanding that a portion of the Allowed Unsecured Swap Termination Claims is denominated in a currency other than U.S. dollars, the Allowed amount set forth in the Plan with respect to the Allowed Unsecured Swap Termination Claims is stated in U.S. dollars after converting the amount of such Claims using the "New York Closing" conversion rate published online at http://online.wsj.com for February 23, 2010. The final amount of the Allowed Unsecured Swap Termination Claims will be restated as of the date that is two (2) business days prior to the Effective Date, using the "New York Closing" conversion rate published online at http://online.wsj.com for such date. Distributions required under the Plan with respect to Allowed Unsecured Swap Termination Claims will be made in accordance with such restated amounts.

The Plan provides that except to the extent that a holder of an Allowed Unsecured Swap Termination Claim agrees to a less favorable treatment, on the Effective Date or as soon as practicable thereafter, each holder of an Allowed Unsecured Swap Termination Claim will receive its (a) proportionate share (together with holders of Shared Collateral Claims) of (i) Cash in an amount equal to $10 million dollars, (ii) $410 million in principal amount of Term Notes, and (iii) 82.6% of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan, subject to dilution by equity incentive awards to be granted under the New Management Incentive Plan on or after the Effective Date and the exercise of the New Warrants and (b) Pro Rata Share of Cash in an amount equal to the Unsecured Swap Termination Interest Component. The Debtors estimate that on the Effective Date, the Unsecured Swap Termination Interest Component will approximate $370,330 (assuming that current LIBOR/floating rates continue through the Effective Date).

FOR A SUMMARY OF THE TERM NOTES, SEE SECTION IV(C)(2) BELOW, ENTITLED "THE AMENDED AND RESTATED CREDIT FACILITY".

Except as otherwise provided in the Plan, including Section 5.9(i) of the Plan, the Cash and Term Notes distributable pursuant to Section 4.5(c) of the Plan to the holders of Class 5 Claims against (a) U.S. Debtors, will be issued and distributed by Xerium and (b) Non-U.S. Debtors, will be issued and distributed by the respective Non-U.S. Debtor identified in Schedule 1 to the Unsecured Swap Termination Agreement, against which Non-U.S. Debtor such Class 5 Claim is held. Except as otherwise provided in the Plan, including Section 5.9(i) of the Plan, the New Common Stock distributable pursuant to Section 4.5(c) of the Plan to the holders of Class 5 Claims against (a) U.S. Debtors, will be distributed by Xerium and (b) Non-U.S. Debtors, will be distributed by the respective Non-U.S. Debtor identified in Schedule 1 to the

Unsecured Swap Termination Agreement, against which Non-U.S. Debtor such Class 5 Claim is held.

Class 6 -- Intercompany Claims
(Unimpaired. Conclusively presumed to accept the Plan and not entitled to vote.)

Intercompany Claims are Claims against any of the Debtors held by a Debtor or a non-Debtor Subsidiary. Such Claims generally represent intercompany obligations relating to loans and the purchase of products and inventory made in the ordinary course of the Debtors' businesses. The Debtors estimate that on the Commencement Date, the Allowed Claims in Class 6 will aggregate approximately $0 (on a net basis).

The Plan provides that on the Effective Date or as soon as practicable thereafter, all Allowed Intercompany Claims will either be reinstated to the extent determined to be appropriate by the Reorganized Debtors or adjusted, continued or capitalized, either directly or indirectly, in whole or in part.

Class 7 -- Equity Interests in Subsidiary Debtors
(Unimpaired. Conclusively presumed to accept the Plan and not entitled to vote.)

Class 7 consists of all Allowed Equity Interests in the Subsidiary Debtors. The Plan provides that on the Effective Date, all Allowed Equity Interests in the Subsidiary Debtors will be reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code.

Class 8 -- Equity Interests in Xerium
(Impaired. Deemed to reject the Plan and not entitled to vote.)

Class 8 consists of all Equity Interests in Xerium represented by shares of Existing Common Stock issued and outstanding immediately prior to the Effective Date. The Plan provides that on the Effective Date, the Existing Common Stock will be canceled and each holder of an Allowed Equity Interest in Class 8 will receive its proportionate share of (a) a number of shares of New Common Stock that is equal to the difference between (i) 17.4% of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan and (ii) the number of shares of New Common Stock to be reserved pursuant to Section 5.2(a)(iii) of the Plan and (b) New Warrants to purchase up to 10% of the issued and outstanding shares of New Common Stock as of the Effective Date (on a fully diluted basis).

FOR A SUMMARY OF THE NEW WARRANTS, SEE SECTION IV(C)(3) BELOW, ENTITLED "NEW WARRANTS".

C. Indebtedness and Securities to Be Issued Pursuant to the Plan

1. **The Exit Facility**

The Debtors anticipate that on the Effective Date, the Reorganized Debtors will enter into the Exit Facility Credit Agreement, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group, which will provide for a revolving loan of up to $20 million and a term loan of $60 million to be used to satisfy the Debtors' outstanding obligations under the DIP Facility on the Effective Date and for the Debtors' ongoing working capital (including letters of credit) requirements. The Debtors obligations under the Exit Facility will be secured by first priority liens against, and security interests in, substantially all the assets of the Reorganized Debtors. The principal terms and conditions (subject to changes that may be made in connection with a syndication) of the Exit Facility are set forth in the Commitment Letter, which is attached as Exhibit B to the Plan, and summarized as follows:

Exit Facility

Borrowers	Xerium, XTI, Xerium Canada, Xerium Austria, Xerium Italy, and Xerium Germany.
Guarantors	The guarantors under the Credit Facility and Robec Brazil LLC.
Facility	$20 million revolving loan and $60 million term loan.
Administrative and Collateral Agent	Citicorp North America, Inc.
Maturity	Revolving loan: Three (3) years following the closing date. Term loan: Four and one-half (4 ½) years following the closing date.
Amortization	1% annual amortization on the term loan, payable on the 15th day of the last month of each calendar quarter, beginning in the first full calendar quarter after the closing date, with the balance paid at maturity.
Interest	At the borrowers' election, the Exit Facility loans will be Eurodollar Loans or Base Rate Loans. Eurodollar Loans will bear interest at the annual rate equal to LIBOR plus the Applicable Margin, with a LIBOR floor of 2% per annum. Base Rate Loans will bear interest at the annual rate equal to the Base Rate plus the Applicable Margin. Base Rate: a fluctuating rate equal to the highest of (a) the Prime Rate of an agreed upon financial institution, (b) the Federal Funds Effective Rate plus ½ of 1%, and (c) LIBOR plus 1%, with a LIBOR floor of 2%. Applicable Margin: 4.50% per annum with respect to Eurodollar Loans and 3.50% per annum with respect to Base Rate Loans. Interest periods will be 1, 2, 3, or 6 months.

If any event of default occurs and is continuing, then the borrowers will pay interest on the unpaid balance of the outstanding Exit Facility loans at a per annum rate of two percent (2%) greater than the rate of interest specified above.

If any event of default occurs and is continuing under the Exit Facility, each Eurodollar Loan will convert to a Base Rate Loan at the end of the interest period then in effect for such Eurodollar Loan.

The terms "Eurodollar Loans", "Base Rate Loans", "Prime Rate", and "Federal Funds Effective Rate" will have the same meanings as set forth in the Commitment Letter.

Security and First Priority	The administrative and collateral agent, on behalf of the lenders under the Exit Facility and each secured currency exchange, interest rate, or commodity swap counterparty in connection with the Exit Facility, will have perfected first priority security interests in and liens upon (a) all existing and after acquired real and personal, tangible and intangible, property of the U.S. borrowers and U.S. guarantors and (b) the real and personal, tangible and intangible, property of the non-U.S. borrowers and non-U.S. guarantors securing the obligations under the Credit Facility. All amounts owing and liens granted under the Exit Facility and the related loan documents in respect thereof at all times will be senior to the amounts owing and liens granted under the Amended and Restated Credit Facility and any indebtedness which replaces or refinances the Amended and Restated Credit Facility, subject to the terms of the Intercreditor Agreement.
Mandatory Prepayment	Mandatory prepayment of the Exit Facility loans will be made from (a) 100% of the net cash proceeds from asset sales in excess of US$100,000 (with the obligation to mandatorily prepay commencing when such asset sales are greater than US$250,000) made outside the ordinary course of business, less any taxes payable by the borrowers with respect to such asset sales, <u>provided</u> that with respect to the net cash proceeds from assets sales of Huyck Wangner Australia and Huyck Wangner Vietnam, only 50% of the net cash proceeds will be subject to mandatory prepayment proceeds of the sale of such assets, (b) 100% of insurance and condemnation award payments, less any taxes payable by the borrowers with respect to such award payments, (c) cash proceeds from debt issuances, other than permitted debt and permitted refinancing debt, and (d) 50% of excess cash flow, which will exclude non-cash items and will include certain working capital adjustments, after the end of each fiscal year, beginning at the end of fiscal year 2011 (payable in 2012) with (in the case of clauses (a), (b), and (c)) exceptions, baskets, and reinvestment rights to be agreed upon. Mandatory prepayments pursuant to clauses (a), (b), and (d) will be shared ratably with the lenders under the Amended and Restated Credit Facility

pursuant to the terms of the Intercreditor Agreement. Mandatory prepayments pursuant to clause (c) will be applied first to obligations under the term loans and thereafter to obligations under the revolving loans. Borrowers will bear all costs related to any mandatory prepayment of Exit Facility loans on a day that is not the last day of an interest period, provided that such mandatory prepayments will be applied to base rate Exit Facility loans and then Eurodollar Exit Facility loans.

Voluntary Prepayment	The Exit Facility loans may be prepaid without penalty, on three (3) business days' notice, in minimum amounts of and increments to be agreed upon. Borrowers will bear all costs related to the voluntary prepayment of Exit Facility loans prior to the last day of the interest period thereof.
Covenants	The covenants will be customary for a transaction of this type and will be based on the covenants set forth in the Credit Facility.
Financial Covenants	(a) Interest coverage ratio measured quarterly for a rolling 12 month period at levels to be agreed upon. (b) Leverage ratio measured quarterly for a rolling 12 month period at levels to be agreed upon. (c) Maximum capital expenditures each year in amounts to be agreed upon.
Events of Default	Events of default will be customary for a transaction of this type and will be based on the events of default set forth in the Credit Facility.

2. **The Amended and Restated Credit Facility**

On the Effective Date, (a) the commitments under the Prepetition Revolver will be terminated, (b) the Reorganized Borrowers, as borrowers, the Reorganized Debtors, the Non-Debtor Guarantors, and Robec Brazil LLC, as guarantors, and Citicorp North America, Inc., as administrative and collateral agent will enter into the Amended and Restated Credit Facility, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and having principal terms and conditions not materially less favorable to the Reorganized Debtors than those set forth in Exhibit A to the Plan, and summarized below, and (c) the Reorganized Borrowers will issue the Term Notes, which will be secured by second priority liens against, and security interests in, the collateral that secures the Exit Facility. The Term Notes may be represented by notes or other documents or instruments or by notations in the register that will be established by the administrative agent under the Amended and Restated Credit Agreement on or before the Effective Date.

Amended and Restated Credit Facility

Borrowers	Xerium, XTI, Xerium Canada, Xerium Austria, Xerium Italy, and Xerium Germany.
Guarantors	The guarantors under the Credit Facility and Robec Brazil LLC.
Principal	$410 million.
Administrative and Collateral Agent	Citicorp North America, Inc.
Maturity	Five years following the closing date.
Amortization	2% annual amortization, payable on the 15th day of the last month of each calendar quarter, beginning in the first full calendar quarter after the closing date.
Interest	The Term Notes will bear interest as follows: (a) in the case of the Term Notes issued by Xerium Canada, at the BA Rate plus the Applicable Margin; (b) in the case of the Term Notes issued by Xerium, at the LIBOR Rate plus the Applicable Margin; and (c) in the case of the Term Notes issued by XTI, Xerium Italy, Xerium Austria, and Xerium Germany, at the Euribor Rate plus the Applicable Margin. The terms "BA Rate", "LIBOR Rate", and "Euribor Rate" will have the same meanings as set forth in the Credit Facility except that the BA Rate, the LIBOR Rate, and the Euribor Rate will not be less than 2.00% per annum. The term "Applicable Margin" means (i) 625 bps if the leverage ratio equals or exceeds 2.75:1.00 or (ii) 575 bps if the leverage ratio is less than 2.75:1.00. Interest periods will be 1, 2, 3, or 6 months. If any event of default occurs and is continuing, then the borrowers will pay interest on the unpaid balance of the outstanding Term Notes at a per annum rate of two percent (2%) greater than the rate of interest specified above.
Security and Second Priority	The new agent for and on behalf of the lenders under the Amended and Restated Credit Facility will have perfected second priority security interests in and liens upon (a) all existing and after acquired real and personal, tangible and intangible, property of the U.S. borrowers and U.S.

guarantors and (b) the real and personal, tangible and intangible, property of the Non U.S. Borrowers and non U.S. guarantors securing the obligations under the Credit Facility.

All amounts owing under the Amended and Restated Credit Facility and the related loan documents in respect thereof at all times will be subject and subordinate to the liens granted under the Debtors' $80,000,000 revolving and term loan credit facility to become effective concurrently with the Amended and Restated Credit Facility, subject to the terms of the Intercreditor Agreement.

Mandatory Prepayment

Mandatory prepayment of the Amended and Restated Credit Facility will be made from (a) 100% of the net Cash proceeds from asset sales in excess of US$100,000 (with the obligation to mandatorily prepay commencing when such asset sales are greater than US$250,000) made outside the ordinary course of business, less any taxes payable by the borrowers with respect to such asset sales, provided that with respect to the net cash proceeds from asset sales of Huyck Wangner Australia and Huyck Wangner Vietnam, only 50% of the net cash proceeds will be subject to mandatory prepayment proceeds of the sale of such assets, (b) 100% of insurance and condemnation award payments, less any taxes payable by the borrowers with respect to such award payments, (c) cash proceeds from debt issuances, other than permitted debt and permitted refinancing debt, and (d) 50% of excess cash flow, which will exclude non-cash items and will include certain working capital adjustments, after the end of each fiscal year, beginning at the end of fiscal year 2011 (payable in 2012) with (in the case of clauses (a), (b), and (c)) exceptions, baskets, and reinvestment rights to be agreed upon.

Mandatory prepayments pursuant to clauses (a), (b), and (d) will be shared ratably with the lenders under the Exit Facility pursuant to the terms of the Intercreditor Agreement. Borrowers will bear all costs related to any mandatory prepayment of Term Notes on a day that is not the last day of an interest period.

Voluntary Prepayment

The Term Notes may be prepaid without penalty, on three (3) business days' notice, in minimum amounts and increments to be agreed upon. Borrowers will bear all costs related to the voluntary prepayment of the Term Notes prior to the last day of the interest period thereof.

Covenants

The Covenants will be customary for a transaction of this type and will be based on the covenants set forth in the Credit Facility.

Financial Covenants

(a) Interest coverage ratio measured quarterly for a rolling 12 month period at levels to be agreed upon.

(b) Leverage ratio measured quarterly for a rolling 12 month period at levels to be agreed upon.

(c) Maximum capital expenditures each year in amounts to be agreed upon.

Events of Default	Events of default will be customary for a transaction of this type and will be based on the events of default set forth in the Credit Facility.

3. **New Warrants**

Pursuant to the Plan, on the Effective Date, Reorganized Xerium will issue to the holders of Allowed Class 8 Equity Interests the New Warrants, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group, to purchase up to 10% of the issued and outstanding shares of the New Common Stock as of the Effective Date (on a fully diluted basis) (approximately 1,665,738 shares) at a purchase price of $20.81 per share based on the "New York Closing" conversion rate published online at http://online.wsj.com for February 23, 2010, which purchase price will be restated as of the date that is two (2) business days prior to the Effective Date using the "New York Closing" conversion rate published online at http://online.wsj.com for such date. The anticipated principal terms of the New Warrants are as follows:

Warrants to Be Issued	Holders of Allowed Equity Interests in Class 8 will receive their proportionate shares of the New Warrants to purchase up to 10% of the fully diluted shares of New Common Stock as of the Effective Date, calculated after giving effect to (a) the issuance of the New Common Stock and (b) the full exercise of the New Warrants, in each case, prior to the issuance of any New Common Stock reserved for the New Management Incentive Plan.
Exercise Price	An exercise price equal to the value per share of all New Common Stock issued or outstanding at the time of exercise of the New Warrant equal to (a) 1.1 multiplied by (i) an amount equal to the sum of the final amount of the Allowed Credit Facility Claims, the final amount of the Allowed Secured Swap Termination Claims, and the final amount of the Allowed Unsecured Swap Termination Claims minus (ii) the aggregate principal amount of the Term Notes at the time of issuance minus (iii) $10 million in Cash divided by (b) the number of shares of New Common Stock distributed pursuant to Sections 4.2 and 4.5 of the Plan, which number may be adjusted from time to time for stock splits and reverse stock splits.
Issue Date	Effective Date.
Term	The New Warrants will be exercisable for a term of four years from the Issue Date.
Exercise Date	The date that the Exercise Price is received by Reorganized Xerium.
Form of Delivery	Upon exercise of any of the New Warrants, each holder will provide Reorganized Xerium with (a) payment of the aggregate Exercise Price for

all New Warrants exercised (unless the consideration being distributed is cash and a cashless exercise is elected by such holder), (b) all certificates evidencing the New Warrants, and (c) any other documentation reasonably requested by Reorganized Xerium. In the event that any of the New Warrants are exercised, Reorganized Xerium will deliver shares of New Common Stock to the holder of such New Warrants or will deliver proceeds from a sale of Reorganized Xerium on an "as exercised" basis.

Anti-dilution	The New Warrant certificates will provide for adjustment of the Exercise Price and the number of shares of New Common Stock purchasable upon the exercise of each New Warrant in the case of (a) the distribution of any stock dividends in New Common Stock after the Issue Date or (b) a stock split or a reverse stock split of the New Common Stock after the Issue Date.
Transferability	The New Warrants will be transferable, subject to federal and state securities law.
Compliance With Securities Laws	To the maximum extent provided by section 1145 of the Bankruptcy Code and applicable nonbankruptcy law, the issuance of New Warrants and New Common Stock issuable upon exercise of the New Warrants will be exempt from registration under the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

D. Means of Implementation of the Plan

1. <u>Procedural Consolidation of the Debtors for Plan Purposes Only</u>

The Plan provides for the procedural consolidation of the Debtors for Plan purposes only and will serve as a motion by the Debtors for entry of an order of the Bankruptcy Court granting such relief. The Debtors propose procedural consolidation to avoid the inefficiency of proposing, voting on, and making distributions in respect of entity-specific Claims. Accordingly, except as otherwise provided in the Plan, on the Effective Date, all of the Debtors and their estates will, for purposes of the Plan only, be treated as though they were merged and (a) all assets and liabilities of the Debtors will, for purposes of the Plan only, be treated as though they were merged, (b) all guarantees of the Debtors of payment, performance, or collection of obligations of any other Debtor will be eliminated and canceled, (c) all joint obligations of two or more Debtors, and all multiple Claims against such entities on account of such joint obligations, will be considered a single Claim against the Debtors, and (d) any Claim filed in the Reorganization Cases will be deemed filed against the consolidated Debtors and a single obligation of the consolidated Debtors on and after the Effective Date. Unless otherwise set forth herein, such consolidation will not (other than for voting, treatment, and distribution purposes under the Plan) affect (i) the legal and corporate structures of the Debtors (including the corporate ownership of the Subsidiary Debtors), (ii) any Intercompany Claims, or (iii) the substantive rights of any creditor. If any party in interest challenges the proposed procedural consolidation, the Debtors reserve the right to establish at the Confirmation Hearing the ability to confirm the Plan on an entity-by-entity basis.

2. **Exit Financing**

On the Effective Date, without the need for further corporate action and without further action by the holders of Claims or Equity Interests, the Reorganized Debtors will enter into the Exit Facility.

3. **Amended and Restated Credit Facility**

On the Effective Date and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests: (a) the Reorganized Borrowers, as borrowers, and the Reorganized Debtors, the Non-Debtor Guarantors, and Robec Brazil LLC, as guarantors, will enter into the Amended and Restated Credit Facility having principal terms and conditions set forth in the term sheet attached as Exhibit A to the Plan and (b) the Reorganized Borrowers will issue and distribute the Term Notes. The Term Notes may be represented by notes or other documents or instruments or by notations in the register that will be established by the administrative agent under the Amended and Restated Credit Agreement on or before the Effective Date.

4. **Intercreditor Agreement**

On the Effective Date, the collateral agent under the Exit Facility, the collateral agent under the Amended and Restated Credit Facility, the Reorganized Debtors, the Non-Debtor Guarantors, and Robec Brazil LLC will enter into the Intercreditor Agreement, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group, in substantially the form to be included in the Plan Supplement, and summarized below. The Intercreditor Agreement will include provisions relating to the distribution of collateral and proceeds among lenders under the Exit Facility and the Amended and Restated Credit Facility and certain rights of the lenders between and among themselves.

Intercreditor Agreement

Loan Parties:	Xerium and each of its subsidiaries that are either a borrower or guarantor under the first lien (Exit Facility) loan documents and second lien (Amended and Restated Credit Facility) loan documents.
First Lien and Second Lien Collateral Agent:	Citicorp North America, Inc.
Collateral:	The collateral granted under the first lien collateral documents and under the second lien collateral documents. The collateral under the first lien loan documents and under the second lien loan documents will be identical.

No Contesting Liens:	The Second Lien Collateral Agent and the First Lien Collateral Agent will not contest or support any person in contesting the priority, validity, perfection, or enforceability of a lien held by or on behalf of any of the first lien claimholders or by or on behalf of any second lien claimholders, as the case may be, in the Collateral.
No New Liens:	So long as the discharge of the first lien obligations has not occurred, neither Xerium nor any other Loan Party will grant or permit to exist any additional liens on any asset or property (a) to secure any second lien obligation, unless it has granted or concurrently grants a lien on such asset or property to secure the first lien obligations, or (b) to secure any first lien obligation, unless it has granted or concurrently grants a lien on such asset or property to secure the second lien obligations, such liens, in each case, to be subject to the terms set forth in the Intercreditor Agreement.
Exercise of Remedies and Standstill Period:	Until the discharge of first lien obligations, the Second Lien Collateral Agent and the second lien claimholders will not exercise or seek to exercise any rights or remedies with respect to any collateral or initiate any action or proceeding with respect to such rights or remedies, provided that the Second Lien Collateral Agent may exercise any and all such rights or remedies after the passage of 180 days since the later of (a) the date on which an event of default under the second lien loan documents has been declared and demand for repayment of the principal amount of the second lien obligations has been made and (b) the date on which the First Lien Collateral Agent has been notified in writing by the Second Lien Collateral Agent that an event of default under the second lien loan documents has been declared (the "Standstill Period"); provided, however, that in no event will the Second Lien Collateral Agent or the second lien claimholders exercise any rights or remedies with respect to any collateral if, notwithstanding the expiration of the Standstill Period, the First Lien Collateral Agent, or first lien claimholders will have commenced and be diligently pursuing the exercise of their rights or remedies with respect to all or a material portion of the collateral.
Permitted Actions by the Second Lien Collateral Agent:	Notwithstanding the limitations set forth above under the heading "Exercise of Remedies and Standstill Period", the Second Lien Collateral Agent and any Second Lien Claimholder may (a) file a claim or statement of interest with respect to the Second Lien Obligations if a bankruptcy or insolvency proceeding has been commenced by or against Xerium or any of the other Loan Parties, (b) take any action (not adverse to the priority status of the liens on the Collateral securing the First Lien Obligations or the rights of the First Lien Collateral Agent or the First Lien Claimholders to exercise remedies in respect thereof) in order to create, perfect, preserve, or protect its lien on the Collateral, (c) file any necessary responsive or defensive pleadings in opposition to any motion, claim, adversary proceeding, or other pleading made by any person objecting to or

otherwise seeking the disallowance of the claims of the Second Lien Claimholders, (d) vote on any plan of reorganization, file any proof of claim, or make any arguments and motions with respect to the Second Lien Obligations and the Collateral that are not inconsistent with the terms of the Intercreditor Agreement, (e) bid for or purchase for cash any Collateral at any public or private sale of such Collateral initiated by the First Lien Collateral Agent, (f) join (but not control) any foreclosure or other judicial lien enforcement proceeding with respect to the Collateral initiated by the First Lien Collateral Agent, or (g) exercise any of its rights or remedies with respect to the Collateral after the termination of the Standstill Period as set forth under the heading "Exercise of Remedies and Standstill Period".

Payments to Second Lien Claimholders:	Except as contemplated above under the heading "Exercise of Remedies and Standstill Period", the Second Lien Collateral Agent and the second lien claimholders may receive the payments of interest, principal and other scheduled amounts owed in respect of the second lien obligations.
Payment Blockage:	No payments are to be made to the Second Lien Collateral Agent or the second lien claimholders prior to the discharge of first lien obligations if (a) any default (other than a bankruptcy default) on the first lien obligations occurs and is continuing beyond the applicable grace period under the first lien loan documents and the Second Lien Collateral Agent receives written notice thereof from the First Lien Collateral Agent or (b) a bankruptcy default occurs and is continuing under the first lien loan documents, provided that the Loan Parties may resume payments in respect of the second lien obligations: (i) in the case of a payment default, upon the earlier of (x) the discharge of first lien obligations and (y) the date upon which such payment default is cured or waived; (ii) in the case of a non-payment default (other than a bankruptcy default), upon the earliest of (x) the discharge of first lien obligations, (y) the date upon which such default is cured or waived, and (z) a to be agreed upon amount of time following receipt by the Second Lien Collateral Agent of the payment blockage notice described above; and (iii) in the case of a bankruptcy default, upon the discharge of first lien obligations.
Application of Payments:	So long as the discharge of first lien obligations has not occurred, the collateral or proceeds thereof received in connection with the sale or disposition of the collateral upon the exercise of remedies by the First Lien Collateral Agent or first lien claimholders will be applied by the First Lien Collateral Agent to the first lien obligations in such order as provided in the first lien loan documents. Upon the discharge of first lien obligations, the First Lien Collateral Agent will deliver to the Second Lien Collateral Agent any collateral or proceeds held or received by it in the same form as received, with any necessary endorsements. Mandatory prepayments under the first lien loan documents and second

lien loan documents with proceeds from asset sales, insurance, and condemnation payments and 50% of excess cash flow will be shared ratably between the first lien claimholders and the second lien claimholders, and mandatory prepayments under the first lien loan documents and second lien loan documents with proceeds from debt issuances (other than permitted debt and permitted refinancing debt) will be applied first to the first lien obligations until the discharge of first lien obligations and then to the second lien obligations.

Turning Over Payments:	So long as the discharge of first lien obligations has not occurred, (a) any collateral or proceeds thereof received by the Second Lien Collateral Agent or any second lien claimholders in connection with the exercise of remedies relating to the collateral will be segregated and held in trust and paid over to the First Lien Collateral Agent and (b) if in any bankruptcy or insolvency proceeding with respect to Xerium or any other Loan Party the Second Lien Collateral Agent or any second lien claimholders will receive any distribution of money or other property in respect of the collateral, such money or other property will be paid over to the First Lien Collateral Agent in the same form received, with any necessary endorsements, and any lien received by the Second Lien Collateral Agent or any second lien claimholder will be subject to the terms of the Intercreditor Agreement.
Amendments to First Lien Loan Documents:	The consent of the Second Lien Collateral Agent is required for any amendment to the first lien loan documents which (a) increases the principal amount of the loans or commitments under the first lien loan documents in excess of a to be agreed upon cap amount, (b) extends the scheduled maturity date under the first lien loan documents beyond the scheduled maturity of loans under the second lien loan documents, (c) contravenes any of the terms set forth in the Intercreditor Agreement, or (d) involves any other provision to be agreed to.
Amendments to Second Lien Loan Documents	The consent of the First Lien Collateral Agent is required for any amendment to the second lien loan documents which (a) increases the principal amount of the loans under the second lien loan documents, (b) changes (to earlier dates) any dates upon which payments of principal or interest are due thereon, including any provisions or defined terms relating thereto, (c) changes the prepayment provisions thereof, or (d) involves any other provision to be agreed to.
Purchase Right of Second Lien Claimholders:	At any time following (a) an acceleration of the first lien obligations, (b) a payment default under the first lien loan documents that has not been cured or waived by the first lien claimholders within a to be agreed upon period of time following the occurrence thereof, or (c) the commencement of any bankruptcy or insolvency proceeding involving Xerium or any other Loan Party, the First Lien Collateral Agent, on behalf of the first lien claimholders, will offer the second lien claimholders the option (but the second lien claimholders will not have the obligation) to purchase the

entire aggregate amount of outstanding first lien obligations at par plus accrued interest, without warranty or representation or recourse, on a pro rata basis across the first lien claimholders. The second lien claimholders will irrevocably accept or reject such offer within 10 business days of the receipt of such offer, it being understood that any failure by the second lien claimholders to respond during that timeframe will be deemed a rejection of such offer.

5. **Issuance of Capital Stock and New Warrants**

On the Effective Date, the issuance of the shares of New Common Stock, shares of Preferred Stock, and New Warrants by Reorganized Xerium will be authorized without the need for any further corporate action and without further action by the holders of Claims or Equity Interests. On the Effective Date:

(a) The capital stock of Reorganized Xerium will consist of (i) 20,000,000 shares of New Common Stock, $0.001 par value per share, which shares will be duly authorized, fully paid, and nonassessable and (ii) 1,000,000 shares of Preferred Stock, $0.001 par value per share. The Preferred Stock may be issued in one or more series at any time, and from time to time for future corporate purposes as determined by the New Board of Reorganized Xerium and authorized by the Restated Charter of Reorganized Xerium, including in connection with the Shareholder Rights Plan.

(b) 14,991,640 shares of New Common Stock will be issued and distributed pursuant to Section 4 of the Plan, or withheld pursuant to Section 7.3 of the Plan, as applicable.

(c) 39,729 shares of New Common Stock will be issued and distributed or reserved for further distribution, as applicable, pursuant to the Existing Management Incentive Plan and the Existing Management Agreements; provided, however, that to the extent that equity incentive awards granted prior to the Effective Date pursuant to the Existing Management Incentive Plan or the Existing Management Agreements do not vest on or after the Effective Date in accordance with their terms, the shares of New Common Stock reserved pursuant to Section 5.2(a)(iii) of the Plan with respect thereto will be added to the number of shares of New Common Stock reserved for distribution pursuant to the New Management Incentive Plan under Section 5.2(a)(iv)(A) of the Plan.

(d) The remaining authorized shares of New Common Stock will be reserved as follows:

(i) 463,525 shares of New Common Stock will be reserved for future distribution pursuant to the New Management Incentive Plan, from which distributions may be granted by a committee comprised of disinterested members of the New Board of Reorganized Xerium; provided, however, that to the extent that equity incentive awards granted prior to the Effective Date pursuant to the Existing Management Incentive Plan or the Existing Management Agreements do not vest on or after the Effective Date in accordance with their terms, the shares of New Common Stock reserved pursuant to Section 5.2(a)(iii) of the Plan with respect thereto

will be added to the number of shares of New Common Stock reserved for distribution pursuant to the New Management Incentive Plan under Section 5.2(a)(iv)(A) of the Plan;

(ii) 1,665,738 shares of New Common Stock will be reserved for issuance upon exercise of the New Warrants; and

(iii) 2,839,368 shares of New Common Stock will be reserved for future corporate purposes as determined by the New Board of Reorganized Xerium consistent with its Restated Charter.

(e) New Warrants to purchase up to 10% of the issued and outstanding shares of New Common Stock as of the Effective Date (on a fully diluted basis) will be issued and distributed pursuant to Section 4 of the Plan.

Pursuant to the Plan, the issuance of one hundred (100) shares of Reorganized Xerium Canada Preferred Stock, with no par value, will be authorized without further action by the holders of Claims or Equity Interests. On the Effective Date, one hundred (100) shares of Reorganized Xerium Canada Preferred Stock will be issued by Reorganized Xerium Canada and transferred pursuant to Section 5.9(i)(iv) of the Plan. The Reorganized Xerium Canada Preferred Stock will have: (i) the right to be redeemed at the option of its holder for an amount per share equal to one one-hundredth (1/100) of the value of the Xerium Canada Distribution on the Effective Date (the "Preferred Redemption Amount"), (ii) the same voting rights that each share of common stock of Reorganized Xerium Canada has on the Effective Date, (iii) the right to payment of discretionary, non-cumulative dividends prior to the payment of any declared dividends to any holder of common shares of Reorganized Xerium Canada, and (iv) the right to receive as a distribution in a dissolution or liquidation of Reorganized Xerium Canada an amount equal to the Preferred Redemption Amount prior to any distributions to any holder of common stock of Reorganized Xerium Canada.

6. **Capitalization of Reorganized Xerium on the Effective Date; No Fractional Shares or Warrants**

(a) Capitalization of Reorganized Xerium

All shares of New Common Stock distributable pursuant to Section 4 of the Plan will be subject to dilution by (i) equity incentive awards to be granted under the New Management Incentive Plan on or after the Effective Date and (ii) the exercise of the New Warrants. All shares of New Common Stock distributable on account of equity incentive awards granted prior to but that are scheduled to vest on or after the Effective Date (x) will not dilute the shares of New Common Stock distributed to holders of Allowed Claims in Class 2 and Class 5 pursuant to Section 4 of the Plan and (y) will be reserved for in accordance with Section 5.2(a)(iii) of the Plan.

(b) No Fractional Shares or Warrants

No fractional shares of New Common Stock or fractional New Warrants will be issued or distributed under the Plan and no Cash will be distributed in lieu of such fractional shares or warrants. When any distribution pursuant to the Plan on account of an Allowed Claim

or Allowed Equity Interest would otherwise result in the issuance of a number of shares of New Common Stock or number of New Warrants that is not a whole number, the actual number of shares of New Common Stock or New Warrants distributed will be rounded as follows: (i) fractions of ½ (one half) or greater will be rounded up to the next whole number and (ii) fractions of less than ½ (one half) will be rounded down to the next whole number with no further payment therefor. All Claims and Equity Interests of a holder will be aggregated in making such determination. The total number of authorized shares of New Common Stock and number of New Warrants to be distributed to holders of Allowed Claims or Allowed Equity Interests will be adjusted as necessary to account for the foregoing rounding.

7. **Registration Rights Agreement**

On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, Reorganized Xerium, American Securities LLC, Carl Marks Strategic Investments, L.P., Cerberus Capital Management, L.P., on behalf of its affiliated funds and accounts, and certain other holders of New Common Stock or New Warrants that may be deemed to be "underwriters" under section 1145 of the Bankruptcy Code or section 2(a)(11) of the Securities Act, or "issuers" under section 2(a)(11) of the Securities Act, will enter into the Registration Rights Agreement, in form and substance reasonably satisfactory to the parties thereto and in substantially the form to be included in the Plan Supplement. The Registration Rights Agreement will provide to the holders party thereto certain demand and incidental (or "piggyback") and shelf registration rights.

8. **Nominating Agreements**

On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, Reorganized Xerium and each of American Securities LLC, Carl Marks Strategic Investments, L.P., and Cerberus Capital Management, L.P., on behalf of its affiliated funds and accounts, will enter into the Nominating Agreements, in each case, in form and substance reasonably satisfactory to the parties thereto and in substantially the form to be included in the Plan Supplement.

The Nominating Agreements will provide that as long as American Securities LLC, Carl Marks Strategic Investments, L.P., or Cerberus Capital Management, L.P., on behalf of its affiliated funds and accounts, is the beneficial owner of a number of shares of New Common Stock that is 50% or more of the number of shares distributed to such entity pursuant to Section 4.2(b) of the Plan (in such capacity, a "Continuing 50% Holder"), Reorganized Xerium will nominate for election to membership on its New Board one individual designated by each such Continuing 50% Holder.

9. **Shareholder Rights Plan**

On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, Reorganized Xerium will adopt the Shareholder Rights Plan, which will be in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and in substantially the form to be included in

the Plan Supplement and will dividend one preferred share purchase right for each outstanding share of New Common Stock to the recipients of the New Common Stock pursuant to Section 4 of the Plan. Pursuant to the terms of the Shareholder Rights Plan, in the event a third party acquires beneficial ownership of certain amounts of New Common Stock without prior approval from the New Board of Reorganized Xerium, holders of New Common Stock, other than the third party acquiror, may exercise their preferred share purchase rights to purchase, at the then-current exercise price, shares of New Common Stock or, in certain circumstances, shares of the acquiring person, at a significant discount to market value.

10. **Intercompany Transactions**

In order to permit the Subsidiary Debtors to satisfy their obligations under the Plan in a cost-efficient manner, the Debtors will implement the following arm's length intercompany transactions, which will result in the distribution of Plan consideration to the holders of (a) Allowed Credit Facility Claims by the respective Non-U.S. Debtor that is obligated, as borrower under the Credit Facility, with respect thereto and (b) Unsecured Swap Termination Claims by the respective Non-U.S. Debtor that is obligated with respect thereto:

On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, (a) Reorganized Xerium and Reorganized Xerium Austria will (i) enter into the Austria Purchase Agreement, pursuant to which Reorganized Xerium will sell and Reorganized Xerium Austria will purchase 99% of the Xerium Austria Shares Distribution in exchange for the Austria Note and (ii) enter into the Austria Contribution Agreement, pursuant to which Reorganized Xerium will contribute to Reorganized Xerium Austria 1% of the Xerium Austria Shares Distribution and (b) Reorganized Xerium Austria will, in exchange for the portion of the Allowed Credit Facility Claims against Xerium Austria to be exchanged for the Xerium Austria Shares Distribution, transfer the Xerium Austria Shares Distribution to the holders of such Allowed Credit Facility Claims pursuant to Section 4.2(b) of the Plan.

On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, (a) Reorganized Xerium and Reorganized Xerium Germany will enter into the Germany Assumption Agreement, pursuant to which Reorganized Xerium will (i) assume with discharging effect the obligations of Xerium Germany with respect to the portion of Allowed Credit Facility Claims against Xerium Germany to be exchanged for the Xerium Germany Shares Distribution and (ii) unconditionally waive any recourse it may have against Xerium Germany with respect thereto and (b) Reorganized Xerium will (i) in exchange for the portion of Allowed Credit Facility Claims against Xerium Germany assumed by Reorganized Xerium, transfer the Xerium Germany Shares Distribution to the holders of such Allowed Credit Facility Claims pursuant to Section 4.2(b) of the Plan and (ii) forgive such Allowed Credit Facility Claims against Xerium Germany.

On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, (a) Reorganized Xerium will, in exchange for the portion of Allowed Credit Facility Claims against Xerium Italy to be exchanged for the Xerium Italy Shares Distribution, transfer the Xerium Italy Shares

Distribution to the holders of such Allowed Credit Facility Claims pursuant to Section 4.2(b) of the Plan and (b) pursuant to the Austria Contribution Agreement and the Xerium Italy Exchange (i) Reorganized Xerium will contribute to Reorganized Xerium Austria the portion of Allowed Credit Facility Claims against Xerium Italy exchanged for the Xerium Italy Shares Distribution and all receivables related thereto and (ii) Reorganized Xerium Austria will forgive such Allowed Credit Facility Claims against Xerium Italy.

On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, (a) Reorganized Xerium Canada and Reorganized Xerium V will enter into the Canada Direction Letter Agreement, pursuant to which (i) Reorganized Xerium Canada will direct Reorganized Xerium V, and Reorganized Xerium V will agree, to transfer or cause the transfer by Reorganized Xerium of the Xerium Canada Distribution to the holders of Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims against Xerium Canada, and in consideration therefor, (ii) Reorganized Xerium Canada will transfer to Reorganized Xerium V one hundred (100) shares of Reorganized Xerium Canada Preferred Stock and (b) Reorganized Xerium V and Reorganized Xerium will enter into the U.S. Direction Letter Agreement, pursuant to which (i) Reorganized Xerium V will direct Reorganized Xerium, and Reorganized Xerium will agree, to transfer the Xerium Canada Distribution to the holders of Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims against Xerium Canada in satisfaction of Reorganized Xerium V's obligations under the Canada Direction Letter Agreement, and in consideration therefor, (ii) Reorganized Xerium will be deemed for U.S. federal income tax purposes to make a capital contribution to Reorganized Xerium in exchange for a deemed transfer of Reorganized Xerium V shares to Reorganized Xerium, and (iii) Reorganized Xerium will, in exchange for the portion of the Allowed Credit Facility Claims and the Allowed Unsecured Swap Termination Claims against Xerium Canada to be exchanged for the Xerium Canada Distribution, transfer the Xerium Canada Distribution to the holders of such Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims pursuant to Sections 4.2(b) and 4.5(b), respectively, of the Plan.

11. **<u>Existing Debt Securities and Agreements; Release of Liens</u>**

On the Effective Date, (a) the commitments under the Prepetition Revolver will terminate, the Credit Facility will be amended and restated as the Amended and Restated Credit Facility, and each of the guarantees by (i) the Non-U.S. Debtors and the Non-Debtor Guarantors under the Credit Facility will be amended and restated to reduce the aggregate amount of such guaranteed obligations to an amount that is not more than the lesser of (x) the maximum amount permitted under the laws of the jurisdiction of the respective Non-U.S. Debtor or Non-Debtor Guarantor, as the case may be and (y) the aggregate amount of Non-U.S. Term Note obligations and all other obligations of the Non-U.S. Debtors and the Non-Debtor Guarantors under the Amended and Restated Credit Facility and (ii) the U.S. Debtors under the Credit Facility will be amended and restated to reduce the aggregate amount of such guaranteed obligations to an amount that is not more than the aggregate amount of the Term Notes and all other obligations of the U.S. Debtors, the Non-U.S. Debtors, and the Non-Debtor Guarantors under the Amended and Restated Credit Facility and (b) with respect to Secured Claims other than Credit Facility Claims, except to the extent the Plan provides otherwise, all liens, security interests, and pledges securing the obligations of the Debtors will be released and the holders of such Secured Claims

will be authorized and directed to release any Collateral or other property and to take such actions as may be requested by the Reorganized Debtors to evidence the release of such liens, security interests, and pledges, including the execution, delivery, and filing or recording of such releases. Pursuant to the Plan, the filing of the Confirmation Order with any federal, state, or local agency or department will constitute good and sufficient evidence of, but will not be required to effect, the termination of such liens, security interests, and pledges.

12. **Surrender of Existing Securities**

The Plan provides that as a condition to receiving any distribution under the Plan, each holder of a promissory note, certificate, or other instrument evidencing a Claim must surrender such promissory note, certificate, or other instrument to Reorganized Xerium or its designee. The Plan provides that any holder of a Claim that fails to (a) surrender such instrument or (b) execute and deliver an affidavit of loss and/or indemnity reasonably satisfactory to Reorganized Xerium before the later to occur of (i) the second anniversary of the Effective Date and (ii) six months following the date such holder's Claim is Allowed, will be deemed to have forfeited all rights and claims with respect thereto, may not participate in any distribution under the Plan on account thereof, and all amounts owing with respect to such Allowed Claim will be retained by Reorganized Xerium; provided, however, that any promissory note, certificate, or other instrument, if any, issued under the Credit Facility will be canceled on the Effective Date and holders of Allowed Credit Facility Claims will not be required to surrender any such instruments prior to receiving distributions pursuant to the Plan.

13. **New Management Incentive Plan**

On the Effective Date, without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, the New Management Incentive Plan will become effective, in substantially the form set forth in Exhibit C to the Plan. Awards and distributions to be made under the New Management Incentive Plan will be determined and granted by a committee comprised of disinterested members of the New Board of Reorganized Xerium. The solicitation of votes on the Plan will include, and be deemed to be, a solicitation for approval of the New Management Incentive Plan. Entry of the Confirmation Order will constitute such approval.

The following is a summary of the New Management Incentive Plan. For the specific terms please refer to the form of the New Management Incentive Plan included in Exhibit C to the Plan.

- Share Reserve: 463,525 shares of New Common Stock (representing approximately 3% of issued and outstanding New Common Stock on the Effective Date prior to dilution by the exercise of the New Warrants).

- Types of Awards: Stock options, stock appreciation rights ("SARs"), restricted stock, unrestricted stock, and restricted stock unit awards.

- Eligibility: Employees (including officers), directors ,and consultants of Reorganized Xerium and its affiliates.

- Individual Award Limits: In any single calendar year, no employee may receive (a) options or SARs covering more than 150,000 shares of New Common Stock or (b) other stock awards covering more than 150,000 shares of New Common Stock.

- Performance Awards: Performance-based awards (other than options and SARs) that are intended to satisfy the exemption for qualified performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, must be subject to an objectively determinable measure of performance relating to any or any combination of the following: sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios, or credit rating; market share; capital expenditures; cash flow; net cash from operations plus or minus such expenditures, expenses, cash proceeds from dispositions; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures; joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or re-financings.

- Change in Control: Upon a change in control of Reorganized Xerium, (a) all stock options, SARs, and time-based stock awards fully vest, (b) all stock awards with vesting conditions tied to the attainment of stock price targets in respect of New Common Stock vest to the extent that the per share transaction price exceeds the stock price targets, and (c) all other performance-based stock awards vest at "target" level performance.

- Option/SAR Repricing: Prohibited unless approved by stockholders.

- Administration: Compensation committee of the New Board of Reorganized Xerium.

- Plan Term: Ten years.

- Adoption: The New Management Incentive Plan will become effective on the Effective Date.

14. **Corporate Action**

(a) Due Authorization

On the Effective Date, all matters provided for under the Plan that otherwise would require approval of the stockholders or directors of one or more of the Debtors will be deemed to have occurred and will be in effect on and after the Effective Date pursuant to the

applicable general corporation (or similar) law of the jurisdictions in which the Debtors are incorporated, formed, or organized, as applicable, without any requirement of further action by the stockholders or directors of the Debtors or the Reorganized Debtors.

(b) General

On the Effective Date, all actions contemplated by the Plan (including, without limitation, the transactions contemplated by Section 5.9(i) of the Plan) will be deemed authorized and approved in all respects without the need for any further corporate action and without further action by the holders of Claims or Equity Interests. On the Effective Date, the appropriate officers of the Debtors or the Reorganized Debtors, as applicable, will be authorized and directed to issue, execute, and deliver the agreements, documents, shares and other securities, and instruments contemplated by the Plan (or necessary or desirable to effect the transactions contemplated by the Plan) in the name of and on behalf of the Reorganized Debtors, including, without limitation, the Amended and Restated Credit Facility, the Exit Facility, the Nominating Agreements, the Registration Rights Agreement, the Shareholder Rights Plan, the New Warrants, the Restated Charters, the Restated Bylaws, the Intercreditor Agreement, the Austria Contribution Agreement, the Austria Purchase Agreement, the Austria Note, the Germany Assumption Agreement, the Canada Direction Letter Agreement, the U.S. Direction Letter Agreement, the New Management Incentive Plan, and any and all other agreements, documents, securities, and instruments relating to the foregoing (including, without limitation, security documents). Such authorizations and approvals contemplated by the Plan will be effective notwithstanding any requirements under nonbankruptcy law.

(c) Restated Charters and Restated Bylaws of the Reorganized Debtors

On the Effective Date, each of the Reorganized Debtors will be deemed to have adopted its respective Restated Charter and Restated Bylaws, each in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group. On the Effective Date or as soon as practicable thereafter, the Reorganized Debtors will file their respective Restated Charters in the respective jurisdictions of their incorporation, formation, or organization, as applicable. Pursuant to and only to the extent required by section 1123(a)(6) of the Bankruptcy Code, the Restated Charters will include, among other things, (i) a provision prohibiting the issuance of non-voting equity securities and (ii) a provision setting forth an appropriate distribution of voting power among classes of equity securities possessing voting power. The Restated Charter of Reorganized Xerium also will include, among other things, an election by Reorganized Xerium to be governed by section 203 of the Delaware General Corporation Law.

(d) Boards of Directors of the Reorganized Debtors

On the Effective Date, the operation of the Reorganized Debtors will become the general responsibility of their New Boards, subject to, and in accordance with, their respective Restated Charters and Restated Bylaws. The initial New Board of Reorganized Xerium will consist of seven (7) directors, as follows: (i) the Chief Executive Officer of Xerium in office immediately prior to the Effective Date, (ii) one (1) director by the board of directors of Xerium, and (iii) five (5) directors nominated by members of the Secured Lender Ad Hoc Working Group. The initial directors of the Reorganized Debtors will be disclosed, together with

biographical information, in the Plan Supplement and will be deemed elected or appointed, as the case may be, pursuant to the Confirmation Order, but will not take office and will not be deemed to be elected or appointed until the occurrence of the Effective Date. Those directors not continuing in office will be deemed removed therefrom as of the Effective Date pursuant to the Confirmation Order.

(e) Officers of Reorganized Debtors

The initial officers of the Reorganized Debtors will be disclosed, together with biographical information, in the Plan Supplement and will be deemed elected or appointed, as the case may be, pursuant to the Confirmation Order, but will not take office and will not be deemed to be elected or appointed until the occurrence of the Effective Date. Those officers not continuing in office will be deemed removed therefrom as of the Effective Date pursuant to the Confirmation Order.

15. **Compromise of Controversies**

The Plan provides that in consideration for the distributions and other benefits provided under the Plan, the provisions of the Plan will constitute a good faith compromise and settlement of all Claims and controversies resolved under the Plan, and the entry of the Confirmation Order will constitute the Bankruptcy Court's approval of such compromise and settlement under Fed. R. Bankr. P. 9019.

16. **Exemptions from Transfer Taxes**

The Plan provides that pursuant to section 1146(a) of the Bankruptcy Code, any issuance, transfer, or exchange of notes or equity securities under the Plan, the creation of any mortgage, deed of trust or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any instrument of transfer from a Debtor to a Reorganized Debtor or any other Entity pursuant to the Plan will not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, real estate transfer tax, mortgage recording tax, or other similar tax or governmental assessment, and the Plan provides that the Confirmation Order will direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment. Without limiting the foregoing, any issuance, transfer or exchange of a security or any making or delivery of an instrument of transfer pursuant to the Plan will be exempt from the imposition and payment of any and all transfer taxes (including, without limitation, any and all stamp taxes or similar taxes and any interest, penalties, and addition to the tax that may be required to be paid in connection with the consummation of the Plan and the Plan Documents) pursuant to sections 1146(a), 505(a), 106, and 1141 of the Bankruptcy Code.

E. Provisions Governing Distributions

1. **Timing and Conditions of Distributions**

(a) Distribution Record Date

Pursuant to the Plan, the Distribution Record Date will be (i) the Confirmation Date with respect to (x) all Allowed Claims and (y) all Allowed Equity Interests in the Subsidiary Debtors and (ii) the day immediately preceding the Effective Date with respect to all Allowed Equity Interests in Xerium represented by issued and outstanding shares of Existing Common Stock. Pursuant to the Plan, as of the close of business on the Distribution Record Date, the various transfer registers for each of the Classes of Claims and Equity Interests as maintained by the Debtors, or their respective agents, will be deemed closed, there will be no further changes in the record holders of any Claims or Equity Interests for purposes of Plan distributions, and the Debtors or the Reorganized Debtors, as applicable, will have no obligation to recognize, for distribution purposes, any transfer of Claims or Equity Interests occurring on or after the Distribution Record Date. The Debtors, the Reorganized Debtors, or any party responsible for making distributions pursuant to Section 6 of the Plan will be entitled to recognize and deal for all purposes under the Plan only with those record holders stated on the transfer ledgers as of the close of business on the Distribution Record Date, to the extent applicable.

(b) Date of Distributions

Except as otherwise provided in the Plan, any distributions and deliveries to be made under the Plan will be made on the Effective Date or as soon as practicable thereafter. In the event that any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but will be deemed to have been completed as of the required date.

(c) Sources of Cash for Distribution

All Cash required for the payments to be made under the Plan will be obtained from the Debtors' and the Reorganized Debtors' operations, Cash on hand, and borrowings under the Exit Facility.

(d) Disbursement Agent

Unless otherwise provided in the Plan, all distributions under the Plan will be made on the Effective Date by Reorganized Xerium as Disbursement Agent or such other entity designated by Reorganized Xerium as a Disbursement Agent. No Disbursement Agent under the Plan, including, without limitation, the Administrative Agent, will be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court.

(e) Rights and Powers of Disbursement Agent

Each Disbursement Agent will be empowered to (i) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties under the Plan, (ii) make all distributions contemplated by the Plan, (iii) employ professionals to represent it with respect to its responsibilities, and (iv) exercise such other powers as may be vested in the Disbursement Agent by order of the Bankruptcy Court, pursuant to the Plan or as deemed by such Disbursement Agent to be necessary and proper to implement the provisions in the Plan.

(f) Expenses of the Disbursement Agent

The amount of any reasonable fees and expenses incurred by each Disbursement Agent acting in such capacity (including taxes and reasonable attorneys' fees and expenses) on or after the Effective Date will be paid in Cash by the Reorganized Debtors in the ordinary course of business.

(g) Delivery of Distributions

Subject to Fed. R. Bankr. P. 9010, all distributions to any holder of an Allowed Claim or Equity Interest will be made to the address of such holder as set forth in the books and records of the Debtors or their agents, as applicable, unless the Debtors or Reorganized Debtors have been notified in writing of a change of address, including by the filing of a proof of Claim or interest by such holder that contains an address for such holder different from the address reflected in the Debtors' books and records. In the event that any distribution to any holder is returned as undeliverable, the Disbursement Agent will use reasonable efforts to determine the current address of such holder, but no distribution to such holder will be made unless and until the Disbursement Agent has determined the then-current address of such holder, at which time such distribution will be made to such holder without interest; provided, however, that such distributions will be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of one year from the Effective Date. After such date, all unclaimed property or interest in property will revert to the Reorganized Debtors, and the Claim of any other holder to such property or interest in property will be discharged and forever barred notwithstanding any applicable federal or state escheat, abandoned, or unclaimed property laws to the contrary.

(h) Manner of Payment Under the Plan

(i) Cash distributable to holders of Allowed Claims against Non-U.S. Debtors will be (x) converted to the legal tender of the country in which such Non-U.S. Debtor is incorporated, formed, or organized, as applicable, using the "New York Closing" conversion rate published online at http://online.wsj.com for the date that is two (2) business days prior to the Effective Date and (y) distributed to such holders in such converted legal tender.

(ii) Term Notes distributable to holders of Allowed Claims against Non-U.S. Debtors will be (x) converted to the currency of the country in which such Non-U.S. Debtor is incorporated, formed, or organized, as applicable, using the "New York Closing" conversion rate published online at http://online.wsj.com for the date that is two (2) business days prior to the Effective Date and (y) distributed as so converted.

(iii) At the option of the applicable Disbursement Agent, any Cash payment to be made under the Plan may be made by a check or wire transfer or as otherwise required or provided in applicable agreements.

(iv) Except as otherwise provided in Section 5.9(i) of the Plan, all distributions of Cash, Term Notes, New Common Stock, and New Warrants to the holders of Claims against, or Equity Interests in, Debtors domiciled in the United States of America will be made by, or on behalf of, the applicable Debtor.

(i) Setoffs and Recoupment

The Debtors and Reorganized Debtors may, but will not be required to, set off against any Claim (for purposes of determining the Allowed amount of such Claim on which distribution will be made) any claims of any nature whatsoever that the Debtors or the Reorganized Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim under the Plan will constitute a waiver or release by the Debtors of any such claim the Debtors or the Reorganized Debtors may have against the holder of such Claim.

(j) Distributions After Effective Date

Distributions made after the Effective Date to holders of Disputed Claims or Disputed Equity Interests that are not Allowed Claims or Allowed Equity Interests, as the case may be, as of the Effective Date but which later become Allowed Claims or Allowed Equity Interests will be deemed to have been made on the Effective Date.

(k) Allocations of Distributions Between Principal and Interest

The Plan provides that the aggregate consideration to be distributed to the holders of Allowed Claims under the Plan will be treated as first satisfying an amount equal to the stated principal amount of the Allowed Claims of such holders, as determined for federal income tax purposes, and any remaining consideration as satisfying accrued, but unpaid, interest, if any.

(l) No Postpetition Interest on Claims

Pursuant to the Plan, unless otherwise specifically provided for in the Plan, the Confirmation Order, or any other order entered by the Bankruptcy Court, or as required by applicable law, postpetition interest will not accrue on or after the Commencement Date on account of any Claim.

2. **Procedures for Disputed Claims and Equity Interests Under the Plan**

(a) Proofs of Claims and Equity Interests

The Plan provides that proofs of Claims arising from the rejection of executory contracts and unexpired leases pursuant to the Plan must be served and filed in accordance with Section 8.3 of the Plan. See Section IV(F)(3) below, entitled "Rejection Damage Claims."

Except as otherwise provided in the Plan or by order of the Bankruptcy Court, holders of other Claims or Equity Interests will not be required to file proofs of Claims or Equity Interests in the Reorganization Cases.

(b) Objections to Claims and Equity Interests/Requests for Estimation

The Plan provides that the Debtors and Reorganized Debtors will be entitled to dispute Claims and Equity Interests, and if the Debtors dispute any Claim or Equity Interest, such dispute will be determined, resolved, or adjudicated, as the case may be, by the Bankruptcy Court. On and after the Effective Date, except to the extent that the Reorganized Debtors consent, only the Reorganized Debtors will have the authority to file, settle, compromise, withdraw, or litigate to judgment objections to, and requests for estimation of, Claims and Equity Interests.

The Debtors and the Reorganized Debtors may at any time request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claims or Disputed Equity Interests pursuant to section 502(c) of the Bankruptcy Code, regardless of whether the Debtor previously objected to such Claim or Equity Interest or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim or Equity Interest at any time during litigation concerning any objection to any Claim or Equity Interest, including, without limitation, during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim or Disputed Equity Interest, the amount so estimated will constitute either the Allowed amount of such Claim or Equity Interest or a maximum limitation on such Claim or Equity Interest, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim or Equity Interest, the Reorganized Debtors may pursue supplementary proceedings to object to the allowance of such Claim or Equity Interest. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. Claims or Equity Interests may be estimated and subsequently compromised, settled, withdrawn, or resolved by any mechanism approved by the Bankruptcy Court.

Any objections to Claims or Equity Interests or requests for estimation thereof must be served and filed (i) in the case of Claims and Equity Interests known to the Debtors prior to the Effective Date, on or before the date that is the later of (x) one hundred and twenty (120) days after the Effective Date and (y) such later date as may be fixed by the Bankruptcy Court, (ii) in the case of Claims arising from the rejection of executory contracts or unexpired leases pursuant to the Plan, on or before the date that is the later of (x) one hundred and twenty (120) days after the date on which proof of such Claim is served and filed in accordance with Section 8.3 of the Plan and (y) such later date as may be fixed by the Bankruptcy Court, and (iii) in the case of Claims or Equity Interests not known to the Debtors prior to the Effective Date, on or before the date that is the later of (x) the date that is one hundred and twenty (120) days after such Claim or Equity Interest is known to the Debtors and (y) such later date as may be fixed by the Bankruptcy Court.

(c) No Distributions Pending Allowance

Notwithstanding any other provision of the Plan, if all or any portion of a Claim or Equity Interest is a Disputed Claim or Disputed Equity Interest, as the case may be, no payment or distribution provided under the Plan will be made on account of such Claim or Equity Interest unless and until such Disputed Claim or Disputed Equity Interest becomes an Allowed Claim or Allowed Equity Interest, as the case may be. In the event that a Claim or an Equity Interest in Xerium is Disputed, until such time as such Disputed Claim or Disputed Equity Interest is determined by Final Order, the Debtors or the Reorganized Debtors, as applicable, will withhold on account of such Claim or Equity Interest the distribution to which the holder of such Claim or Equity Interest would be entitled under Section 4 of the Plan if such Claim or Equity Interest were Allowed in full.

(d) Distributions after Allowance

At such time as a Disputed Claim or Disputed Equity Interest becomes an Allowed Claim or Allowed Equity Interest, as the case may be, the Disbursement Agent will distribute to the holder of such Claim or Equity Interest the property distributable to such holder pursuant to Section 4 of the Plan. To the extent that all or a portion of a Disputed Claim or Disputed Equity Interest is disallowed, the holder of such Claim or Equity Interest will not receive any distribution on account of the portion of such Claim or Equity Interest, as the case may be, that is disallowed.

(e) Preservation of Claims and Rights to Settle Claims

Except as otherwise provided in the Plan, or in any contract, instrument, or other agreement or document entered into in connection with this Plan, in accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Debtors will retain and may enforce, sue on, settle, compromise, otherwise resolve, discontinue, abandon, or dismiss all claims, rights, causes of action, suits, and proceedings (collectively, the "Retained Actions"), whether at law or in equity, whether known or unknown, that the Debtors or their estates may hold against any Entity, without the approval of the Bankruptcy Court, subject to the terms of Section 7.2 of the Plan with respect to objections to, and requests for, estimation of Claims and Equity Interests, the Confirmation Order, and any contract, instrument, release, or other agreement entered into in connection therewith. The Reorganized Debtors or their successor(s) may pursue such Retained Actions, as appropriate, in accordance with the best interests of the Reorganized Debtors or their successor(s) that hold such rights. Such Retained Action include, without limitation:

- those arising under sections 542, 543, 544, 545, 547 through 551, and 553 of the Bankruptcy Code;

- those against certain of the Debtors' customers, including, without limitation, any of the causes of action described in the Plan Supplement;

- those against any party to an executory contract or unexpired lease arising out of, or relating to, such executory contracts or unexpired leases,

including, without limitation, any of the causes of action described in the Plan Supplement;

- those against certain of the Debtors' current or former employees, officers, and directors, including, without limitation, any of the causes of action described in the Plan Supplement;

- those against any of the Debtors' vendors or customers including, without limitation, those customers or vendors set forth in the Plan Supplement, who have commenced, or may commence, (i) a case under chapter 7, 9, or 11 of the Bankruptcy Code or (ii) a similar proceeding under foreign insolvency law,

- those arising out of any litigation pending against any of the Debtors as of the Commencement Date, including without limitation, any of the causes of action described in the Plan Supplement; and

- in addition to the foregoing, the Debtors may have, in the ordinary course of business, numerous causes of action, claims, or rights against vendors, customers, or other parties with whom they deal in the ordinary course of business (the "Ordinary Course Claims"). The Reorganized Debtors reserve their right to enforce, sue on, settle, compromise, otherwise resolve, discontinue, abandon, or dismiss (or decline to do any of the foregoing) the Ordinary Course Claims, as well as the claims and causes of action listed herein.

ALL OF THE ABOVE PERSONS OR ENTITIES INCLUDE THEIR AGENTS, EMPLOYEES, PROFESSIONALS, REPRESENTATIVES, OFFICERS, DIRECTORS, MEMBERS, PARTNERS, SUCCESSORS, AFFILIATES, AND ASSIGNS. THE DEBTORS EXPRESSLY RESERVE ALL RIGHTS, DEFENSES, AND COUNTERCLAIMS AGAINST ANY PERSON OR ENTITY THAT HAS ASSERTED OR COULD ASSERT A CAUSE OF ACTION OR CLAIM AGAINST THE DEBTORS. FURTHER, THE DEBTORS EXPRESSLY RESERVE THE RIGHT TO AMEND OR SUPPLEMENT THIS LIST AT ANY TIME PRIOR TO THE CONFIRMATION HEARING.

F. Treatment of Executory Contracts and Unexpired Leases

1. **Assumption and Rejection of Contracts and Leases**

Except for any executory contracts or unexpired leases that are (a) the subject of a motion to assume or reject that is pending on the Confirmation Date, which will be assumed or rejected in accordance with the disposition of such motions or (b) listed on Exhibit E to the Plan or in any amendment to Exhibit E that may be included in the Plan Supplement, which are specifically rejected pursuant to the Plan, all executory contracts (including, without limitation, the Existing Management Incentive Plan and the Existing Management Agreements) and unexpired leases to which any of the Debtors is a party are specifically assumed pursuant to the Plan (i) as of the Confirmation Date, with respect to the Existing Management Incentive Plan

and the CEO Employment Agreement and (ii) as of the Effective Date, with respect to all other executory contracts and unexpired leases assumed pursuant to the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court will constitute an order of the Bankruptcy Court under sections 365 and 1123(b) of the Bankruptcy Code approving the contract and lease assumptions or rejections described above, as of the Confirmation Date or the Effective Date, as applicable, and determining that, with respect to such assumptions pursuant to the Plan, that "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) by the Reorganized Debtors has been demonstrated and no further adequate assurance is required.

2. **Cure of Defaults**

Any monetary amounts by which any executory contract and unexpired lease to be assumed pursuant to the Plan is in default will be satisfied, under section 365(b)(1) of the Bankruptcy Code, by the Debtors upon assumption thereof or as soon as practicable thereafter. If there is a dispute regarding (a) the nature or amount of any cure, (b) the ability of the Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the contract or lease to be assumed, or (c) any other matter pertaining to assumption, any cure will occur following the entry of a Final Order resolving the dispute and approving the assumption or assumption and assignment, as the case may be.

3. **Rejection Damage Claims**

All Claims arising from the rejection of executory contracts and unexpired leases pursuant to the Plan (including those listed on Exhibit E to the Plan or in any amendment to Exhibit E that may be included in the Plan Supplement), must be served upon the Debtors and their counsel on or before the date that is thirty (30) days after the later of (a) the Confirmation Date and (b) the date of entry of an order of the Bankruptcy Court approving such rejection. Any Claims not filed within such time will be forever barred from assertion against the Debtors, their estates, the Reorganized Debtors, and their property.

4. **Indemnification Obligations**

(a) Directors, Officers, Agents, and Employees

Any obligations of the Debtors pursuant to their certificates of incorporation and bylaws, or organizational documents, as applicable, or any other agreements entered into by any Debtor at any time prior to the Effective Date, to indemnify current and former directors, officers, agents, and/or employees with respect to all present and future actions, suits, and proceedings against the Debtors or such directors, officers, agents, and/or employees, based upon any act or omission for or on behalf of the Debtors, irrespective of whether such indemnification is owed in connection with an event occurring before or after the Commencement Date, will not be discharged or impaired by confirmation of the Plan. Such obligations will be deemed and treated as executory contracts assumed by the Debtors under the Plan and will continue as obligations of the Reorganized Debtors.

(b) Administrative Agent

The obligations of the Debtors to indemnify the Administrative Agent pursuant to section 10.4 of the Credit Facility irrespective of whether such indemnification is owed in connection with an event occurring before or after the Commencement Date, will not be discharged or Impaired by confirmation of the Plan and will continue as obligations of the Reorganization Debtors.

5. **<u>Compensation and Benefit Plans</u>**

All employee compensation and benefit plans, policies, and programs of the Debtors entered into before or after the Commencement Date and not since terminated will be deemed to be, and will be treated as if they were, executory contracts assumed pursuant to the Plan. Employee benefit plans, policies, and programs include, without limitation, the Existing Management Incentive Plan, all medical and health insurance, life insurance, dental insurance, disability benefits and coverage, leave of absence, retirement plans, retention plans, severance plans, and other such benefits. The Debtors' obligations under such plans, policies, and programs will survive confirmation of the Plan and will be performed by the applicable Debtor or Reorganized Debtor in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements or regulations governing, instruments evidencing, or other documents relating to, such plans, policies, and programs, except for (a) executory contracts or employee benefit plans specifically rejected pursuant to the Plan (to the extent such rejection does not violate sections 1114 and 1129(a)(13) of the Bankruptcy Code) and (b) such executory contracts or employee benefit plans that are the subject of a motion to reject pending as of the Confirmation Date.

6. **<u>Retiree Benefits</u>**

The Plan provides that on and after the Effective Date, the payment of retiree benefits (as defined in section 1114 of the Bankruptcy Code), if any, at the level established pursuant to section 1114 of the Bankruptcy Code, will continue for the duration of the period the Debtors have obligated themselves to provide such benefits.

7. **<u>Insurance Policies</u>**

All insurance policies pursuant to which the Debtors have any obligations in effect as of the date of the Confirmation Order will be deemed and treated as executory contracts pursuant to the Plan and will be assumed by the respective Debtors and Reorganized Debtors and will continue in full force and effect. All other insurance policies will re-vest in the Reorganized Debtors.

G. Conditions Precedent to the Effective Date

1. **Conditions Precedent to Effective Date**

The Plan provides that the Effective Date will not occur and the Plan will not become effective unless and until the following conditions have been satisfied in full or waived in accordance with Section 9.2 of the Plan (see Section IV(G)(2) below):

(a) Entry of Confirmation Order

The Confirmation Order, in form and substance satisfactory to the Debtors, shall have been entered and shall be in full force and effect and there shall not be a stay or injunction (or similar prohibition) in effect with respect thereto.

(b) Administrative Agent

The Confirmation Order shall be in form and substance reasonably satisfactory to the Administrative Agent and shall have been entered and shall be in full force and effect and there shall not be a stay or injunction (or similar prohibition) in effect with respect thereto.

(c) Execution and Delivery of Other Documents

All other actions and all agreements, instruments or other documents necessary to implement the Plan, including, without limitation, the Exit Facility and the Amended and Restated Credit Facility, shall have been (i) effected or (ii) duly and validly executed and delivered by the parties thereto and all conditions to their effectiveness shall have been satisfied or waived.

(d) Access to Funding

The Debtors shall have access to funding under the Exit Facility.

(e) Regulatory Approvals

The Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions, or documents necessary to implement the Plan and that are required by law, regulation, or order.

(f) Consents

All authorizations, consents, and approvals determined by the Debtors to be necessary to implement the Plan shall have been obtained.

(g) Corporate Formalities

Prior to or simultaneously with the effectiveness of the Plan, the Restated Charters shall have been filed in the Debtors' respective jurisdictions of incorporation, formation, or organization.

(h) Other Acts

Any other actions the Debtors determine are necessary to implement the terms of the Plan shall have been taken.

2. **Waiver of Conditions Precedent**

Each of the conditions precedent to the effectiveness of the Plan set forth in Section 9.1(b)-(h) of the Plan (see Section IV(G)(1) above) may be waived, in whole or in part, by the Debtors in writing without notice to third parties or order of the Bankruptcy Court or any other formal action; provided, however, the condition precedent in Section 9.1(b) of the Plan and the condition precedent in Section 9.1(c) of the Plan that the Amended and Restated Credit Facility shall have been duly and validly executed, may be waived, in whole or in part, only with the consent of the Administrative Agent.

3. **Effect of Failure of Conditions**

The Plan provides that if the conditions precedent to effectiveness of the Plan have not been satisfied or waived on or before the date that is thirty (30) days after the Confirmation Date, then (a) the Confirmation Order will be of no further force or effect, (b) no distributions under the Plan will be made, (c) the Debtors and all holders of Claims against, and Equity Interests in, the Debtors will be restored to the status quo ante as of the day immediately preceding the Confirmation Date as though the Confirmation Date had never occurred, (d) all of the Debtors' obligations with respect to the Claims and Equity Interests will remain unaffected by the Plan and nothing contained herein will be deemed to constitute a waiver or release of any Claims by or against the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any Entity in any further proceedings involving the Debtors, and (e) the Plan will be deemed withdrawn.

H. Effect of Confirmation

1. **Vesting of Assets**

On the Effective Date, except as otherwise provided in the Plan, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, all property of the Debtors' estates will vest in the Reorganized Debtors free and clear of all Claims, liens, encumbrances, charges, and other interests. Except as otherwise provided in the Plan, each of the Debtors, as Reorganized Debtors, will continue to exist on and after the Effective Date as a separate legal entity with all of the powers available to such legal entity under applicable law, without prejudice to any right to alter or terminate such existence (whether by merger or otherwise) in accordance with such applicable law. On and after the Effective Date, the Reorganized Debtors will be authorized to operate their respective businesses, and to use, acquire, or dispose of assets, without supervision or approval by the Bankruptcy Court and free from any restrictions of the Bankruptcy Code or the Bankruptcy Rules.

2. **Binding Effect**

Subject to the occurrence of the Effective Date, on and after the Confirmation Date, the provisions of the Plan will bind any holder of a Claim against, or Equity Interest in, the Debtors, and such holder's respective successors and assigns, whether or not the Claim or Equity Interest of such holder is Impaired under the Plan, whether or not such holder has accepted the Plan, and whether or not such holder is entitled to a distribution under the Plan.

3. **Discharge of the Debtors**

(a) Scope

Except to the extent otherwise provided in the Plan, the rights afforded in the Plan and the treatment of all Claims against, or Equity Interests in, the Debtors under the Plan will be in exchange for and in complete satisfaction, discharge, and release of all Claims against, and Equity Interests in, the Debtors of any nature whatsoever, known or unknown, including, without limitation, any interest accrued or expenses incurred thereon from and after the Commencement Date, or against their estates, the Reorganized Debtors, or their properties or interests in property. Except as otherwise provided in the Plan, upon the Effective Date, all Claims against, and Equity Interests in, the Debtors will be satisfied, discharged, and released in full exchange for the consideration, if any, provided under the Plan. Except as otherwise provided in the Plan, all Entities will be precluded from asserting against the Debtors, the Reorganized Debtors, or their respective properties or interests in property, any other Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date.

(b) Statutory Injunction

In accordance with section 524 of the Bankruptcy Code, the discharge provided by the Plan and section 1141 of the Bankruptcy Code, among other things, acts as an injunction against the commencement or continuation of any action, employment of process, or an act, to collect, recover, or offset the Claims discharged upon confirmation of the Plan.

4. **Exculpation**

The Plan provides that the Debtors, the Reorganized Debtors, the Administrative Agent, the lender parties to the Credit Facility, the administrative agent under the DIP Facility, the lender parties to the DIP Facility, Deutsche Bank AG, Merrill Lynch Capital Services, Inc., the members of the Secured Lender Ad Hoc Working Group, and their respective principals, members, partners, officers, directors, employees, agents, managers, representatives, advisors, attorneys, accountants, and professionals will neither have nor incur any liability to any Entity for any act taken or omitted to be taken in connection with, or arising out of, the Reorganization Cases, the negotiation, formulation, dissemination, confirmation, consummation, or administration of the Plan, or property to be distributed under the Plan, or any other act or omission in connection with the Reorganization Cases, the Plan, this Disclosure Statement, or any contract, instrument, or other agreement or document related thereto or delivered thereunder, or any act taken or omitted to be taken in connection with the restructuring of the Debtors; provided, however, that the foregoing will not affect the liability of any Entity that

otherwise would result from any such act or omission to the extent that such act or omission is determined by a Final Order to have constituted willful misconduct or gross negligence.

I. Other Provisions of the Plan

1. **Additional Intercompany Transactions**

Pursuant to the Plan, the Debtors and the Reorganized Debtors, as applicable, will be authorized without the need for any further corporate action and without further action by the holders of Claims or Equity Interests to (a) engage in intercompany transactions to transfer Cash for distribution pursuant to the Plan and (b) continue to engage in intercompany transactions (subject to applicable contractual limitations, including those in the Exit Facility Credit Agreement and the Amended and Restated Credit Agreement), including, without limitation, transactions relating to the incurrence of intercompany indebtedness.

In that regard, Reorganized Xerium Austria, Reorganized Xerium Germany, and Xerium UK may participate in a series of related party transactions after the Effective Date. It is currently contemplated that, upon the conclusion of such transactions, Xerium UK will hold a note issued by Reorganized Xerium Austria, which will be payable by Reorganized Xerium Austria pursuant to arm's length terms and will be subordinated to all other indebtedness of Reorganized Xerium Austria. The purpose of the related party transactions would be to permit Reorganized Xerium's foreign affiliates to realize certain tax benefits, which would improve Reorganized Xerium's cash flow and so benefit all shareholders and creditors.

2. **Reservation of Rights**

The Plan will have no force or effect unless and until the Effective Date. Prior to the Effective Date, none of the filing of the Plan, any statement or provision contained in the Plan, or action taken by the Debtors with respect to the Plan will be, or will be deemed to be, an admission or waiver of any rights of any Debtor or any other party with respect to any Claims or Equity Interests or any other matter.

3. **Revocation or Withdrawal of the Plan**

The Plan provides that the Debtors reserve the right to revoke or withdraw the Plan prior to the Effective Date. If the Debtors take such action, the Plan will be deemed null and void. In such event, nothing contained in the Plan will constitute or be deemed to be a waiver or release of any Claims by or against the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any Entity in further proceedings involving the Debtors.

4. **Plan Supplement**

The Plan Supplement will include certain documents relating to the Plan and its consummation and implementation, including the form of the New Warrants, the Restated Charters, the Restated Bylaws, the Amended and Restated Credit Agreement, the Amended and Restated Pledge and Security Agreement, the Intercreditor Agreement, the Exit Facility Credit Agreement, the Exit Facility Pledge and Security Agreement, the Nominating Agreements, the Registration Rights Agreement, the Shareholder Rights Plan, the Austria Contribution

Agreement, the Austria Purchase Agreement, the Austria Note, the Germany Assumption Agreement, the Canada Direction Letter Agreement, the U.S. Direction Letter Agreement, a description of the claims, rights, causes of action, suits, and proceedings to be retained by the Reorganized Debtors, and amendments or modifications, if any, to Exhibit E to the Plan. The Plan Supplement will be filed with the Clerk of the Bankruptcy Court on the Commencement Date. Upon its filing with the Bankruptcy Court, the Plan Supplement may be accessed on the docket electronically maintained by the Clerk of the Bankruptcy Court or inspected in the office of the Clerk of the Bankruptcy Court during normal court hours.

5. **Solicitation**

The Plan provides that the Debtors have, and upon the Confirmation Date will be deemed to have, solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code, including, without limitation, sections 1125(a), 1125(e), and 1126(b) of the Bankruptcy Code, and any applicable nonbankruptcy law, rule, or regulation governing the adequacy of disclosure in connection with such solicitation. The Debtors, the Reorganized Debtors, and each of their respective principals, members, partners, officers, directors, employees, agents, managers, representatives, advisors, attorneys, accountants, and professionals will be deemed to have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer, issuance, sale, and purchase of any securities offered or sold under the Plan, and therefore, are not, and on account of such offer, issuance, sale, solicitation, or purchase will not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer, issuance, sale, or purchase of any securities offered or sold under the Plan.

J. Securities Law Matters

1. **New Warrants and Shares of New Common Stock**

As described in this Disclosure Statement, the Plan provides for Reorganized Xerium to issue (a) shares of New Common Stock to holders of Allowed Claims in Class 2 and Class 5 and (b) shares of New Common Stock and New Warrants to holders of Allowed Equity Interests in Class 8.

The Debtors believe that the shares of New Common Stock and the New Warrants to be issued pursuant to the Plan constitute "securities," as defined in Section 2(a)(1) of the Securities Act, section 101 of the Bankruptcy Code, and applicable state securities laws. The Debtors further believe that the offer and sale of the shares of New Common Stock and the New Warrants pursuant to the Plan, and any subsequent transfers by the holders thereof that are not "underwriters," as defined in Section 2(a)(11) of the Securities Act and section 1145(b)(1) of the Bankruptcy Code, are and will be exempt from securities registration requirements under various provisions of the Securities Act, the Bankruptcy Code, and applicable state securities laws.

2. Issuance and Resale of Securities Under the Plan

(a) Exemption from Registration

Section 4(2) of the Securities Act provides that the registration requirements of Section 5 of the Securities Act will not apply to the offer or sale of a security in connection with transactions by an issuer not involving any public offering. By virtue of Section 18 of the Securities Act, any registration requirements under state securities laws will not apply to such offers or sales conducted in compliance with SEC rules or regulations issued under Section 4(2), such as Regulation D promulgated under the Securities Act.

The Debtors believe that Section 4(2) of the Securities Act, Rule 506 of Regulation D promulgated under the Securities Act, and similar provisions of applicable state securities laws exempt from securities registration requirements any offer of the shares of New Common Stock that may be deemed to be made to the holders of Allowed Claims in Class 2 and Class 5 by Xerium prior to the commencement of the Reorganization Cases. For the avoidance of doubt, Xerium has not made, and will not make, an offer of any of the New Securities to any holders of Equity Interests in Xerium prior to the commencement of the Reorganization Cases. Neither this Disclosure Statement nor the disclosures contained herein, nor any other communication, written or otherwise, that the holders of Equity Interests in Xerium may receive prior to the commencement of the Reorganization Cases, constitute an offer of Securities to the holders of Equity Interests in Xerium.

The Debtors will issue shares of New Common Stock and New Warrants to holders of Allowed Equity Interests in Class 8. Section 1145 of the Bankruptcy Code provides that, except with respect to an entity that is an "underwriter," as defined in section 1145(b)(1) of the Bankruptcy Code, the registration requirements of Section 5 of the Securities Act (and of any state or local securities laws) will not apply to (i) the offer or sale of stock, warrants, or other securities of a debtor if (x) the offer or sale occurs under a plan of reorganization, (y) the recipients of the securities hold a claim against, an interest in, or a claim for administrative expense in the case concerning, the debtor, and (z) the securities are issued in exchange for a claim against or interest in the debtor or are issued principally in such exchange and partly for cash or property or (ii) the offer of a security through any warrant, option, right to subscribe, or conversion privilege that was sold in the manner specified in clause (i), or the sale of a security upon the exercise of such a warrant, option, right, or privilege.

In reliance upon the exemptions described above, the offer and sale of the shares of New Common Stock and the New Warrants will not be registered under the Securities Act or any state securities laws.

To the extent that the issuance of the shares of New Common Stock and the New Warrants is covered by section 1145 of the Bankruptcy Code, the shares of New Common Stock and the New Warrants may be resold without registration under the Securities Act or other federal securities laws, unless the holder is an "underwriter," as defined in section 1145(b)(1) the Bankruptcy Code, with respect to such securities. The shares of New Common Stock and the New Warrants generally may also be able to be resold without registration under state securities laws pursuant to various exemptions provided by the respective state securities laws;

however, the availability of such exemptions cannot be known unless individual state securities laws are examined. Therefore, recipients of securities are advised to consult with their own legal advisors as to the availability of any such exemption from registration under state securities laws in any given instance and as to any applicable requirements or conditions to such availability.

(b) Resales of the Shares of New Common Stock and the New Warrants; Definition of Underwriter

Section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as an entity that, except with respect to "ordinary trading transactions" of an entity that is not an "issuer," (i) purchases a claim against, interest in, or claim for an administrative expense in the case concerning, the debtor, if such purchase is with a view to distribution of any security received or to be received in exchange for such claim or interest, (ii) offers to sell securities offered or sold under a plan for the holders of such securities, (iii) offers to buy securities offered or sold under a plan from the holders of such securities, if such offer to buy is (x) with a view to distribution of such securities and (y) under an agreement made in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan, or (iv) is an "issuer," within the meaning of Section 2(a)(11) of the Securities Act, with respect to such securities.

Under Section 2(a)(11) of the Securities Act, an "issuer" includes, in addition to an issuer, any person or entity directly or indirectly controlling or controlled by the issuer, or any person or entity under direct or indirect common control with the issuer. In addition, the term "issuer" includes "controlling persons" of the issuer of the securities. The term "controlling person" refers to any person or entity with possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the issuer of the securities.

Resales of the shares of New Common Stock and the New Warrants by holders deemed to be "underwriters" (which definition includes "controlling persons") are not exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Under certain circumstances, holders deemed to be "underwriters" may be entitled to resell their shares of New Common Stock and the New Warrants pursuant to the limited safe harbor resale provisions of Rule 144 promulgated under the Securities Act. Generally, Rule 144 would permit the public sale of securities received by such holder if current information regarding the issuer is publicly available and if volume limitations, manner of sale requirements, and certain other conditions are met. Whether any particular holder would be deemed to be an "underwriter" with respect to the shares of New Common Stock and the New Warrants would depend upon various facts and circumstances applicable to that holder. Accordingly, the Debtors express no view as to whether any holder would be deemed an "underwriter" with respect to the shares of New Common Stock and the New Warrants. In view of the complex nature of the question of whether a particular holder may be an "underwriter," the Debtors make no representations concerning the right of any holder to freely resell the shares of New Common Stock and the New Warrants. Accordingly, the Debtors recommend that potential recipients of the shares of New Common Stock and the New Warrants consult their own counsel concerning their ability to freely resell the securities.

3. **European Securities Law Matters**

The Debtors believe that in relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Member State"), this communication does not constitute an offer of the securities to the public in that Member State. It is exclusively made to the existing creditors of Xerium of which there are fewer than 100 per country in each Member State and consequently, it does not require the publication of a prospectus pursuant to Article 3 (2)(b) of the Prospectus Directive. Therefore, no prospectus has been or will be submitted to or approved by the competent supervisory authorities in the European Economic Area.

In Member States where the applicability of the exemption is subject to additional requirements, the recipient may have to meet such additional requirements, for instance must be duly registered.

You are not permitted to disseminate this communication or any other document relating to the securities to any other person or to make an offer of the securities to the public, except if that is in compliance with the Prospectus Directive and any other applicable law.

For the purposes of this provision, the term "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Member State; the term "offer of the securities to the public" means a communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe to the securities, as the same may be varied in the Member States by any measures implementing the Prospectus Directive in the Member States.

4. **Canadian Securities Law Matters**

(a) Exemption from Prospectus Requirements

The issuance of the New Common Stock to holders of Claims resident in Canada may take place in reliance on exemptions from the prospectus requirements, and will not be subject to the registration requirements, of the securities laws in such jurisdictions. Section 2.11 of National Instrument 45-106 provides that the prospectus requirements do not apply in respect of a trade in a security in connection with a reorganization that is under a statutory procedure. The Canadian securities regulatory authorities interpret the phrase "statutory procedure" broadly; it includes procedures done under any statutes of a foreign jurisdiction under which the entities involved exist or under which the transaction is taking place. The Debtors believe that the offer and sale of the New Common Stock and New Warrants under the Plan to holders of Claims resident in Canada would constitute trades made in connection with a reorganization that is under a statutory procedure and would therefore be exempt from the registration requirements of provincial and territorial securities laws in Canada.

(b) Subsequent Transfers of Securities

Recipients of the New Common Stock and New Warrants resident in Canada will be subject to certain restrictions on resale imposed by Canadian provincial and territorial

securities laws. Recipients of securities under the Plan are encouraged to seek legal advice prior to any resale of such securities. In general, recipients of securities under the Plan resident in Canada may not resell their shares to Canadian purchasers and must resell their shares outside of Canada.

THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON RESIDENT IN CANADA TO TRADE IN THE SHARES OF NEW COMMON STOCK OR NEW WARRANTS ISSUED UNDER THE PLAN. THE DEBTORS RECOMMEND THAT HOLDERS OF CLAIMS OR INTERESTS RESIDENT IN CANADA CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES WITHOUT REGISTRATION UNDER THE APPLICABLE SECURITIES LAWS IN THE JURISDICTION IN WHICH THEY ARE RESIDENT.

THE FOREGOING DISCLOSURE IS GENERAL IN NATURE AND IS INCLUDED IN THIS DISCLOSURE STATEMENT SOLELY FOR INFORMATIONAL PURPOSES. THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING, AND DO NOT HEREBY PROVIDE, ANY ADVICE WITH RESPECT TO THE SECURITIES LAW MATTERS ADDRESSED HEREIN. GIVEN THE UNCERTAINTY CONCERNING THE AVAILABILITY OF EXEMPTIONS FROM THE RELEVANT PROVISIONS OF FEDERAL AND STATE SECURITIES LAWS, AND THE SECURITIES LAWS OF OTHER JURISDICTIONS, THE DEBTORS ENCOURAGE EACH CREDITOR AND PARTY IN INTEREST TO CONSIDER CAREFULLY AND CONSULT WITH ITS OWN LEGAL ADVISORS WITH RESPECT TO ALL SUCH MATTERS.

V.

FINANCIAL INFORMATION

A. Historical Financial Information

1. General

The audited consolidated balance sheet as of December 31, 2008, and the related consolidated statements of operations and consolidated statements of cash flows of Xerium for each of the three fiscal years in the three year period ended December 31, 2008 are contained in Item 8 – "Financial Statements and Supplementary Data" in Xerium's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, a copy of which is attached as Exhibit B to this Disclosure Statement and the full text of which is incorporated herein by reference. The unaudited consolidated balance sheets as of March 31, 2009, June 30, 2009, and September 30, 2009 and the related consolidated statements of operations and consolidated statements of cash flows of Xerium for the three months ended March 31, 2009 and 2008, the three and six months ended June 30, 2009 and 2008, and the three and nine months ended September 30, 2009 and 2008 are contained in Xerium's Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2009, June 30, 2009, and September 30, 2009, respectively, copies of which are attached as Exhibit C, Exhibit D, and Exhibit E, respectively, to this Disclosure Statement and the full text of which is incorporated herein by reference. This

financial information is provided to permit the holders of Claims against, and Equity Interests in, the Debtors to better understand the Debtors' historical business performance and the impact of the Reorganization Cases on the Debtors' businesses.

2. Selected Financial Data

See Item 6 – "Selected Financial Data" set forth in Xerium's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, a copy of which is attached as Exhibit B to this Disclosure Statement and the full text of which is incorporated herein by reference.

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

For a detailed discussion by management of the Debtors' financial condition, results of operations, and liquidity and capital resources, see Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008, a copy of which is attached as Exhibit B to this Disclosure Statement and the full text of which is incorporated herein by reference and Part 1-Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, a copy of which is attached as Exhibit E to this Disclosure Statement and the full text of which is incorporated herein by reference.

4. Recent Performance

See Xerium's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, attached hereto as Exhibit E.

VI.

PROJECTIONS AND VALUATION ANALYSIS

A. Consolidated Condensed Projected Financial Information

As a condition to confirmation of a plan, the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the debtor. In connection with the development of the Plan, and for purposes of determining whether the Plan satisfies this feasibility standard, the Debtors' management and professionals have analyzed the ability of the Debtors to meet their obligations under the Plan and retain sufficient liquidity and capital resources to conduct their businesses.

The condensed Projected Financial Information set forth in Exhibit G to this Disclosure Statement (the "Projections") should be read in conjunction with Section VII, below, entitled "CERTAIN FACTORS TO BE CONSIDERED" and with the assumptions, qualifications, and footnotes to tables containing the Projections set forth therein, the historical

consolidated financial information (including the notes and schedules thereto) and the other information set forth in Xerium's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, Xerium's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, Xerium's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, and Xerium's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, annexed hereto as Exhibits B, C, D, and E, respectively, the full texts of which are incorporated herein by reference. The Projections were prepared in good faith based upon assumptions believed to be reasonable and applied in a manner consistent with past practice.

B. Valuation

Rothschild Inc. ("Rothschild") has prepared a valuation analysis (the "Valuation") of the estimated value of the Reorganized Debtors on a going-concern basis for the purpose of evaluating whether the Plan meets the so-called "best interests test" under section 1129(a)(7) of the Bankruptcy Code.

1. Overview

In preparing the Valuation, Rothschild has, among other things: (a) reviewed certain recent available financial results of the Debtors, (b) reviewed certain internal financial and operating data of the Debtors, including the most recent business Projections prepared and provided by the Debtors' management to Rothschild relating to the Debtors' businesses and their prospects, (c) discussed with certain of the Debtors' senior executives the current operations and prospects of the Debtors, (d) discussed with certain of the Debtors' senior executives key assumptions related to the Projections, (e) prepared discounted cash flow analyses based on the Projections, utilizing various discount rates, (f) considered the market value of certain publicly-traded companies in businesses reasonably comparable to the businesses of the Debtors, (g) considered the applicability of certain precedent change-in-control transactions for businesses similar to the Debtors, (h) separately valued and accounted for the New Warrants utilizing the standard Black-Scholes methodology, (i) considered certain economic and industry information relevant to the Debtors' businesses, (j) conducted such other analyses as Rothschild deemed necessary and/or appropriate under the circumstances, and (k) considered a range of potential risk factors.

Rothschild assumed, without independent verification, the accuracy, completeness, and fairness of all of the financial and other information available to it from public sources or as provided to Rothschild by the Debtors or their representatives. Rothschild also assumed that the Projections have been reasonably prepared on a basis reflecting the Debtors' best estimates and judgment as to future operating and financial performance. Rothschild did not make any independent evaluation of the Debtors' assets; neither did Rothschild independently verify any of the information it reviewed. Rothschild does not make any representation or warranty as to the fairness of the terms of the Plan.

In addition to the foregoing, Rothschild relied upon the following assumptions with respect to the Valuation:

- The Debtors are able to maintain adequate liquidity to operate in accordance with the Projections;
- The Debtors operate consistently with the level specified in the Projections;
- Future values are discounted to May 31, 2010;
- The Effective Date of the Plan is May 31, 2010 (the "Assumed Effective Date");
- Foreign denominated debt converted into U.S. Dollars using the exchange rates in the Wall Street Journal Online (New York Closing) as of February 23, 2010;
- The pro forma net debt on the Effective Date is expected to be approximately $470 million, consisting of an Exit Facility balance of $60 million, $410 million in Term Notes, approximately $8 million of other debt and approximately $8 million of excess cash;
- General financial and market conditions as of the Assumed Effective Date will not differ materially from those conditions prevailing as of February 23, 2010 (the "Valuation Date");
- Rothschild has not considered the impact of a prolonged bankruptcy case and has assumed the Debtors' operations will continue in the ordinary course consistent with the Projections; and
- Rothschild did not prepare a valuation analysis or other potential outcomes under alternative scenarios such as a prolonged bankruptcy case or a partial or full break-up and sale of the various businesses of the Debtors.

2. **Estimate of Value**

As a result of such analyses, review, discussions, considerations, and assumptions, Rothschild estimates the total enterprise value ("TEV") of the Reorganized Debtors at approximately $680 million to $860 million. Rothschild reduced such TEV estimates by the projected pro forma net debt levels of Reorganized Xerium (approximately $470 million) to estimate the implied reorganized equity value of Reorganized Xerium ("Reorganized Equity Value"). Rothschild estimates that Reorganized Xerium's implied total reorganized common equity value ranges from $211 million to $391 million. After deducting the estimated value for the New Warrants of approximately $6 million to $18 million, Rothschild estimates the implied distributable reorganized equity value ("Distributable Equity Value") will range from $205 million to $372 million. This equity value is subject to dilution as

a result of the implementation of the New Management Incentive Plan. For purposes of determining the distributions contemplated under the Plan, Rothschild used an indicative TEV of the Reorganized Debtors of approximately $715 million.

Rothschild Valuation ($m)	Low	Distribution	High
TEV	$680.0	$715.5	$860.0
Less: New 1st Lien Revolver	-	-	-
Less: New 1st Lien Term Loan	(60.0)	(60.0)	(60.0)
Less: New 2nd Lien Term Loan	(410.0)	(410.0)	(410.0)
Less: Other debt (existing) (1)	(7.8)	(7.8)	(7.8)
Plus: Excess Cash (2)	8.2	8.2	8.2
Net Debt	$469.6	$469.6	$469.6
Total Reorganized Equity Value	$210.4	$245.9	$390.4
Less: Value of Warrants	(5.7)	(7.8)	(18.1)
Distributable Equity Value	$204.7	$238.1	$372.3
2010 Pro forma EBITDA (3)	104.5	104.5	104.5
Implied Multiple	6.5 x	6.8 x	8.2 x

(1) Based on exchange rates based in the Wall Street Journal Online (New York Market Closing) as of 2/23/10

(2) Cash on balance sheet, less cash reserved for letters of credit, less $15m minimum cash balance

(3) 2010PF EBITDA excludes $21.6m of financial and $10.1m of operational restructuring costs. Assumes approximately $3.5m of operational restructuring costs are recurring

These estimated ranges of values are based on a hypothetical value that reflects the estimated intrinsic value of the Reorganized Debtors derived through the application of various valuation methodologies. The implied Reorganized Equity Value ascribed in this analysis does not purport to be an estimate of any post-reorganization market trading value. Any such trading value may be materially different from the implied Reorganized Equity Value ranges associated with Rothschild's valuation analysis. Rothschild's estimate is based on economic, market, financial, and other conditions as they exist on, and on the information made available as of, the Valuation Date. It should be understood that, although subsequent developments may affect Rothschild's conclusions, before or after the Confirmation Hearing, Rothschild does not have any obligation to update, revise, or reaffirm its estimate.

3. **Valuation Methodology**

The following is a brief summary of certain financial analyses performed by Rothschild to arrive at its range of estimated TEVs. This Valuation must be considered as a whole and should be read in conjunction with the Plan and this Disclosure Statement. Rothschild has assigned a weighting to each methodology to arrive at its TEV range to reflect Rothschild's view of the appropriateness of each methodology for the Debtors' circumstances.

(a) Comparable Company Analysis

The comparable companies analysis estimates the value of a company based on a comparison of such company's financial statistics with the financial statistics of publicly-traded companies having characteristics similar to those of the particular company being analyzed

(the "Comparable Company Analysis"). Criteria for selecting comparable companies for this analysis include, among other relevant characteristics, similar lines of business, business risks, growth prospects, maturity of businesses, market presence, size, and scale of operations. The analysis establishes benchmarks for valuation by deriving financial multiples and ratios for the comparable companies, standardized using common variables such as revenue or earnings before interest, taxes, depreciation, and amortization ("EBITDA").

Rothschild selected the following publicly traded companies for the comparable company analysis: Albany International Corp., Andritz AG, and Metso Corp. In evaluating comparable publicly-traded companies, Rothschild used a range of 5.7x to 7.7x multiples of 2010 Pro Forma EBITDA for its comparable company analysis. 2010 Pro Forma EBITDA adds back $21.6 million of financial restructuring costs and $10.1 million of operational restructuring costs, for a total Pro Forma EBITDA of $104.5 million. Rothschild applied a weighting of 50% to the comparable company analysis.

(b) Precedent Transactions Analysis

Rothschild considered a valuation analysis based upon precedent transactions or comparable transactions, which estimate value by examining public merger and acquisition transactions that involve companies similar to the Reorganized Debtors. However, due to economic dynamics over the past two years and limited recent meaningful data points in this respect, Rothschild concluded that the precedent transactions analysis is not applicable in this Valuation.

(c) Discounted Cash Flow Analysis

The discounted cash flow analysis ("DCF") estimates the value of an asset or business by calculating the present value of expected future cash flows to be generated by that asset or business. The DCF discounts the expected cash flows by a theoretical or observed discount rate. This approach has two components: (i) calculating the present value of the projected unlevered after-tax free cash flows for a determined period of time and (ii) adding the present value of the terminal value of the cash flows. The terminal value represents the portion of TEV that lies beyond the time horizon of the available projections.

The DCF calculations were performed on unlevered after-tax free cash flows for the period beginning June 1, 2010 through December 31, 2015, discounted to the Assumed Effective Date (the "Projection Period"). Rothschild used the Projections for performing these calculations.

In performing the DCF calculation, Rothschild made assumptions for (i) the weighted average cost of capital (the "Discount Rate"), which is used to calculate the present value of future cash flows, (ii) the terminal EBITDA multiple, which is used to determine the value of the Reorganized Debtors represented by the time period beyond the Projection Period, and (iii) a perpetuity growth rate, which is another methodology used to determine the value of the Reorganized Debtors represented by the time period beyond the Projection Period. Rothschild calculated a Discount Rate utilizing a traditional cost of equity capital calculation using the Capital Asset Pricing Model. Based on this methodology, Rothschild used a discount

rate of approximately 11.2% for the Reorganized Debtors, which reflects a number of company- and market-specific factors, and is calculated based on the cost of capital for companies that Rothschild deemed comparable. To calculate the terminal value, Rothschild averaged the results from using a terminal EBITDA multiple approach and using a perpetuity growth rate approach. Rothschild used a terminal EBITDA multiple range of 5.7x to 7.7x for the Reorganized Debtors. Rothschild used a perpetuity growth rate range of 1.0% to 3.0% for the Reorganized Debtors. Rothschild applied a weighting of 50% to the DCF.

The DCF does not ascribe any value at this time to any potential net operating losses that Reorganized Xerium may retain.

4. **Recoveries**

As described above, Rothschild estimates a Reorganized Equity Value range of $211 million to $391 million and a Distributable Equity Value range of $205 million to $372 million. At the TEV point used for purposes of determining distributions under the Plan (approximately $715 million), Rothschild estimates the hypothetical recoveries by the holders of Allowed Credit Facility Claims, Allowed Secured Swap Termination Claims, and Allowed Unsecured Swap Termination Claims to be 100%, after attributing value to the New Warrants and prior to any potential dilution by the New Management Incentive Plan.

The projected recovery listed above is an estimate derived from the Projections and other assumptions. The projected recovery is substantially based on the assumptions in the business plans underlying the Projections in Exhibit G to this Disclosure Statement. The projected recovery does not take into account shares of New Common Stock to be issued pursuant to the New Management Incentive Plan; the deduction of such shares will cause the projected recoveries to be lower than those specified, dependent upon future management and company performance. The actual recovery may be different than the projected recovery based upon, among other things: (a) the market price of shares of New Common Stock and (b) the dilutive or accretive effects of issuance of shares of New Common Stock by Reorganized Xerium from time to time (including the dilutive effect of future issuances under the Existing Management Incentive Plan and the New Management Incentive Plan).

The summary set forth above does not purport to be a complete description of the analyses performed by Rothschild. The preparation of an estimate involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods in the particular circumstances and, therefore, such an estimate is not readily susceptible to summary description. The value of an operating business is subject to uncertainties and contingencies that are difficult to predict and will fluctuate with changes in factors affecting the financial conditions and prospects of such a business. As a result, the estimate of implied reorganized equity value set forth herein is not necessarily indicative of actual outcomes, which may be significantly more or less favorable than those set forth herein. In addition, estimates of implied reorganized equity value do not purport to be appraisals; neither do they necessarily reflect the values that might be realized if the Debtors' assets were sold. The estimates prepared by Rothschild assume that the Reorganized Debtors will continue as the owner and operator of their businesses and assets and that such assets are operated in accordance with the Reorganized Debtors' business plan. Depending on the results of the

Reorganized Debtors' operations or changes in the financial markets, the Valuation as of the Assumed Effective Date may differ from that disclosed herein.

In addition, the valuation of newly issued securities, such as the New Common Stock, is subject to additional uncertainties and contingencies, all of which are difficult to predict. Actual market prices of such securities at issuance will depend upon, among other things, prevailing interest rates, conditions in the financial markets and other factors that generally influence the prices of securities. Actual market prices of such securities also may be affected by other factors not possible to predict. Accordingly, the implied reorganized equity value estimated by Rothschild does not necessarily reflect, and should not be construed as reflecting, values that will be attained in the public or private markets.

THE FOREGOING VALUATION IS BASED UPON A NUMBER OF ESTIMATES AND ASSUMPTIONS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES BEYOND THE CONTROL OF THE DEBTORS OR THE REORGANIZED DEBTORS. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE RANGES REFLECTED IN THE VALUATION WOULD BE REALIZED IF THE PLAN WERE TO BECOME EFFECTIVE, AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE SHOWN HERE.

THE ESTIMATED CALCULATION OF ENTERPRISE VALUE IS HIGHLY DEPENDENT UPON ACHIEVING THE FUTURE FINANCIAL RESULTS AS SET FORTH IN THE PROJECTIONS, AS WELL AS THE REALIZATION OF CERTAIN OTHER ASSUMPTIONS, NONE OF WHICH IS GUARANTEED AND MANY OF WHICH ARE OUTSIDE OF THE DEBTORS' CONTROL.

THE CALCULATIONS OF VALUE SET FORTH HEREIN REPRESENT ESTIMATED REORGANIZATION VALUES AND DO NOT NECESSARILY REFLECT VALUES THAT COULD BE ATTAINABLE IN PUBLIC OR PRIVATE MARKETS. THE EQUITY VALUE STATED HEREIN DOES NOT PURPORT TO BE AN ESTIMATE OF THE POST-REORGANIZATION MARKET VALUE. SUCH VALUE, IF ANY, MAY BE MATERIALLY DIFFERENT FROM THE REORGANIZED EQUITY VALUE RANGES ASSOCIATED WITH THIS VALUATION ANALYSIS. NO RESPONSIBILITY IS TAKEN FOR CHANGES IN MARKET CONDITIONS AND NO OBLIGATION IS ASSUMED TO REVISE THIS CALCULATION OF THE REORGANIZED DEBTORS' VALUE TO REFLECT EVENTS OR CONDITIONS THAT SUBSEQUENTLY OCCUR.

VII.

CERTAIN FACTORS TO BE CONSIDERED

HOLDERS OF ALLOWED CREDIT FACILITY CLAIMS, ALLOWED SECURED SWAP TERMINATION CLAIMS, AND ALLOWED UNSECURED SWAP TERMINATION CLAIMS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH OR INCORPORATED BY REFERENCE HEREIN), PRIOR TO

VOTING TO ACCEPT OR REJECT THE PLAN. THESE FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION. IN ADDITION, THE RISK FACTORS SET FORTH IN ITEM 1A OF XERIUM'S ANNUAL REPORT ON FORM 10-K, ATTACHED HERETO AS EXHIBIT B SHALL BE INCORPORATED HEREIN BY REFERENCE, AS APPLICABLE.

A. Certain Bankruptcy Considerations

1. **Risk of Failure to Satisfy Vote Requirement**

If votes are received in number and amount sufficient to enable the Bankruptcy Court to confirm the Plan, the Debtors intend to file voluntary petitions for reorganization under chapter 11 of the Bankruptcy Code and to seek, as promptly as practicable thereafter, confirmation of the Plan. In the event that sufficient votes are not received, the Debtors may nevertheless file petitions for relief under chapter 11 of the Bankruptcy Code. In such event, the Debtors may seek to accomplish an alternative restructuring of their capitalization and obligations to creditors and equity holders. There can be no assurance that the terms of any such alternative restructuring would be similar to or as favorable to the Debtors' creditors and equity holders as those proposed in the Plan.

2. **Risk of Non-Approval of the Disclosure Statement or Solicitation**

In most instances, a plan of reorganization is filed and votes to accept or reject the plan are solicited after the filing of a petition commencing a chapter 11 case. Where a debtor proposes a prepackaged plan as the Debtors are here, a debtor may solicit votes prior to the commencement of a bankruptcy case in accordance with section 1126(b) of the Bankruptcy Code and Fed. R. Bankr. P. 3018(b). The Bankruptcy Court could conclude, however, that this Disclosure Statement does not meet the disclosure requirements set forth in section 1126 of the Bankruptcy Code.

With regard to solicitation of votes prior to the commencement of a bankruptcy case, if the Bankruptcy Court concludes that the requirements of section 1126(b) of the Bankruptcy Code or Fed. R. Bankr. P. 3018(b) have not been satisfied, the Bankruptcy Court could deem such votes invalid and the Plan would not be confirmed without a resolicitation of votes to accept or reject the Plan. Although the Debtors believe that the requirements of section 1126(b) of the Bankruptcy Code and Fed. R. Bankr. P. 3018 will be satisfied, the Bankruptcy Court may not reach the same conclusion. The United States Trustee or other parties in interest could move the Bankruptcy Court to "designate" the votes of holders of Claims pursuant to section 1126(e) of the Bankruptcy Code, which permits a bankruptcy court to designate – and nullify for purposes of determining acceptances and rejections of the subject plan – an Entity whose acceptance or rejection of a plan was not in good faith, or was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

If the Bankruptcy Court were to find any of these deficiencies, the Debtors could be required to restart the process of filing another plan and disclosure statement by (a) seeking Bankruptcy Court approval of a disclosure statement, (b) soliciting votes from holders of claims

and equity interests, and (c) seeking Bankruptcy Court confirmation of the newly proposed plan of reorganization. If this occurs, confirmation would be delayed and possibly jeopardized. Additionally, should the Plan fail to be approved, confirmed, or consummated, certain parties in interest may be in a position to propose alternative plans of reorganization. Therefore, any failure to confirm the Plan would likely entail significantly greater risk of delay, expense, and uncertainty, which would likely have a material adverse effect upon the Debtors' businesses and financial condition.

3. **Risk of Non-Confirmation of the Plan**

Confirmation of the Plan is subject to certain conditions and requirements of the Bankruptcy Code. Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation under the Bankruptcy Code, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes. In the event that the Bankruptcy Court refuses to confirm the Plan, the Debtors may be required to seek an alternative restructuring of their obligations to their creditors and equity holders. There can be no assurance that the terms of any such alternative restructuring would be similar, or as favorable, to the Debtors' creditors and equity holders as those proposed in the Plan.

4. **Risk of Conversion to Cases Under Chapter 7 of the Bankruptcy Code**

If no plan can be confirmed, or if the Bankruptcy Court otherwise finds that it would be in the best interest of the Debtors' creditors, any of the Reorganization Cases may be converted to a case under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed or elected to liquidate assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in no distributions being made to unsecured creditors and Xerium equity security holders and smaller distributions being made to the Debtors' secured lenders than those provided for in the Plan because of (a) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time rather than reorganizing the Debtors' businesses as a going concern, (b) additional administrative expenses involved in the appointment of a trustee, and (c) additional expenses and Claims, some of which would be entitled to priority, which would be generated during the liquidation, and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations.

5. **Risk of Non-Occurrence of the Effective Date**

Although the Debtors believe that the Effective Date will occur very shortly after the Confirmation Date, there can be no assurance as to such timing. Moreover, if the conditions precedent to the Effective Date have not occurred, the Plan may be vacated by the Bankruptcy Court.

6. **The Debtors May Be Unsuccessful in Obtaining First Day Orders to Authorize Payment in the Ordinary Course of Business**

There can be no guarantee that the Debtors will be successful in obtaining the necessary approvals of the Bankruptcy Court to authorize the Debtors' satisfaction of certain prepetition obligations in the ordinary course of business. As a result, the Debtors may be unable to make certain prepetition payments to customers, vendors, employees, and other key creditors, which, in turn, may adversely affect the Debtors' businesses.

7. **The Debtors May Be Unsuccessful in Obtaining Working Capital Financing**

On or shortly after the Commencement Date, the Debtors intend to seek authorization from the Bankruptcy Court to enter into the DIP Facility. The DIP Facility is intended to fund the Debtors' working capital needs during the pendency of the Reorganization Cases. Although the agent under the DIP Facility has executed the Commitment Letter attached to the Plan as Exhibit B, there can be no assurances that the Bankruptcy Court will approve the DIP Facility on the terms requested by the Debtors. Additionally, if the Reorganization Cases take longer than expected to conclude, the Debtors may exhaust their financing under the DIP Facility. There is no assurance that the Debtors will be able to obtain additional financing from their existing lenders or otherwise. In either case, the liquidity necessary for the orderly functioning of the Debtors' businesses may be materially impaired. In addition, even if the Debtors enter into the DIP Facility on substantially the terms set forth in the Commitment Letter, any inability of the Debtors to satisfy the financial covenants or conditions to funding included in the DIP Credit Agreement could restrict the ability of the Debtors to access maximum amounts that may be available under the DIP Facility. These uncertainties with respect to the DIP Facility may adversely affect the successful reorganization of the Debtors and the Debtors' emergence from chapter 11.

The Debtors intend to consummate the Plan and to obtain post-Effective Date working capital financing through projected operating cash flow and the Exit Facility. However, there can be no assurance that the Debtors will be able to enter into the Exit Facility. Additionally, if the Reorganized Debtors require working capital and trade financing greater than that provided by such sources, they may be required either to (a) obtain other sources of financing or (b) curtail their operations. No assurance can be given, however, that any additional financing will be available, if at all, on terms that are favorable or acceptable to the Reorganized Debtors.

8. **Uncertainty with Respect to the Duration of the Reorganization Cases**

The Debtors cannot be certain their Reorganization Cases will be of relatively short duration (e.g., forty days) and will not unduly disrupt their businesses. It is impossible to predict with certainty the amount of time needed in bankruptcy, and the Debtors cannot be certain that their Plan will be confirmed. Moreover, time limitations exist for which the Debtors have an exclusive right to file a plan of reorganization before other parties in interest can propose and file their own plan.

A lengthy chapter 11 case would also involve additional expenses and divert the attention of management from operation of the Debtors' businesses, as well as create concerns for employees, vendors, and customers. The disruption that a chapter 11 case would inflict upon the Debtors' businesses would increase with the length of time it takes to complete the cases and the severity of that disruption would depend upon the attractiveness and feasibility of the Plan from the perspective of the constituent parties, including essential vendors, employees, and customers.

If the Debtors are unable to obtain confirmation of their Plan on a timely basis because of a challenge to the Plan or a failure to satisfy the conditions to the effectiveness of the Plan, the Debtors may be forced to operate in bankruptcy for an extended period while trying to develop a different plan of reorganization that can be confirmed. A protracted bankruptcy case would increase both the probability and the magnitude of the adverse effects described above.

B. Risks to Recovery By Holders of Allowed Class 2 Claims, Allowed Class 5 Claims and Allowed Class 8 Equity Interests

The ultimate recoveries under the Plan to holders of Allowed Class 2 Claims and Allowed Class 5 Claims depend upon the realizable value of the New Common Stock and the Term Notes. The ultimate recovery under the Plan to holders of Allowed Class 8 Equity Interests depends upon the realizable value of the New Common Stock and the New Warrants. To the extent the actual value of the New Common Stock, the New Warrants, and the Term Notes varies from the amount estimated, the recoveries of holders of Allowed Class 2 Claims, Allowed Class 5 Claims, and Allowed Class 8 Equity Interests may be higher or lower. The New Common Stock, the New Warrants, and the Term Notes to be issued pursuant to the Plan are subject to a number of material risks, including, without limitation, those specified below.

1. Variances from Projections

The Projections for the Reorganized Debtors included in this Disclosure Statement are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Factors that could cause actual results to differ materially include, but are not limited to, the Reorganized Debtors' ability to operate their businesses consistent with the projections, comply with the covenants of their financing agreements, attract and retain key executives and customers, comply with the terms of their existing contracts and leases, and respond to adverse regulatory actions taken by the federal and state governments. In addition, unanticipated events and circumstances occurring subsequent to the preparation of the Projections may affect the actual financial results of the Reorganized Debtors. Although the Debtors believe that the Projections are reasonably attainable, variations between the actual financial results and those projected may occur and these variances may be material.

2. Unforeseen Events

Future performance of the Reorganized Debtors is, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond the Reorganized Debtors' control. While no assurance can be provided, based upon the current level of operations and anticipated increases in revenues and cash flows described in this

Disclosure Statement, the Debtors believe that cash flow from operations, available Cash and borrowings under the Exit Facility will be adequate to fund the Plan and meet their future liquidity needs.

C. Risks Associated with the Debtors' Businesses and the Paper Production Industry

1. Industry Concerns

The Debtors' businesses 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 the Debtors' products could continue to decline if paper manufacturers are unable to obtain required financing, or if the economic crisis causes additional mill closures or extends current capacity curtailments.

The profitability of paper producers historically has 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. A sustained downturn in the paper industry, either globally or in a particular region, can cause paper producers to reduce production or cease operations, which could adversely affect the Debtors' revenues and profitability. Since 2000, paper producers have taken actions that seek to structurally improve the balance between the supply of, and demand for, paper. As part of these efforts, paper producers have permanently shut down many paper-making machines or, in some circumstances, entire manufacturing facilities. Paper producers continue to experience low levels of profitability, and the Debtors believe that further consolidation among papermakers, reducing the number of paper producers, and shutdowns of paper-making machines or facilities will occur 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. This rebalancing has been accelerated during the current global economic recession.

During 2008, the global paper industry experienced a sharp reduction in production levels, caused by the general slowdown in economic activity and the related paper consumption decline during the same period. The production slowdown was across all grades of paper production, but most notably in the packaging grades and newsprint. For packaging grades, demand is directly related to broad manufacturing and transportation activity reduction, while newsprint demand has been increasingly declining over a number of years due to the greater prevalence of electronic media, exacerbated in recent months by a reduction in print advertising. One of the results of the recent reduction in demand for paper products is that the inventory of paper has increased significantly and production slowdowns, curtailments and idling of paper-making machines have been occurring at a sharply increasing rate, particularly in North America and Europe, since October 2008 and continuing into mid-2009. Recently, however, there has been some abatement in these production declines and very modest improvements in paper and board manufacturers' operating rates that have begun to have a positive impact on the demand for some of the Debtors' products. While the Debtors were successful in reducing the rate of price decreases in 2008 for the products the Debtors sell to paper producers and prices have remained relatively stable in the nine months ended September 30, 2009, there continues to be price pressure due to competitors pursuing market growth during the current period of lower overall demand in the Debtors' market.

Historically, demand for the Debtors' products has been driven primarily by the volume of paper produced on a worldwide basis. Generally, and over time, the Debtors expect growth in paper production to be greater in Asia, South America and Eastern Europe than in the more mature North American and Western European regions where demand potentially may decline. Global paper production growth that does occur would be moderated by the level of industry consolidation and paper-machine shutdown activity that is a continuing underlying trend in North America and Western Europe. The Debtors also believe that, in addition to industry consolidation and paper machine shutdown activity in North America and Western Europe, the trend toward new paper-machine designs that have fewer rolls and market recognition of extended life of the Debtors' roll cover products has been and will continue to negatively impact demand for these products, and that the volume potential for the roll covers business will slowly diminish. Additionally, the Debtors are seeing a trend that paper producers are placing an increasing emphasis on maintenance cost reduction and, as a result, are extending the life of roll covers through additional maintenance cycles before replacing them.

The Debtors anticipate that pricing pressure for their products will continue with the consolidation among paper producers and as the shift of paper production growth in Asia develops. In response to this pricing pressure, the Debtors expect to continue both their expenditure levels on research and development expenses and to develop their value added selling approach as part of their strategy to differentiate their products, while at the same time remaining focused on cost reduction and efficiency programs.

The negative paper industry trends described above are likely to continue. The Debtors believe that in the current economic environment, the paper industry will experience reduced demand, increased emphasis on cost reduction, and sustained paper-machine shutdown activity than would have been the case even in the absence of the economic crisis.

2. **The Loss of the Debtors' Major Customers <u>Could Adversely Affect Sales and Profitability</u>**

The Debtors' top ten customers generated 24% of their net sales during 2008. The loss of one or more of the Debtors' major customers, financial difficulties faced by their customers, or a substantial decrease in their customers' purchases, could have a material adverse effect on the Debtors' sales and profitability. For example, two of the Debtors' major customers, who collectively represent approximately 5% of 2008 revenues, have experienced financial difficulties and filed for bankruptcy protection in 2009. As of March 31, 2009, the Debtors had fully reserved for all amounts due from these customers. As of June 30, 2009, the Debtors determined that they no longer needed to reserve for the post-bankruptcy receivables of these customers, due to the customers' improved financial situation; however, the Debtors continue to reserve for the customers' pre-bankruptcy receivables. Decreases in orders from these customers or future payment problems from these or other customers could have a material adverse effect on the Debtors' sales and profitability. Because the Debtors generally do not have binding long-term purchasing agreements with their customers, there can be no assurance that the Debtors' existing customers will continue to purchase products from the Debtors.

3. **Competitive Conditions**

The paper-making consumables industry is highly competitive. Some of the Debtors' competitors are larger than the Debtors, have greater financial and other resources than the Debtors, and are well-established as suppliers to the markets the Debtors serve. The Debtors' products may not be able to compete successfully with the products of the Debtors' competitors, which could result in a loss of customers and, as a result, decreased sales and profitability. The Debtors compete primarily based on the value of the Debtors' products delivered to the Debtors' customers. The Debtors' value proposition is based on a combination of price and the technology and performance of the Debtors' products, including the ability of the Debtors' products to help reduce the Debtors customers' production costs and increase the quality of the paper produced. The Debtors' competitors could develop new technology or products that lead to a reduced demand for the Debtors' products. In addition, the Debtors' business depends on the Debtors' customers regularly needing to replace the clothing and roll covers used on their paper-making machines. Either the Debtors or their competitors could develop new technologies that increase the useful life of clothing or roll covers, which could reduce the frequency with which the Debtors' customers would need to replace their clothing and refurbish or replace their roll covers, and consequently lead to fewer sales.

Additionally, new competitors could enter the Debtors' markets and/or existing competitors may decide to increase their marketing efforts to the Debtors' customers by broadening their product offerings or competing more aggressively on price. For example, due to the current economic downturn and continued pricing pressure from the Debtors' competitors the Debtors have reduced prices in some cases, and eliminated or decreased the size of proposed price increases in other cases, resulting in price decreases in both of the Debtors' business segments. Further pricing pressure from the Debtors' competitors may require further price decreases or make the Debtors unable to effect planned price increases and, thereby, adversely affect the Debtors' profitability. It is also possible that foreign-based competitors could seek to establish a presence in the United States market by acquisition or otherwise. If the Debtors cannot compete successfully, their sales and operating results could be materially and adversely affected.

4. **The International Scope of the Debtors' Operations**

The Debtors have a geographically diverse customer base. For the nine months ended September 30, 2009, approximately 36% of the Debtors' sales were in North America, 35% were in Europe, 17% were in Asia-Pacific, 10% were in South America, and 2% were in the rest of the world. In 2008, the Debtors sold products in approximately sixty-two countries other than the United States, which represented approximately 73% of the Debtors' net sales. The Debtors have manufacturing facilities in 12 foreign countries as of December 31, 2009. Because the Debtors operate in a number of foreign countries, the Debtors may face challenges unique to those countries such as in hiring employees, relations with various parties, including suppliers and governmental agencies, and production.

The Debtors expect sales from international markets to continue to represent a significant portion of their revenue. Accordingly, the Debtors' businesses are subject to risks related to the differing legal, political, social, and regulatory requirements, and economic

conditions of many jurisdictions. Risks inherent in international operations include the following:

- the Debtors may be affected by unexpected adverse changes in foreign laws or regulatory requirements;
- foreign governments may impose or increase investment barriers or other restrictions affecting the Debtors' business;
- foreign governments may impose limitations on the Debtors' ability to repatriate funds;
- foreign governments may impose withholding or other taxes on remittances and other payments to the Debtors, or the amount of any such taxes may increase;
- the Debtors may experience unexpected adverse changes in export duties, quotas, and tariffs and difficulties in obtaining export licenses;
- agreements may be more difficult to enforce and receivables more difficult to collect;
- foreign governments may nationalize private enterprises;
- intellectual property rights may be more difficult to enforce; and
- the Debtors' business and profitability in a particular country could be affected by political or economic repercussions on a domestic, country specific or global level from terrorist activities and the response to such activities.

In addition, certain of the Debtors' operations are in high-risk regions of the world such as portions of Asia and Latin America. Unanticipated events, such as geopolitical changes, could adversely affect these operations.

The Debtors' foreign operations are subject to local laws, some of which may conflict with certain provisions of the Bankruptcy Code, including those relating to the Plan. In such instances, a foreign court may determine to enforce its local law or decline to enforce U.S. law, including provisions of the Bankruptcy Code governing the Plan and its effect. Moreover, pursuant to local laws, the directors of certain foreign Debtors may conclude that a chapter 11 filing by the Debtors requires heightened monitoring of the liquidity and indebtedness of foreign operations. In certain circumstances where such monitoring indicates illiquidity or over-indebtedness, such directors may be required by local laws to file an insolvency petition in a foreign jurisdiction within three weeks of such indication. Creditors in foreign jurisdictions may also take action under foreign law to seek available remedies.

The occurrence of any of these conditions or events could disrupt the Debtors' businesses in particular countries or regions of the world, or prevent the Debtors from conducting business in particular countries or regions, which could adversely affect the Debtors' revenues and profitability. In addition, as a holding company, Xerium relies on dividends and other payments or distributions from its subsidiaries to meet its debt obligations. If foreign

governments impose limitations on the Debtors' ability to repatriate funds or impose or increase taxes on remittances or other payments to Xerium, the amount of dividends and other distributions Xerium receives from its subsidiaries could be reduced, which could reduce the amount of cash available to the Debtors to meet their debt obligations. The Debtors' success as a global business will depend, in part, upon their ability to succeed in differing legal, regulatory, economic, social, and political conditions by developing, implementing and maintaining policies and strategies that are effective in each location where they do business.

5. **Currency Exchange Rate Fluctuations**

As the Debtors conduct a significant portion of their operations outside the United States, fluctuations in currencies of other countries, especially the Euro, may materially affect the Debtors' operating results. The Debtors report their financial results in U.S. dollars, but a substantial portion of the Debtors' sales, expenses and debt are denominated in Euros and other currencies. A decrease in the value of the U.S. dollar relative to the value of the Euro and these other currencies may affect the Debtors' financial results since 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. In addition, in the case of sales to customers in certain locations, the Debtors' sales are denominated in U.S. dollars or Euros but all or a substantial portion of the Debtors' associated costs are denominated in a different currency. As a result, changes in the relative values of U.S. dollars, Euros and any such other currency may affect the Debtors' profitability.

6. **Environmental Liabilities**

The Debtors' 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 Comprehensive Environmental Response, Compensation and Liability Act, (as amended, "CERCLA") 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 the Debtors' operations, the history of industrial uses at some of the Debtors' 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 Debtors. Many of the Debtors' 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.

The Debtors cannot assure that they have been or will be at all times in complete compliance with all laws and regulations applicable to the Debtors which are designed to protect the environment and human health. The Debtors 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 the Debtors' operations. The Debtors are currently conducting environmental remediation projects at certain of their sites, and the Debtors have been identified as a potentially responsible party under CERCLA or similar state requirements for several off-site locations. In 2005, 2006, and 2007, the Debtors paid $2.8 million, $2.5 million, and $2.1 million, respectively, in connection with the environmental remediation of certain of their facilities. The Debtors believe that this environmental remediation is substantially complete. In the third quarter of 2008, the Debtors accrued $4.1 million for environmental remediation costs associated with their facility in Australia. A Phase II assessment of the groundwater contamination at the Australia facility performed for the Debtors during the second quarter of 2009 indicated the costs to remediate the contamination would be significantly less than originally estimated and accordingly, the Debtors reduced the accrual by $3.4 million during the second quarter of 2009 based on this assessment. The Debtors do not expect any significant further remediation costs to be incurred in connection with these matters and believe 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 Debtors' financial condition, liquidity or cash flow.

7. **Adverse Labor Relations**

As of January 1, 2010, the Debtors employ approximately 3,290 employees, approximately 17% of whom are subject to protection of various collective bargaining agreements and approximately 55% of whom are subject to job protection as members of trade unions, employee associations or workers' councils. Approximately 37% of the employees subject to collective bargaining agreements (or approximately 6% of the total number of the Debtors' employees) are covered by collective bargaining agreements that expire prior to December 31, 2010. The Debtors cannot be certain that they will be able to renew such collective bargaining agreements, or enter into new collective bargaining agreements, which do not adversely affect the Debtors' operating results, and that the Debtors will be without production interruptions, including labor stoppages. In addition, approximately 74% of the employees are subject to job protection as members of trade unions, employee associations or workers' councils (or approximately 41% of the total number of the Debtors' employees) for which arrangements expire prior to December 31, 2010. The Debtors cannot be certain that the terms of employment applicable to such employees will not change in a manner which adversely affects the Debtors' operating results. The Debtors cannot be certain that they will not experience disruptions in their operations as a result of labor disputes or experience other labor relations issues. If the Debtors are unable to maintain good relations with their employees, the Debtors' ability to produce products and provide services to their customers could be reduced and/or the Debtors' production costs could increase, either of which could disrupt the Debtors' business and reduce profitability.

8. **Proprietary Technology**

The Debtors rely upon trade secrets, proprietary know-how, and continuing technological innovation to develop new products and remain competitive. If the Debtors' competitors learn of the Debtors' proprietary technology, they may use this information to produce products that are equivalent or superior to the Debtors' products, which could reduce the sales of the Debtors' products. The Debtors' employees, consultants, and corporate

collaborators may breach their obligations not to reveal the Debtors' confidential information, and any remedies available to the Debtors may be insufficient to compensate the Debtors' damages. Even in the absence of such breaches, the Debtors' trade secrets and proprietary know-how may otherwise become known to their competitors, or be independently discovered by their competitors, which could adversely affect the Debtors' competitive position.

9. **Product Liability Claims**

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

The Debtors' insurance may not sufficiently cover a large judgment against the Debtors or a large settlement payment, and is subject to customary deductibles, limits, and exclusions.

10. **Material Disruption of the Debtors' Facilities**

Any of the Debtors' manufacturing facilities, or any of their machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including maintenance outages, prolonged power failures, an equipment failure, disruption in the supply of raw materials, such as particle board, energy or chemicals, a chemical spill or release, closure because of environmental-related concerns, disruptions in the transportation infrastructure, including roads, bridges, railroad tracks, and tunnels, fires, floods, earthquakes, hurricanes, or other catastrophes, terrorism or threats of terrorism, labor difficulties, or other operational problems.

Future events may cause shutdowns, which may result in downtime and/or cause damage to the Debtors' facilities. Any such downtime or facility damage could prevent the Debtors from meeting customer demand for their products and/or require them to make unplanned capital expenditures. While the Debtors maintain insurance covering the facilities, including business interruption insurance, if a catastrophic loss of the use of all or a portion of one of their manufacturing facilities occurred, their ability to meet the production capacity

targets and satisfy customer requirements would be impaired, resulting in lower sales and net income.

VIII.

VOTING PROCEDURES AND REQUIREMENTS

Detailed instructions for voting on the Plan are provided with the ballot accompanying this Disclosure Statement. For purposes of the Plan, only holders of record of Claims in the following Classes, as of the February 23, 2010 voting record date established by the Debtors for purposes of this solicitation are entitled to vote:

- Class 2 -- Shared Collateral Claims (Credit Facility Claims and Secured Swap Termination Claims)
- Class 5 -- Unsecured Swap Termination Claims

If your Claim is not in one of these Classes, you are not entitled to vote on the Plan and you will not receive a ballot with this Disclosure Statement. If your Claim is in one of these Classes, you should read your ballot and follow the listed instructions carefully, Please use only the ballot that accompanies this Disclosure Statement.

IF YOU HAVE ANY QUESTIONS CONCERNING THE BALLOT OR THE VOTING PROCEDURES, OR IF YOU NEED A BALLOT OR ADDITIONAL COPIES OF THE DISCLOSURE STATEMENT OR OTHER ENCLOSED MATERIALS, YOU MAY CONTACT THE VOTING AGENT AT:

U.S. and Canada 1-866-249-8108 (toll-free)

International countries +1-614-553-1930

A. Vote Required for Acceptance by a Class

The Bankruptcy Code defines acceptance of a plan by a class of claims as acceptance by holders of at least two-thirds (⅔) in dollar amount and more than one-half (½) in number of the claims of that class which cast ballots for acceptance or rejection of the plan. Thus, acceptance by a class of claims occurs only if at least two-thirds (⅔) in dollar amount and a majority in number of the holders of claims voting cast their ballots to accept the plan.

B. Voting

The solicitation period for eligible creditors to vote to accept or reject the Plan is commencing prior to the Commencement Date. In order for your vote to be counted, your signed ballot must be actually **received** by the Debtors' Voting Agent at the following address before the Voting Deadline of 4:00 p.m. (prevailing Eastern time) on March 22, 2010:

Voting Agent: If by mail: Xerium Ballot Processing c/o The Garden City Group, Inc. P.O. Box 9572 Dublin, Ohio 43017-4872 If by personal delivery or overnight courier: Xerium Ballot Processing c/o The Garden City Group, Inc. 5151 Blazer Parkway, Suite A Dublin, Ohio 43017

IF A BALLOT IS DAMAGED OR LOST, YOU MAY CONTACT THE VOTING AGENT AT THE NUMBER SET FORTH ABOVE. ANY BALLOT THAT IS EXECUTED AND RETURNED BUT WHICH DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN WILL NOT BE COUNTED EITHER AS A VOTE TO ACCEPT OR A VOTE TO REJECT THE PLAN.

1. Waivers and Forbearances

In order to enable the Debtors to pursue and effect an out-of-court-restructuring in lieu of commencing Reorganization Cases and seeking confirmation of the Plan, the ballots delivered to holders of Credit Facility Claims, Secured Swap Termination Claims, and Unsecured Swap Termination Claims allow for (a) holders of Credit Facility Claims to agree to (i) waive (x) any defaults that were waived in the Fourth Credit Facility Waiver and (y) any defaults that may occur under the Credit Facility as a result of failure by Xerium, XTI, Xerium Germany, Xerium Canada, Xerium Italy, or Xerium Austria to pay principal or interest due March 31, 2010 under the Credit Facility and (ii) forbear from exercising any remedies as a result of such defaults through April 30, 2010 and (b) holders of Secured Swap Termination Claims and Unsecured Swap Termination Claims to agree to forbear from exercising any rights or remedies under their respective Swap Termination Agreements through April 30, 2010.

2. Miscellaneous

Unless otherwise ordered by the Bankruptcy Court, ballots that are signed, dated, and timely received, but on which a vote to accept or reject the Plan has not been indicated, will

not be counted for voting purposes. Signed ballots that indicate the holder's agreement to waive defaults or forbear from exercising remedies will be treated as a valid waiver or forbearance irrespective of whether such holder votes on the Plan or whether such holder accepts or rejects the Plan. Where applicable, the Debtors, in their sole discretion, may request that the Voting Agent attempt to contact voters to cure any defects in their ballots.

Except as provided below, unless the ballot is actually received by the Voting Agent before the Voting Deadline together with any other documents required by such ballot, the Debtors may, in their sole discretion, reject such ballot as invalid, and therefore decline to utilize it in connection with seeking confirmation of the Plan.

THE DEBTORS RESERVE THE RIGHT, AT THEIR SOLE DISCRETION, AND WITHOUT NOTICE EXCEPT AS MAY BE REQUIRED UNDER APPLICABLE LAW, TO EXTEND THE SOLICITATION PERIOD OR TERMINATE THEIR SOLICITATION OF VOTES ON THE PLAN.

3. **Fiduciaries And Other Representatives**

If a Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation, or another acting in a fiduciary or representative capacity, such person should indicate such capacity when signing, and may be required, upon request, to submit proper evidence satisfactory to the Debtors of authority to so act.

UNLESS THE BALLOT IS ACTUALLY RECEIVED BY THE VOTING AGENT ON OR PRIOR TO THE VOTING DEADLINE, SUCH BALLOT WILL BE REJECTED AS INVALID AND WILL NOT BE COUNTED AS AN ACCEPTANCE OR REJECTION OF THE PLAN; PROVIDED, HOWEVER, THAT THE DEBTORS RESERVE THE RIGHT, IN THEIR SOLE DISCRETION, TO REQUEST OF THE BANKRUPTCY COURT THAT ANY SUCH VOTE BE COUNTED.

4. **Change of Vote**

Any party who has previously submitted to the Voting Agent prior to the Voting Deadline a properly completed ballot may revoke such ballot and change its vote by submitting to the Voting Agent prior to the Voting Deadline a subsequent properly completed ballot for acceptance or rejection of the Plan.

C. Waivers of Defects, Irregularities, etc.

Unless otherwise directed by the Bankruptcy Court, all questions as to the validity, form, eligibility (including time of receipt), acceptance, and revocation or withdrawals of ballots will be determined by the Voting Agent or the Debtors, as applicable, in their sole discretion, which determination will be final and binding. The Debtors reserve the right to reject any and all ballots submitted by any creditors not in proper form, the acceptance of which would, in the opinion of the Debtors or their counsel, be unlawful. The Debtors further reserve their rights to waive any defects or irregularities or conditions of delivery as to any particular ballot by any of their creditors. The interpretation (including the ballot and the respective instructions thereto) by the Debtors, unless otherwise directed by the Bankruptcy Court, will be

final and binding on all parties. Unless waived, any defects or irregularities in connection with deliveries of ballots must be cured within such time as the Debtors (or the Bankruptcy Court) determine. Neither the Debtors nor any other person will be under any duty to provide notification of defects or irregularities with respect to deliveries of ballots nor will any of them incur any liabilities for failure to provide such notification. Unless otherwise directed by the Bankruptcy Court, delivery of such ballots will not be deemed to have been made until such irregularities have been cured or waived. Ballots previously furnished (and as to which any irregularities have not theretofore been cured or waived) will be invalidated.

D. Further Information, Additional Copies

If you have any questions or require further information about the voting procedures for voting or about the packet of material you received, or if you wish to obtain an additional copy of the Plan, this Disclosure Statement, or any exhibits to such documents, please contact the Voting Agent.

IX.

CONFIRMATION OF THE PLAN

A. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after appropriate notice, to conduct a hearing to consider confirmation of a plan. On, or as promptly as practicable after the Commencement Date, the Debtors will request that the Bankruptcy Court schedule the Confirmation Hearing. Notice of the Confirmation Hearing will be provided to creditors, equity interest holders, and other parties in interest in accordance with the applicable orders of the Bankruptcy Court. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any subsequent adjourned Confirmation Hearing.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. Any objection to confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules, must set forth the name of the objector, the nature and amount of Claims or Equity Interests held or asserted by the objector against the particular Debtor or Debtors, the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court, with a copy to Chambers, together with proof of service thereof, and served upon (a) Cadwalader, Wickersham & Taft LLP, One World Financial Center, New York, New York 10281 (Attn: John J. Rapisardi, Esq. and Sharon J. Richardson, Esq.), co-attorneys for the Debtors; (b) Richards, Layton & Finger, P.A. One Rodney Square, 920 North King Street, Wilmington, Delaware 19801 (Attn: Mark D. Collins, Esq.), co-attorneys for the Debtors; (c) the Office of the United States Trustee for the District of Delaware, 844 King Street, Suite 2207, Wilmington, Delaware 19801; (d) Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, New York 10112 (Attn: Howard Seife, Esq. and Andrew Rosenblatt, Esq.), co-attorneys for the Administrative Agent; (e) Young Conaway Stargatt & Taylor, LLP, the Brandywine Building, 1000 West Street, 17th Floor, P.O. Box 391,

Wilmington, Delaware 19899-0391 (Attn: Joel A. Waite, Esq.), co-attorneys for the Administrative Agent; and (f) such other parties as the Bankruptcy Court may order.

Objections to confirmation of the Plan are governed by Fed. R. Bankr. P. 9014. **UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

B. General Requirements of Section 1129

1. Requirements of Section 1129(a) of the Bankruptcy Code

(a) General Requirements

At the Confirmation Hearing, the Bankruptcy Court will determine whether the following confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied:

(i) The Plan complies with the applicable provisions of the Bankruptcy Code;

(ii) The Debtors have complied with the applicable provisions of the Bankruptcy Code;

(iii) The Plan has been proposed in good faith and not by any means proscribed by law;

(iv) Any payment made or promised by the Debtors or by an Entity issuing securities or acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Reorganization Cases, or in connection with the Plan and incident to the Reorganization Cases, has been disclosed to the Bankruptcy Court, and any such payment made before confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable;

(v) The Debtors have disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director or officer of the Debtors, an affiliate of the Debtors participating in a Plan with the Debtors, or a successor to the Debtors under the Plan of Reorganization, and the appointment to, or continuance in, such office of such individual is consistent with the interests of creditors and equity holders and with public policy, and the Debtors have disclosed the identity of any insider that will be employed or retained by the Debtors, and the nature of any compensation for such insider;

(vi) With respect to each Class of Claims or Equity Interests, each holder of an Impaired Claim or Impaired Equity Interest either has accepted the Plan or will receive or retain under the Plan on account of such holder's Claim or Equity Interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if the Debtors were liquidated on the Effective Date under chapter 7 of the Bankruptcy Code. See discussion of "Best Interests Test," below;

(vii) Except to the extent that the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each Class of Claims or Equity Interests has either accepted the Plan or is unimpaired under the Plan;

(viii) Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Administrative Expense Claims, and Priority Non-Tax Claims will be paid in full in Cash on the Effective Date and that Priority Tax Claims will receive on account of such Claims deferred Cash payments, over a period not exceeding five years after the Commencement Date, of a value as of the Effective Date, equal to the Allowed amount of such Claims with interest from the Effective Date;

(ix) At least one Class of Impaired Claims has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim in such Class;

(x) Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors or any successor of the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of "Feasibility," below;

(xi) All fees payable under section 1930 of title 28, as determined by the Bankruptcy Court at the Confirmation Hearing have been paid or the Plan provides for the payment of all such fees on the Effective Date; and

(xii) The Plan provides for the continuation after the Effective Date of payment of all "retiree benefits" (as defined in section 1114 of the Bankruptcy Code), at the level established pursuant to sections 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code at any time prior to confirmation of the Plan, for the duration of the period the Debtors have obligated themselves to provide such benefits.

(b) Best Interests Test

Section 1129(a)(7) of the Bankruptcy Code requires that each holder of an Impaired Claim or Impaired Equity Interest either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

The first step in meeting the "best interests test" is to determine the dollar amount that would be generated from the liquidation of the Debtors' assets and properties in the context of a chapter 7 liquidation case. The total amount available would be the sum of the proceeds from the disposition of the Debtors' assets and the Cash held by the Debtors at the time of the commencement of the chapter 7 cases. The next step is to reduce that total by the amount of any Claims secured by such assets, the costs and expenses of liquidation, and such additional Administrative Expense Claims and priority Claims that may result from the termination of the Debtors' businesses and the use of chapter 7 for the purposes of liquidation. Finally, the present value of that amount (taking into account the time necessary to accomplish the liquidation) is allocated to creditors and shareholders in strict priority in accordance with

section 726 of the Bankruptcy Code (see discussion below) and can then be compared to the value of the property that is proposed to be distributed under the Plan on the Effective Date.

The Debtors' costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those fees that might be payable to attorneys and other professionals that a trustee may engage, plus any unpaid expenses incurred by the Debtors during a chapter 11 case and allowed in the chapter 7 case, such as compensation for attorneys, financial advisors, appraisers, accountants, and other professionals, and costs and expenses of members of any statutory committee of unsecured creditors appointed by the United States Trustee pursuant to section 1102 of the Bankruptcy Code and any other committee so appointed. In addition, Claims would arise by reason of the breach or rejection of obligations incurred and leases and executory contracts assumed or entered into by the Debtors both prior to, and during the pendency of, the Reorganization Cases. The foregoing types of Claims, costs, expenses, and fees and such other Claims which may arise in a liquidation case or result from a pending chapter 11 case would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay prepetition priority and unsecured Claims.

In applying the "best interests test," it is possible that Claims and Equity Interests in the chapter 7 case may not be classified as in the Plan. In the absence of a contrary determination by the Bankruptcy Court, all prepetition unsecured Claims, which have the same rights upon liquidation would be treated as one class for purposes of determining the potential distribution of the liquidation proceeds resulting from the Debtors' chapter 7 cases. The distributions for the liquidation proceeds would be calculated ratably according to the amount of the Claim held by each creditor. Therefore, creditors who are or claim to be third party beneficiaries of any contractual subordination provisions might be required to seek or enforce such contractual subordination provisions in the Bankruptcy Court or otherwise. Section 510 of the Bankruptcy Code specifies that such contractual subordination provisions are enforceable in a chapter 7 liquidation case.

The Debtors believe that the most likely outcome of liquidation proceedings under chapter 7 would be the application of the rule of absolute priority of distributions. Under that rule, no junior creditor receives any distribution until all senior creditors are paid in full, with interest, and no equity holder receives any distribution until all creditors are paid in full with interest. Consequently, the Debtors believe that in a liquidation, holders of Allowed Claims in Classes 1, 4, and 5 and Allowed Equity Interests in Class 8 would receive no distributions of property and holders of Allowed Claims in Class 2 would receive less than their anticipated recovery under the Plan.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in a chapter 11 case, including, without limitation, (i) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (ii) the erosion in value of assets in a chapter 7 case in the contexts of the expeditious liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail, (iii) the adverse effects on the salability of the New Common Stock as a result of the departure of key employees and the loss of major customers and suppliers, and (iv) substantial increases in Claims which would be satisfied on a priority basis or on a parity with creditors in a chapter 11 case, the Debtors have

determined that confirmation of the Plan will provide each creditor and equity holder with a recovery that is not less that it would receive pursuant to a liquation of the Debtors under chapter 7 of the Bankruptcy Code.

Moreover, the Debtors believe that the value of any distributions from the liquidation proceeds to each Class of Allowed Claims in a chapter 7 case would be less than the value of distributions under the Plan because such distributions in chapter 7 may not occur for a substantial period of time. In this regard, it is possible that distribution of the proceeds of the liquidation could be delayed for a year or more after the completion of such liquidation in order to resolve the claims and prepare for distributions. In the event litigation were necessary to resolve Claims asserted in the chapter 7 cases, the delay would be further prolonged.

The Debtors' liquidation analysis, which is attached as Exhibit H hereto, is an estimate of the proceeds that may be generated as a result of a hypothetical chapter 7 liquidation of the assets of the Debtors. The analysis is based upon a number of significant assumptions which are described. The liquidation analysis does not purport to be a valuation of the Debtors' assets and is not necessarily indicative of the values that may be realized in an actual liquidation.

(c) Feasibility of the Plan

In connection with confirmation of the Plan, section 1129(a)(11) of the Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors. This is the so-called "feasibility" test. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their obligations under the Plan. As part of this analysis, the Debtors have prepared the Projections set forth in Exhibit G to this Disclosure Statement and described in Section VI above. Based upon such Projections, the Debtors believe that they will have sufficient Cash resources to make the payments required pursuant to the Plan, repay and service debt obligations and maintain operations on a going-forward basis. Accordingly, the Debtors believe that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization of the Debtors and therefore, the Plan complies with section 1129(a)(11) of the Bankruptcy Code.

2. **Requirements of Section 1129(b) of the Bankruptcy Code**

The Bankruptcy Court may confirm the Plan over the rejection or deemed rejection of the Plan by a Class of Claims or Equity Interests if the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such Class.

No Unfair Discrimination. This test applies to Classes of Claims or Equity Interests that are of equal priority and are receiving different treatment under a plan of reorganization. The test does not require that the treatment be the same but that such treatment be "fair."

Fair and Equitable Test. This test applies to Classes of different priority (e.g., unsecured versus secured) and includes the general requirement that no Class of Claims receive more than 100% of the Allowed amount of the Claims in such Class. As to the

dissenting Class, the test sets different standards, depending on the type of Claims or Equity Interests in such Class:

- Secured Claims. Each holder of an impaired secured claim either (a) retains its liens on the property (or if sold, on the proceeds thereof) to the extent of the allowed amount of its secured claim and receives deferred cash payments having a value, as of the effective date of the plan, of at least the allowed amount of such claim or (b) receives the "indubitable equivalent" of its allowed secured claim.

- Unsecured Claims. Either (a) each holder of an impaired unsecured claim receives or retains under the plan property of a value equal to the amount of its allowed unsecured claim or (b) the holders of claims and interests that are junior to the claims of the dissenting class will not receive or retain any property under the plan.

- Equity Interests. Either (a) each equity interest holder will receive or retain under the plan property of a value equal to the greater of (i) the fixed liquidation preference or redemption price, if any, of such stock and (ii) the value of the stock or (b) the holders of interests that are junior to the equity interests of the dissenting class will not receive or retain any property under the plan.

The Plan requests that the Bankruptcy Court confirm the Plan notwithstanding the rejection or deemed rejection of the Plan by a Class. With respect to Class 8, which is deemed to reject the Plan, the Debtors believe the Plan will satisfy both the "no unfair discrimination" and the "fair and equitable" requirements because as to Class 8 (a) there is no Class of equal priority receiving more favorable treatment and (b) there is no Class that is junior. In the event any other Class rejects the Plan, the Debtors will demonstrate at the Confirmation Hearing that the requirements are satisfied as to such other rejecting Class, as well. The Debtors also may amend the Plan in accordance with Section 12.5 of the Plan and applicable provisions of the Bankruptcy Code.

X.

ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

A. Liquidation Under Chapter 7

If no chapter 11 plan can be confirmed, the Reorganization Cases may be converted to cases under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. A discussion of the effect that a chapter 7 liquidation would have on the recoveries of holders of Claims is set forth in Section IX of this Disclosure Statement. The Debtors believe that liquidation under chapter 7 would result in smaller distributions being made to creditors than those provided for in the Plan because (a) the likelihood that other assets of the Debtors would have to be sold or otherwise disposed of in a

less orderly fashion, (b) additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals, and (c) additional expenses and Claims, some of which would be entitled to priority, which would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations. In a chapter 7 liquidation, the Debtors believe that there would be no distribution to holders of Allowed Claims in Classes 1, 4, and 5 and Allowed Equity Interests in Class 8, and the distribution to holders of Allowed Claims in Class 2 would be materially less.

B. Alternative Plans

If the Plan is not confirmed, the Debtors, or any other party in interest (if the Debtors' exclusive period in which to file a plan has expired) could attempt to formulate a different plan. Such a plan might involve either a reorganization and continuation of the Debtors' businesses or an orderly liquidation of the Debtors' assets under chapter 11. The Debtors have concluded that the Plan enables creditors and equity holders to realize the most value under the circumstances. In a liquidation under chapter 11, the Debtors would still incur the expenses associated with closing or transferring to new operators numerous facilities. The process would be carried out in a more orderly fashion over a greater period of time. Further, if a trustee were not appointed, because such appointment is not required in a chapter 11 case, the expenses for professional fees would most likely be lower than those incurred in a chapter 7 case. Although preferable to a chapter 7 liquidation, the Debtors believe that liquidation under chapter 11 is a much less attractive alternative to creditors and equity holders than the Plan because of the greater return provided by the Plan.

C. Commencement of a "Conventional" Chapter 11 Case.

If the requisite acceptances are not received, the Debtors nevertheless could commence "conventional" chapter 11 cases, in which circumstance the Debtors could continue to operate their businesses and manage their properties as debtors in possession, but would become subject to the numerous restrictions imposed on debtors in possession by the Bankruptcy Code. The Debtors could have difficulty sustaining operations in the face of the high costs, erosion of customer confidence, loss of key employees and general liquidity difficulties that could well result if they remained chapter 11 debtors in possession for a protracted length of time. Ultimately, the Debtors (or other parties in interest) could propose another plan or liquidate the Debtors under chapter 7 or chapter 11 of the Bankruptcy Code.

XI.

CERTAIN TAX CONSEQUENCES OF THE PLAN

A. Certain U.S. Federal Income Tax Consequences of the Plan

This summary is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), in effect on the date of this Disclosure Statement, U.S. Treasury regulations in effect on such date, and judicial and administrative interpretations thereof available on or before such date. All of the foregoing are subject to change, which could apply retroactively

and could affect the U.S. federal income tax consequences described below. The U.S. federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not obtained an opinion of counsel, and do not intend to seek a ruling from the Internal Revenue Service ("IRS") or any other taxing authority as to any of the U.S. federal income tax consequences expected to result from the implementation of the Plan. There can be no assurance that the IRS or another taxing authority will not take a contrary view with respect to any issue discussed below.

This summary is for general information only and does not purport to address all of the U.S. federal income tax consequences that may be applicable to any particular holder, including the potential recognition of foreign currency gain or loss upon the consummation of the transactions contemplated by the Plan. The U.S. federal income tax treatment of a holder of an Allowed Claim or an Allowed Equity Interest may vary depending upon such holder's particular situation. Except as otherwise stated below, the following summary assumes that a holder holds an Allowed Claim as a capital asset within the meaning of section 1221 of the Tax Code. This summary assumes that the various debt and other arrangements to which the Debtors are parties will be respected for U.S. federal income tax purposes in accordance with their form. This summary does not address U.S. state or local tax considerations that may be applicable to the Debtors and holders of Allowed Claims or Allowed Equity Interests, nor does it address tax considerations applicable to holders that may be subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, dealers or traders in securities or currencies, tax-exempt entities, persons that hold an equity interest in, or a debt obligation of, a Debtor as a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes, controlled foreign corporations, passive foreign investment companies, persons that have a functional currency other than the U.S. dollar, persons who acquired a debt obligation of a Debtor in connection with the performance of services, persons using a mark to market method of accounting and persons who are not U.S. persons (as defined in the Tax Code). In addition, the following summary does not address the U.S. federal income tax consequences of the Plan to holders of Allowed Equity Interests in Subsidiary Debtors or holders of Allowed Claims, in each case, that are unimpaired under the Plan. If a partnership (or other entity taxed as a partnership) holds an Allowed Claim, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and upon the activities of the partnership.

THE FOLLOWING SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES EXPECTED TO RESULT FROM THE IMPLEMENTATION OF THE PLAN IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF AN ALLOWED CLAIM OR AN ALLOWED EQUITY INTEREST. HOLDERS OF ALLOWED CLAIMS AND ALLOWED EQUITY INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL INCOME TAX CONSEQUENCES EXPECTED TO RESULT FROM THE IMPLEMENTATION OF THE PLAN.

IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF ALLOWED CLAIMS AND ALLOWED EQUITY

INTERESTS ARE HEREBY NOTIFIED THAT: (I) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF SUCH CLAIMS OR EQUITY INTERESTS FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE OR LOCAL TAX PENALTIES, (II) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS DISCUSSED HEREIN, AND (III) HOLDERS OF ALLOWED CLAIMS AND ALLOWED EQUITY INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

1. **Certain Consequences to the Debtors**

For U.S. federal income tax purposes, Xerium and its U.S. corporate subsidiaries file a consolidated U.S. federal income tax return of which Xerium is the common parent of the consolidated group (the corporations in Xerium's consolidated group, the "Xerium Group"). The Xerium Group expects to report a consolidated net operating loss ("NOL") carryforward for U.S. federal income tax purposes of approximately $90 million as of December 31, 2009, and an additional NOL carryforward of approximately $44 million with respect to the group's 2010 taxable year. The Debtors expect that any taxable income recognized by the Xerium Group in connection with the transactions relating to the Plan should be offset by current operating losses of the Xerium Group and/or the group's NOL carryforward.

(a) COD Income and Attribute Reduction

Absent an exception, a debtor generally must recognize cancellation of indebtedness ("COD") income to the extent the discharged indebtedness exceeds any consideration received in exchange therefor, subject to certain statutory or judicial exceptions that can apply to limit the amount of COD income. The amount of consideration received by a holder of indebtedness generally would equal the amount of Cash, the fair market value of property (including stock), and/or the issue price of any new debt instrument as determined under sections 1273 or 1274 of the Tax Code. The issue price of a publicly traded debt instrument generally is its fair market value, determined as of the issue date, and the issue price of any other debt instrument generally is its stated principal amount if such instrument's terms provide for the payment of adequate stated interest.

A taxpayer is not required to include any COD income in gross income if such taxpayer is a debtor under the jurisdiction of a court in a chapter 11 bankruptcy case and the discharge of debt occurs pursuant to such case. However, as a result of such exclusion, the debtor must generally reduce its tax attributes—such as NOL carryforwards, current year NOLs, tax credits, and tax basis in assets—by the amount of the excluded COD income (but not in an amount greater than the excess of the aggregate tax bases of the property held by the debtor immediately after the discharge over the debtor's aggregate liabilities immediately after the discharge).

The Debtors currently believe that they will not realize a material amount of COD income as a result of the implementation of the Plan. Notwithstanding the Debtors'

current expectation, the Debtors generally will realize additional COD income to the extent the issue price of the Term Notes and/or the fair market value of the New Common Stock are less than currently expected. The Debtors expect they will have significant NOL carryovers remaining after emergence from chapter 11, subject to the limitations discussed below, even if attribute reduction were required with respect to any excluded COD income. The Debtors believe that any COD recognized for U.S. federal income tax purposes by a Debtor that is a controlled foreign corporation generally should not constitute Subpart F income of the Xerium Group.

(b) Limitation on Utilization of NOLs and Other Tax Attributes

Under section 382 of the Tax Code, if a corporation undergoes an "ownership change" and does not qualify for (or elects out of) the special bankruptcy exception discussed below, the amount of its NOL carryforwards ("pre-change losses") that may be utilized to offset future taxable income is subject to an annual limitation. This annual limitation applies in addition to, and not in lieu of, the attribute reduction that would result from any COD realized in connection with the Plan. The issuance and distribution of New Common Stock to holders of Allowed Shared Collateral Claims and Allowed Unsecured Swap Termination Claims pursuant to the Plan generally will constitute an ownership change of Reorganized Xerium under section 382.

(i) General Section 382 Limitation

In general, an ownership change occurs when the percentage of a loss corporation's stock owned by certain "5% shareholders" increases by more than 50 percentage points over the lowest percentage owned by those shareholders at any time during the applicable "testing period" (generally, the shorter of the three year period preceding the testing date or the period of time since the corporation's most recent ownership change). A 5% shareholder for these purposes generally includes an individual or entity that, directly or indirectly, owns at least 5% of a loss corporation's stock, and may include one or more groups of shareholders that, in the aggregate, own less than 5% of the value of such corporation's stock. Under applicable Treasury regulations, an ownership change with respect to an affiliated group of corporations filing a consolidated federal income tax return generally is measured by changes in the stock ownership of a group's parent corporation.

Subject to the special bankruptcy rules discussed below, the annual limitation on the use of pre-change losses in any "post-change year" is equal to the product of the fair market value of the loss corporation's outstanding stock (or in the case of a consolidated group, the common parent's) immediately before the ownership change, and the long-term tax-exempt rate (which is published monthly by the United States Department of the Treasury) in effect for the month in which the ownership change occurs. If a loss corporation has a net unrealized built-in gain (as defined below), the annual limitation is increased by the amount of such built-in gains which are recognized during the five year period following the ownership change. Any portion of the annual limitation that is not used in a given year may be carried forward, thereby adding to the annual limitation for the subsequent taxable year. However, if the loss corporation (or the consolidated group) does not constitute its historic business or use a significant portion of its historic assets in a new business for at least two years after the ownership change, the annual

limitation resulting from the ownership change is reduced to zero, thereby precluding any utilization of the loss corporation's pre-change losses.

Section 383 of the Tax Code generally applies a similar limitation to capital loss carryforwards and tax credits.

(ii) Built-In Gains and Losses

Under section 382 of the Tax Code, if a loss corporation (or consolidated group) has a net unrealized built-in gain (generally, the excess, if any, of the aggregate fair market value of the corporation's assets over the aggregate tax basis of such assets on the ownership change date) at the time of an ownership change, any built-in gains recognized during the following five years (up to the amount of the original net built-in gain) generally will increase the annual limitation in the year recognized, such that the loss corporation (or consolidated group) would be permitted to use its otherwise limited pre-change losses against such built-in gain in addition to its regular annual allowance. Conversely, if the loss corporation (or consolidated group) has a net unrealized built-in loss (generally, the excess, if any, of the aggregate tax basis of the corporation's assets over the aggregate fair market value of such assets on the ownership change date) at the time of an ownership change, any built-in losses recognized during the following five years (up to the amount of the original net built-in loss) generally would be treated as part of the pre-change losses that are subject to the annual limitation. A loss corporation's (or consolidated group's) net unrealized built-in gain or net unrealized built-in loss generally will be deemed to be zero unless it is greater than the lesser of (x) $10 million or (y) 15% of the fair market value of its assets (with certain adjustments) before the ownership change.

(iii) Special Bankruptcy Exception

When an ownership change occurs pursuant to the implementation of a plan of reorganization under the Bankruptcy Code, the annual limitation may not apply if certain requirements are satisfied. Under section 382(l)(5) of the Tax Code, the annual limitation may not apply to an ownership change of a loss corporation that is under the jurisdiction of a bankruptcy court immediately before the change if the shareholders and qualified creditors (generally, trade creditors and those who held the relevant indebtedness for at least 18 months prior to the bankruptcy filing) of the loss corporation immediately before the ownership change own at least 50% of the loss corporation's stock by value and voting power after the ownership change and as a result of being shareholders or creditors immediately before such ownership change. If the exchanges contemplated by the Plan qualify under section 382(l)(5) of the Tax Code, and the Xerium Group does not elect alternative treatment (as discussed below), the Xerium Group would avoid the application of the annual limitation to its NOLs and recognized built-in losses, if any. However, section 382(l)(5) of the Tax Code would require the Xerium Group to reduce its NOLs (and possibly other tax attributes) by the amount of any deductions for interest claimed by the group with respect to the indebtedness converted into stock for: (x) the three year period preceding the taxable year of the ownership change, and (y) the portion of the year of the ownership change prior to the Effective Date. Under section 382(l)(5) of the Tax Code, if a second ownership change occurs during the two year period immediately following the Effective Date, the annual limitation after the second ownership change will be

zero, and thus would preclude the future use of any pre-change losses existing at the time of the second ownership change.

Alternatively, if the Xerium Group does not qualify under section 382(l)(5) of the Tax Code, or elects out of the application of such section, the Xerium Group's annual limitation will be determined in accordance with section 382(l)(6) of the Tax Code. Under this provision, the annual limitation is determined by reference to the net equity value of Reorganized Xerium's stock immediately after the ownership change (rather than immediately before the ownership change) after giving effect to the surrender of Allowed Claims but subject to certain adjustments (which can result in a reduced stock value). In no event, however, can the stock value for this purpose exceed the gross value of Reorganized Xerium's assets immediately before the ownership change.

The determination of the application of section 382(l)(5) of the Tax Code is highly fact specific. The Debtors have not yet determined whether, if they qualify for the special rule under section 382(l)(5) of the Tax Code, they would rely on section 382(l)(5) or section 382(l)(6). Any election to rely on section 382(l)(6) of the Tax Code rather than section 382(l)(5) would have to be made in the Xerium Group's consolidated U.S. federal income tax return for the taxable year in which the ownership change occurs. Under a current IRS Notice, which is subject to change or revocation at any time, a corporation (or consolidated group) whose assets have net unrealized built-in gain may increase its annual limitation during the five year period immediately following the ownership change by an amount equal to the additional depreciation deductions that a hypothetical purchaser of the Debtors' assets would have been permitted to claim if it had acquired the Debtors' assets in a taxable transaction.

(c) Alternative Minimum Tax

In general, an alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income at a 20% tax rate if and to the extent such tax exceeds the corporation's regular federal income tax. For purposes of computing taxable income for AMT purposes, certain tax deductions and other beneficial allowances are modified or eliminated. For example, a corporation generally cannot offset more than 90% of its taxable income for AMT purposes by available NOL carryforwards (as computed for AMT purposes). Any AMT paid by a corporation generally will be allowed as a nonrefundable credit against such corporation's regular federal income tax liability in any future taxable year when such corporation is no longer subject to AMT and otherwise becomes subject to regular tax.

2. **Certain Consequences to Holders of Allowed Shared Collateral Claims or Allowed Unsecured Swap Termination Claims**

Pursuant to the Plan, each holder of an Allowed Shared Collateral Claim and each holder of an Allowed Unsecured Swap Termination Claim will receive its Distributable Share of Cash, Term Notes and New Common Stock.

(a) Taxable Exchange

Although not entirely free from doubt, the Debtors believe, and this summary assumes, that a holder's exchange of any Allowed Shared Collateral Claims and/or Allowed

Unsecured Swap Termination Claims for consideration under the Plan generally should be a taxable transaction to such holder for U.S. federal income tax purposes.

Subject to the foregoing, a holder of any Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims generally should recognize gain or loss in an amount equal to the difference, if any, between (i) the amount of Cash, the "issue price" of the Term Notes (see "Ownership and Disposition of Term Notes" below) and the fair market value of any New Common Stock received (other than in respect of any Claim for accrued but unpaid interest), and (ii) the holder's adjusted tax basis in the Allowed Shared Collateral Claims and/or an Allowed Unsecured Swap Termination Claims exchanged therefor (other than any tax basis attributable to accrued but unpaid interest). See "Character of Gain or Loss" below. In addition, a holder of Allowed Shared Collateral Claims and/or an Allowed Unsecured Swap Termination Claims generally will recognize interest income to the extent of any exchange consideration allocable to accrued and unpaid interest not previously included in such holder's taxable income. See "Payment of Accrued Interest" below. A holder's tax basis in the Term Notes received generally should equal the issue price of such notes, and a holder's tax basis in any New Common Stock received generally should equal the fair market value of such stock on the date of the exchange. A holder's holding period in such Term Notes and New Common Stock generally should begin the day following the exchange date.

(b) Character of Gain or Loss

Where a holder of any Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims recognizes gain or loss in respect of the satisfaction and exchange of its Allowed Claims pursuant to the Plan, a number of factors will determine the character of such gain or loss as long term or short term capital gain or loss or as ordinary income or loss, including the tax status of the holder, whether the holder's Allowed Claims constitute a capital asset in the holder's hands, how long the Allowed Claims have been held, whether the holder acquired any of the Allowed Claims at a market discount, and whether and to what extent the holder previously had claimed a bad debt deduction with respect to its Allowed Claims. A holder of any Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims is urged to consult its own tax advisor for a determination of the character of any gain or loss recognized by the holder upon the exchange of such holder's Allowed Claims for consideration under the Plan.

A holder of any Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims who recognizes capital losses as a result of the distributions under the Plan generally will be subject to limits on its use of capital losses. A noncorporate holder generally may use capital losses to offset any capital gains (without regard to holding periods) plus ordinary income to the extent of the lesser of (i) $3,000 ($1,500 for married individuals filing separate returns) or (ii) the excess of the capital losses over the capital gains. Holders, other than corporations, generally may carry over unused capital losses and apply them to capital gains and a portion of their ordinary income for an unlimited number of years. Conversely, a corporate holder may only use capital losses to offset capital gains. Corporate holders who have more capital losses than can be used in a taxable year generally may be allowed to carry over unused capital losses for the five taxable years following the capital loss

year, but generally are allowed to carry back unused capital losses to the three taxable years preceding the capital loss year.

A holder of an Allowed Claim that purchased the indebtedness underlying such Allowed Claim from a prior holder of such indebtedness at a "market discount" (relative to the principal amount of such indebtedness at the time of acquisition) generally would be subject to the market discount rules of the Tax Code, unless an exception applies. In general, a debt instrument is considered to have been acquired with "market discount" if the debt instrument's stated redemption price at maturity (or revised issue price as defined in section 1278 of the Tax Code, in the case of a debt obligation issued with original issue discount ("OID")) exceeds the tax basis of the debt instrument in the holder's hands immediately after its acquisition by more than a de minimis amount. If the holder is considered to have acquired the debt instrument with market discount, any gain recognized by the holder on the exchange of such debt instrument generally would be treated as ordinary income to the extent of the market discount accrued during the holder's period of ownership, unless the holder elected to include the market discount in income as it accrued. In addition, if the holder did not elect to include market discount in income as it accrued and, thus, under the market discount rules, was required to defer all or a portion of any deductions for interest on debt incurred or maintained to purchase or carry the market discount debt instrument, such deferred amounts generally would become deductible at the time of the exchange. A holder of any Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims is urged to consult its own tax advisor regarding the application of the market discount rules (including the exceptions under the Tax Code to the treatment of a debt instrument as a "market discount bond") to such holder's exchange of Allowed Claims under the Plan.

Finally, any gain recognized by a holder on a subsequent sale or exchange of New Common Stock received in exchange for Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims under the Plan generally should be treated as ordinary income to the extent of the sum of any (i) bad debt deductions or charges to bad debt reserves claimed with respect to such Allowed Claims, (ii) ordinary loss taken on the exchange of such Allowed Claims for New Common Stock, and (iii) income not recognized due to the use of the cash method of tax accounting with respect to such Allowed Claims exchanged. A holder of any Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims is urged to consult its own tax advisors regarding the application of this recapture rule with respect to New Common Stock received pursuant to the Plan.

(c) Payment of Accrued Interest

The Plan provides that consideration distributed to a holder of Allowed Claims is treated as first satisfying an amount equal to the stated principal amount of such holder's Allowed Claims, as determined for U.S. federal income tax purposes, and any remaining consideration as satisfying any accrued but unpaid interest (in contrast, for example, to a pro rata allocation of the consideration received by a holder between principal and interest, or an allocation first to accrued but unpaid interest). Certain legislative history indicates that an allocation of consideration between principal and interest provided in a bankruptcy plan of reorganization generally is binding for U.S. federal income tax purposes. There is no assurance that the IRS will respect this allocation for U.S. federal income tax purposes.

In general, to the extent that a holder of any Allowed Shared Collateral Claims and/or Allowed Unsecured Swap Termination Claims receives any consideration pursuant to the Plan in satisfaction of accrued interest (or OID) during its holding period, such amount will be taxable to the holder as interest income (if not previously included in the holder's gross income). Conversely, a holder may recognize a deductible loss under certain circumstances to the extent any accrued interest claimed was previously included in such holder's gross income and is not paid in full. A holder of any Allowed Shared Collateral Claims or Allowed Unsecured Swap Termination Claims is urged to consult its own tax advisor regarding the allocation of consideration and the deductibility of accrued but unpaid interest for U.S. federal income tax purposes.

(d) Ownership and Disposition of Term Notes

A holder of Term Notes must include stated interest on the notes in income in accordance with the holder's regular method of accounting to the extent such stated interest is "qualified stated interest." Stated interest is "qualified stated interest" if it is payable in Cash or property (other than debt instruments of the issuer) at least annually.

A debt instrument generally has OID if its "stated redemption price at maturity" exceeds its "issue price" by more than a de minimis amount. A debt instrument's "stated redemption price at maturity" includes all principal and interest payable over the term of the instrument, other than qualified stated interest. The "issue price" of the Term Notes generally should depend on whether, at any time during the 60-day period ending 30 days after the exchange date, the (i) Term Notes or (ii) indebtedness with respect to which a substantial amount of the Term Notes is issued ("exchanged debt") are treated as traded on an established market. Pursuant to applicable Treasury regulations, an "established market" need not be a formal market. It is sufficient that the relevant debt obligation appear on a system of general circulation (including a computer listing disseminated to subscribing brokers, dealers or traders) that provides a reasonable basis to determine fair market value by disseminating either recent price quotations or actual prices of recent sales transactions. Also, under certain circumstances, a debt obligation is considered to be publicly traded when price quotations for such debt are readily available from dealers, brokers or traders.

If the Term Notes or the exchanged debt are treated as traded on an established market under the above rules, the issue price of the Term Notes generally should equal their fair market value (or the fair market value of the exchanged debt, adjusted for the amount of Cash and fair market value of the New Common Stock also received in respect of Allowed Claims with respect to such exchanged debt, if such exchanged debt, rather than the Term Notes, are treated as traded on an established market) as of the Effective Date. If neither the Term Notes nor the exchanged debt are treated as traded on an established market, the issue price of the Term Notes generally should be their stated principal amount. The Debtors currently intend to treat the Term Notes as traded on an established market under the above rules.

A holder of a Term Note issued with OID generally must include any OID in income over the term of the note (for so long as the notes continue to be owned by the holder) in accordance with a constant yield-to-maturity method, regardless of whether the holder is a cash or accrual method taxpayer, and regardless of whether and when the holder receives Cash

payments of interest on the notes (other than Cash attributable to qualified stated interest). Accordingly, a holder could be treated as receiving interest income in advance of a corresponding receipt of Cash. Any OID that a holder includes in income will increase such holder's tax basis in its Term Notes. A holder of a Term Note generally will not be separately taxable on any Cash payments of interest that have already been taxed under the OID rules, but the holder generally will reduce its tax basis in such note by the amount of such payments.

Any gain or loss recognized by a holder on a sale, exchange or other taxable disposition of a Term Note generally should be capital gain or loss in an amount equal to the difference, if any, between such holder's amount realized and its adjusted tax basis in the note immediately before the disposition (increased for any OID accrued through the date of disposition). Any such gain or loss generally should be long term capital gain or loss if the holder's holding period in its Term Note is more than one year on the date of disposition.

(e) Ownership and Disposition of New Common Stock

Distributions, if any, with respect to New Common Stock generally will be taxable as dividend income when paid to the extent of Reorganized Xerium's current and accumulated earnings and profits as determined for U.S. federal income tax purposes. To the extent the amount of any distributions exceeds Reorganized Xerium's earnings and profits with respect to such distribution, the excess will be applied against and will reduce the holder's adjusted tax basis in its New Common Stock (but not below zero). Any remaining excess generally will be treated as gain or loss from the sale or exchange of such stock, with the consequences discussed below. The absence of an adjustment to the number of shares of New Common Stock into which New Warrants are exercisable or to the exercise price of such warrants may, under certain circumstances, result in a constructive distribution that could be taxable to the holders of the New Common Stock for U.S. federal income tax purposes.

Dividends are generally taxed as ordinary income. However, dividends received by non-corporate holders of New Common Stock in taxable years beginning before January 1, 2011, may qualify for taxation at lower rates applicable to long term capital gains, provided the holder satisfies certain holding period and other requirements. Non-corporate holders are urged to consult their own tax advisors regarding the applicability of such lower rates under their particular factual situation.

In general, a distribution to a corporate holder of New Common Stock that is treated as a dividend for U.S. federal income tax purposes will qualify for the 70% dividends received deduction ("DRD") that is available to corporate shareholders that own less than 20% of the voting power or value of the distributing corporation's outstanding stock. A corporate shareholder holding at least 20% of the voting power or value of the distributing corporation's outstanding stock may be eligible for an 80% DRD. No assurance can be given that Reorganized Xerium will have sufficient earnings and profits (as determined for U.S. federal income tax purposes) to cause distributions, if any, to be eligible for a DRD. Dividend income that is not subject to regular U.S. federal income tax as a consequence of the DRD may be subject to the AMT. The DRD is only available if the relevant corporate holder satisfies certain holding period and taxable income requirements. The length of time that a holder has held its New Common Stock generally will be reduced for any period during which the holder's risk of

loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales or similar transactions. Finally, the tax consequences of a corporate holder's receipt of a dividend on its New Common Stock may be different if the dividend is treated as an "extraordinary dividend" under applicable rules. Corporate holders are urged to consult their own tax advisors regarding the potential tax consequences of a receipt of distributions on New Common Stock.

Subject to the ordinary income recapture rule discussed above (see "Character of Gain or Loss" above), any gain or loss recognized by a holder on the sale, exchange or other taxable disposition of New Common Stock received under the Plan generally should be capital gain or loss in an amount equal to the difference, if any, between such holder's amount realized and its adjusted tax basis in its common stock immediately before the disposition. Any such gain or loss generally should be long term capital gain or loss if the holder's holding period in its New Common Stock is more than one year on the date of disposition.

3. **Certain Consequences to Holders of Allowed Equity Interests in Class 8**

On the Effective Date, Existing Common Stock will be canceled, and each holder of an Allowed Equity Interest in Class 8 will receive New Common Stock and New Warrants to purchase shares of New Common Stock.

(a) Recapitalization

The Debtors believe that the receipt of New Common Stock and New Warrants in exchange for Existing Common Stock generally should be treated for U.S. federal income tax purposes as a "recapitalization" to holders of Allowed Equity Interests in Class 8. Assuming this exchange constitutes a recapitalization, a holder of Allowed Equity Interests in Class 8 will not recognize loss, and generally should not recognize gain because such holders will not receive consideration other than New Common Stock and New Warrants. The portion of any consideration required to be treated as imputed interest due to the distribution of such consideration after the Effective Date is excluded from the above calculation and taxed under separate rules. In addition, assuming the above exchange constitutes a recapitalization, a holder's (i) aggregate tax basis in the New Common Stock and New Warrants received in exchange for such holder's Existing Common Stock generally will equal the holder's aggregate adjusted tax basis in such interest, increased by any gain recognized with respect to such interest and decreased by any consideration other than New Common Stock and New Warrants received with respect to such interest, (ii) tax basis generally will be allocated between the New Common Stock and New Warrants based on their relative fair market values, and (iii) holding period for the New Common Stock and New Warrants received generally will include the holder's holding period for its Existing Common Stock.

(b) Ownership and Disposition of New Common Stock

For a discussion of the U.S. federal income tax consequences of the ownership and disposition of New Common Stock, see "Ownership and Disposition of New Common Stock" above.

(c) Ownership and Disposition of New Warrants

A holder of New Warrants generally will not recognize gain or loss upon the exercise of such warrants for New Common Stock. A holder's tax basis in the New Common Stock received upon exercise of New Warrants generally will equal the sum of the holder's tax basis in such New Warrants and the exercise price of such New Warrants. The holding period of the New Common Stock received upon exercise of New Warrants generally will commence on the day following the exercise of such warrants. Upon the lapse or disposition of New Warrants, the holder generally should recognize gain or loss equal to the difference between the amount received (zero in the case of a lapse) and the holder's tax basis in such warrants. This gain or loss generally should be long term capital gain or loss if the holder's holding period in its New Warrants is more than one year on the date of lapse or disposition.

The New Warrants provide in certain circumstances for adjustment to the number of shares of New Common Stock into which New Warrants are exercisable or to the exercise price of such warrants. Under section 305 of the Tax Code, such an adjustment may constitute a constructive distribution to a holder of New Warrants if, and to the extent that, the adjustment has the effect of increasing such holder's proportionate interest in Reorganized Xerium's earnings and profits or assets. However, an adjustment to the exercise price of New Warrants made pursuant to a bona fide reasonable adjustment formula that has the effect of preventing the dilution of the interest of holders of New Warrants generally should not be considered to result in a constructive distribution to such holders. Holders of New Warrants should carefully review the exercise price adjustment provisions of the New Warrants and are urged to consult their own tax advisors with respect to the U.S. federal income tax consequences of ownership and exercise or disposition of New Warrants.

4. **<u>Information Reporting and Withholding Requirements</u>**

All distributions to holders of Allowed Claims under the Plan are subject to any applicable withholding requirements, including employment tax withholding. Reorganized Xerium may be required to withhold and sell on behalf of a holder an amount of New Common Stock sufficient to satisfy the withholding requirements applicable to such holder, unless such holder makes other arrangements (such as remitting to Reorganized Xerium directly the amount of taxes owed).

In general, information reporting requirements may apply to distributions or payments under the Plan. Furthermore, interest, dividends and other reportable payments may, under certain circumstances, be subject to backup withholding at the then-applicable rate (currently 28%). Backup withholding generally applies if the holder (i) fails to furnish its social security number or other taxpayer identification number ("<u>TIN</u>"), (ii) furnishes an incorrect TIN, (iii) is notified by the IRS of a failure to report interest or dividends properly, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct and that the holder is a United States person that is not subject to backup withholding. Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment to a holder may be refunded by the IRS or allowed as a credit against the holder's U.S. federal income tax liability, provided that the required information is properly furnished to the IRS. Certain persons are exempt from backup

withholding, including, under certain circumstances, corporations and financial institutions. Holders of Allowed Claims and Allowed Equity Interests are urged to consult their own tax advisors regarding their qualification for exemption from backup withholding and information reporting and the procedures for obtaining such an exemption.

In addition, Treasury regulations generally require disclosure by a taxpayer on its U.S. federal income tax return of certain types of transactions in which the taxpayer participated, including certain transactions that result in the taxpayer's claiming a loss in excess of certain thresholds. Holders of Allowed Claims and Allowed Equity Interests are urged to consult their own tax advisors regarding whether the exchanges contemplated by the Plan would be subject to these regulations and require disclosure on the applicable holder's tax returns.

B. Certain German Tax Consequences of the Plan

The below summary of certain German tax consequences is based on the following assumptions:

- Xerium Germany has third party bank debt in the amount of approx. MEUR 90 of which MEUR 60 will be refinanced with new debt and the remaining MEUR 30 will be settled with New Common Stock;

- The debt in the amount of MEUR 30 that will ultimately be settled with New Common Stock will, in a first step, be assumed by Reorganized Xerium with discharging effect for Xerium Germany, and Reorganized Xerium will unconditionally waive any recourse it may have against Reorganized Xerium Germany for the repayment of such debt;

- Reorganized Xerium will transfer the New Common Stock to the lenders under the Credit Facility in satisfaction of any obligations Xerium may have to repay MEUR 30 of the existing bank debt assumed from Xerium Germany and the lenders under the Credit Facility shall be deemed to release Xerium from any obligation they may have to repay such debt;

- Following the debt to equity exchange, the amount of new Germany bank debt at Reorganized Xerium Germany will be MEUR 60 and Reorganized Xerium Germany will issue a note for this amount;

- The fair market value of the New Common Stock corresponds to the face value of the existing German debt it is used to settle;

- Reorganized Xerium has the financial capacity to settle the German debt assumed from Xerium Germany;

- Lenders under the Credit Facility are German or foreign banks, i.e., corporate entities rather than individuals.

The following summary of certain German tax consequences expected to result from the implementation of the Plan is for informational purposes only and is not a substitute for careful tax planning and advice based upon the individual circumstances pertaining to a holder of an Allowed Claim. Holders of Allowed Claims are urged to consult their own tax advisors with respect to the German tax consequences expected to result from the implementation of the Plan.

1. **German Income Tax Consequences for Xerium Germany**

If existing German debt in the amount of MEUR 30 is assumed by Reorganized Xerium in the manner described above, Reorganized Xerium Germany will account for a claim against Reorganized Xerium for settlement of its debt at the face value of the debt which, on the liabilities side of the balance sheet, will be recorded as a capital contribution. Since the debt has been assumed by, and thus transferred to, Reorganized Xerium, both the claim against Reorganized Xerium and the liability against the lenders in the same amount will be canceled from the books without income effect, and the Debtors believe that this should not result in any adverse German tax consequences.

The replacement of the remaining German debt in the amount of MEUR 60 by new debt in the same amount has no German income tax consequences.

Interest expenses on the new debt will be treated in the same manner as interest expense on the existing debt, i.e., they will generally qualify as tax deductible expenses at the level of Reorganized Xerium Germany, subject to German interest limitation rules. To the extent deductible under these rules, 25% of the interest expenses will be added back to the tax basis for trade tax purposes.

2. **Forfeiture of Net Operating Losses (NOLs)**

The Debtors understand that Xerium Germany has tax NOLs. Under currently applicable change of control rules, NOLs of a corporation, both for corporate income tax and trade tax purposes, are entirely forfeited if more than 50% of the shares in the corporation are directly or indirectly transferred to a new owner, or to a group of new owners acting in concert. The definition of acting in concert is very broad, i.e., it is sufficient if a group of investors has similar interests. The lenders under the Credit Facility receiving the New Common Stock may therefore be qualified as a group of new owners if they are contractually or in any other way internally aligned and, if more than 50% of the shares in Xerium Germany are (indirectly) acquired, it is likely that NOLs available as of the end of 2009 and current losses created in 2010 until closing of the transaction can no longer be used.

However, according to a newly introduced law dated July 22, 2009 a restructuring exception came into force. Under this restructuring exception, a change in ownership would not result in a forfeiture of NOLs, if (a) the transfer of shares in a loss corporation is part of a plan to avoid an insolvent situation/overindebtedness or to make the loss corporation solvent/restore its equity and (b) in addition, the "structural integrity" of the loss corporation's business is preserved by the plan. A preservation of such structural integrity of a business should be found to exist if:

- There is an agreement with the German worker's council of the loss corporation concerning the preservation of jobs, and such agreement has been honored; or
- The company continued to pay at least 400% of the gross salaries of the year prior to the share transfer in total over a period of 5 years following the change in ownership, i.e. the entire gross salaries paid must not decline by more than 20% in the average over the next 5 years after the change in ownership; or
- The shareholder(s) make(s) significant contributions (at least 25% of the loss corporation's assets stated in its tax balance sheet as of the balance sheet date prior to the share transfer) to the equity of the loss corporation within a period of 12 months after the share transfer.

The restructuring exception shall not apply, if:

- The loss corporation's business had ceased before the time of the share transfer, or
- During a period of 5 years following the share transfer, the loss corporation discontinues its historic business and engages in a different business activity.

Under the new regulation, the restructuring exception initially became effective for all ownership changes that occurred between December 31, 2007 and December 31, 2009. However, the time limit has been abolished under the Act to Accelerate Economic Growth which has come into effect on January 01, 2010, i.e., the exception will continue to apply in tax years 2010 et seq. Although not free from doubt, the Debtors believe that Reorganized Xerium Germany will qualify for the restructuring exception with respect to the implementation of the transactions contemplated by the Plan.

3. **Real Estate Transfer Tax (RETT)**

German real estate transfer tax ("RETT") is only triggered if the direct or indirect change in ownership in the real estate owning company is 95% or more or if, as a result of a share transfer, at least 95% of the shares are directly or indirectly unified in the hands of one purchaser. Under the Plan, the lenders under the Credit Facility along with holders of Secured Swap Termination Claims and Unsecured Swap Termination Claims will in total acquire approximately 82.6% of the New Common Stock. Also, as opposed to the change of control rules, the shares have to be acquired by, or unified in the hands of, one purchaser, i.e., it is not sufficient for a group of investors to act in concert, so RETT should not be an issue in the case at hand.

If German RETT would be triggered, it generally amounts to 3.5% (except for Berlin and Hamburg where the rate is 4.5%). The tax basis is a specially assessed value which, as a rule of thumb, can be estimated at approx. 70% of the fair market value of the real estate.

4. **German Income Tax Consequences for German Resident Lenders**

(a) Assumption of Debt

The assumption of debt by Reorganized Xerium from Xerium Germany merely qualifies as an exchange of the debtor from the perspective of the lenders and therefore has no German tax consequences, provided that the corresponding receivable of the respective lender has not previously been written down to a lower value with tax effect.

(b) Settlement and Replacement of Debt

The settlement and replacement of debt with New Common Stock, new debt, and Cash has no German tax consequences, provided that the aggregate fair market value of the New Common Stock, new debt, and Cash transferred corresponds to the face value of the debt settled and that the corresponding receivable of the respective lender has not previously been written down to a lower value with tax effect. To the extent that a lender's tax book value is less than the aggregate fair market value of the New Common stock, new debt, and Cash received, the lender would recognize taxable gain.

(c) Interest Income

Subject to the discussion below for non-resident lenders, interest income received by the lenders under the Credit Facility on the new debt from Reorganized Xerium Germany will be subject to German corporate income tax (plus solidarity surcharge) and trade tax at a combined rate of currently approx. 30%.

5. **German Income Tax Consequences for Non-German Resident Lenders**

Lenders not tax resident in Germany are generally only subject to limited German tax liability with German source income. Income derived from a loan granted by a non-resident lender to a German borrower only qualifies as German source income if the loan is either secured with German real estate, or is attributable to a German permanent establishment of the non-resident lender. The current collateral package that will continue to secure the new debt includes German real estate. Interest income received by a non-German resident lender on the debt secured by German real estate will therefore qualify as German source income under German local tax provisions and will be subject to German tax in the hands of such lender unless Germany's right to taxation is excluded by a double tax treaty between Germany and the country of tax residence of the lender, if any.

6. **Withholding Tax on Interest**

Irrespective of the residence of the lender, interest payments made by a German company are generally only subject to German withholding tax if the paying entity qualifies as a bank or other financial institution in terms of the German Credit System Act (Kreditwesengesetz).

C. Certain Austrian Tax Consequences of the Plan

The following summary of certain Austrian tax consequences expected to result from the implementation of the Plan is for informational purposes only and is not a substitute for careful tax planning and advice based upon the individual circumstances pertaining to a holder of an Allowed Claim. Holders of Allowed Claims are urged to consult their own tax advisors with respect to the Austrian tax consequences expected to result from the implementation of the Plan.

1. Austrian Tax Consequences of the Austrian Debt Restructuring Transactions to Xerium Austria

Xerium Austria is a limited liability company (GmbH) organized under the laws of, and having its statutory seat as well as management in, Austria. It is subject to a corporate income tax of 25% on its profit which, for tax purposes, is determined as the profit according to Austrian GAAP and the Austrian Commercial Code (Unternehmensgesetzbuch) after book-to-tax adjustments. In principle, all income of an Austrian company is taxed as a uniform type of income. In particular, there is no specific tax regime for capital gains.

(a) Austrian Tax Consequences of Austria Purchase Agreement and Austria Note

(i) Income Tax

When Reorganized Xerium Austria purchases the Xerium Austria Shares Distribution from Reorganized Xerium, the purchase should lead to the following tax treatment based on the assumption that the purchase price is intended to be based on the fair market value of the shares. The Xerium Austria Shares Distribution should be recorded on the assets side of Reorganized Xerium Austria's balance sheet, and the tax book value should be equal to the purchase price.

The note to be issued to Reorganized Xerium in order to fund the share purchase (the "Austria Note") should be recorded as a liability. Interest accrued on this note should be deductible if it is used to fund taxable income of Reorganized Xerium Austria; such interest should also be deductible if it is connected to the acquisition of tax exempt shares qualifying for the national or international participation exemption. As the Austria Note is issued in a related party transaction, for the interest to be deductible, the terms of the note need to be properly evidenced, need to meet the arm's length standard and Reorganized Xerium Austria needs to maintain an adequate equity ratio. According to court rulings, the equity ratio is adequate if it enables the company to maintain its business on an on-going basis and is not considerably lower than the ratio of other companies operating in the same industry.

Interest paid on the Austria Note should not be subject to withholding tax. Withholding tax would apply only if the debt is securitized as a bearer bond and if the interest is paid by Xerium Austria or an Austrian paying agent. In case of interest paid to a creditor which is neither an Austrian resident nor has an Austrian permanent establishment, the withholding tax would be subject to a refund procedure upon application.

(ii) Stamp Duty

Loans and credit facilities are subject to a stamp duty of 0.8% or 1.5% of the principal amount if a written agreement or certain substitute documentation is set up. The rate of 1.5% applies in the case of revolving facilities granted for more than five years, the 0.8% rate applies to all other credit facilities and loans.

Based on this, the Austria Note is within the scope of Austrian stamp duty.

In principle, unless Austria recognizes the exemption provided under section 1146 of the Bankruptcy Code, both parties to the agreement, i.e., Reorganized Xerium and Reorganized Xerium Austria, would be liable to pay the stamp duty.

A written agreement, except in case of a loan or credit facility granted by a direct shareholder, does not trigger stamp duty, if the agreement is executed and kept outside of Austria and if none of the parties have rights or obligations subject to a place of performance inside of Austria. If, in such a case, certain substitute documentation is executed subsequently, e.g., correspondence sent to an Austrian address of Xerium Austria which refers to the Austria Note, stamp duty is triggered by this substitute documentation, unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized by Austria. The Austrian Ministry of Finance has published an opinion that even email correspondence can constitute such substitute documentation, which opinion has however not been upheld by the Austrian tax court upon appeal. A decision by the Austrian Supreme Administrative Court is pending.

(b) Austrian Tax Consequences of the Austria Contribution Agreement

(i) Income Tax

When the Xerium Austria Shares Distribution is transferred from Reorganized Xerium to Reorganized Xerium Austria by means of a contribution into the capital of Reorganized Xerium Austria from an indirect shareholder ("grandparent contribution"), such transfer should not be recognized as taxable income of Xerium Austria. The contribution may be carried out without new shares being issued.

For tax accounting purposes, the assets side of the balance sheet of Xerium Austria need to show the New Common Stock at its fair market value. The same amount needs to be recorded as a capital reserve (Kapitalruecklage) in the equity section of the liabilities side of the company's balance sheet and should be part of the company's equity for tax purposes. The valuation of the contributed New Common Stock at fair market value for tax accounting purposes applies outside the scope of the Austrian Reorganization Tax Act (Umgruendungssteuergesetz). It also applies within the scope of the Austrian Reorganization Tax Act unless a differing valuation at book value or acquisition cost is elected in the Austria Contribution Agreement.

Tax losses carried forward by Xerium Austria, if any, will be forfeited as of the effective date of the Austria Contribution Agreement if the contribution is executed within the scope of the Reorganization Tax Act and if the business units which have generated the losses

are no longer comparable to the identity of these business units at the time when the losses were generated. However, the Xerium Austria Shares Distribution could only fall within the scope of the Reorganization Tax Act if it constituted an interest of 25% or more in Reorganized Xerium, which is not likely. Thus, a forfeiture of tax losses carried forward is unlikely.

(ii) Capital Duty

When the Xerium Austria Shares Distribution is transferred to Xerium Austria by means of a contribution into the capital of Xerium Austria by an indirect shareholder without involvement of the interposed entities or a sister entity, in particular Xerium Germany ("grandparent contribution"), such transfer should not be subject to capital duty. A sister entity is an entity which has at least one shareholder in common with the entity receiving the contribution. This tax treatment is based on an opinion published by the Ministry of Finance, but has not been confirmed by the Supreme Administrative Court (Verwaltungsgerichtshof) so far.

(c) Austrian Tax Consequences of the Plan

(i) Income Tax

(1) Exchange of a Debt into Another Debt

The exchange of debt owed by Xerium Austria into another debt in the same amount, but with different terms and conditions, should generally not result in the recognition of taxable income to Xerium Austria for Austrian tax purposes.

If, upon conversion, the amount of the debt will be reduced, the reduction of the debt should be treated as a partial waiver of debt for Austrian tax purposes. Under circumstances where the debt is (fully or partially) waived for business reasons, i.e., because it cannot reasonably be expected that the debt will be (wholly) repaid, the profit derived from the waiver of debts for business reasons is taxable.

(2) Exchange of a Debt Against Xerium Stock

The reduction of debt owed by Xerium Austria in exchange for the Xerium Austria Shares Distribution, where the transfer of the Xerium Austria Shares Distribution is accepted by the creditor as a partial repayment of debt, should generally not result in the recognition of taxable income to Xerium Austria for Austrian tax purposes. If, in the course of such exchange, a portion of the debt owed by Xerium Austria is not considered as repaid but as waived by the creditor, the profit derived from the waiver of debts for business reasons is taxable to Xerium Austria. Also, if the portion of debt considered repaid exceeds the tax book value of the Xerium Austria Shares Distribution, this differential would constitute taxable income for Reorganized Xerium Austria.

(ii) Stamp Duty

(1) Treatment of Existing Debt in the Plan

Loans and credit facilities are subject to a stamp duty of 0.8% or 1.5% of the principal amount if a written agreement or certain substitute documentation is set up. The rate of 1.5% applies in case of revolving facilities granted for more than five years; the 0.8% rate applies to all other credit facilities and loans.

In principle, unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized by Austria, both parties to the agreement, i.e., the lender(s) and Xerium Austria, are liable to pay the stamp duty. A written agreement, however, does not trigger stamp duty, if the agreement is executed and kept outside of Austria and if none of the parties have rights or obligations subject to a place of performance inside of Austria. If, in such a case, certain substitute documentation is executed subsequently, e.g., correspondence sent to an Austrian address of Reorganized Xerium Austria which refers to such a loan or credit facility, stamp duty is triggered by this substitute documentation. The Ministry of Finance has published an opinion that even email correspondence can constitute such substitute documentation, which opinion has however not been upheld by the Austrian tax court upon appeal. A decision by the Austrian Supreme Administrative Court is pending.

The Plan would likely qualify as qualifying substitute documentation for existing loans and credit facilities which have not been subject to stamp duty as it would mention these existing debts. Thus, stamp duty would become due for such existing loans and credit facilities as soon as the plan is executed. If, however, the Plan is set up and kept outside of Austria and none of the parties have rights or obligations relating to the loans and credit facilities subject to a place of performance within Austria, the Plan as such should not trigger stamp duty.

(2) Treatment of New Debt in the Plan

The Plan will contain provisions on the new debt issued by Xerium Austria and thus, unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized by Austria, will qualify as a written agreement on the new debt subject to stamp duty. The stamp duty would be 0.8% or 1.5% of the principal amount of the new debt. The rules described in the preceding paragraphs apply.

Certain (partial) exemptions from any such stamp duty may apply, in particular the exemptions for an extension of credit, for amendments of, or additions to, agreements and for debt restructuring.

The exemption for extensions of credits applies when the duration of an existing credit facility, which remains in force, is extended. Extensions of credits are exempt up to an overall duration of five years. Repeated extensions of revolving credit facilities are exempt, unless the overall duration exceeds a multiple of five years.

The partial exemption for amendments of, or additions to, agreements requires that an existing agreement, which remains in force and has been evidenced in a qualifying written document, is modified by the amendment. If the parties agree on cancelling the existing

agreement and entering into a new agreement, the exemption does not apply. If the partial exemption applies, the amendment or addition is subject to stamp duty only to the extent that the base for the stamp duty is increased. As an example, an addition to a loan agreement would only be subject to stamp duty to the extent the principal amount is increased. In addition to that, stamp duty would also apply to any amount that had already been repaid, but which is, again, included in the new debt.

The partial exemption for debt restructuring applies to loan agreements and credit facilities if

- the existing debt was based on a written document that was subject to stamp duty,
- new debt is issued to a lender other than the lender of the existing debt,
- a written document on the new debt is set up containing a reference to the fact that it constitutes a debt restructuring within the meaning of the Stamp Duty Act,
- the old debt is fully repaid to the old lender and the agreement on the old debt is canceled, and both actions are completed within one month of execution of the written agreement on the new debt, and
- the debtor owing the new debt is the same as the one owing the old debt, even if by means of universal legal succession.

The partial exemption for debt restructuring provides that the new debt is not regarded as a new agreement, but as an amendment of the old agreement. Thus, the new debt would not be subject to stamp duty as a whole, but only to the extent that the base for stamp duty is increased.

In case these exemptions do not apply, the Plan should, however, not be subject to stamp duty, the Plan is executed and kept outside of Austria and if none of the parties have rights or obligations subject to a place of performance inside of Austria with respect to the new debt, even if such rights and obligations are just remotely related to the debt. Even if these requirements are met so that stamp duty does not become due on the Plan, stamp duty will become due if certain substitute documentation is executed subsequently. The preceding comments on stamp duty apply correspondingly.

(d) Austrian Tax Consequences of the Transfer of Xerium Austria Shares Distribution to the Holders of Allowed Credit Facility Claims

(i) Income Tax

When Reorganized Xerium Austria transfers the Xerium Austria Shares Distribution to the lenders in satisfaction of an obligation to repay debt, such transfer may lead to a capital gain or capital loss for tax accounting purposes depending on whether the proceeds of the transfer are greater or less than the tax book value of the New Common Stock at Xerium Austria. The proceeds would be determined as the amount of debt which is deemed repaid by transfer of the New Common Stock pursuant to the Plan. The tax book value should be,

- for the portion of shares purchased from Reorganized Xerium, equal to the purchase price of the shares under the Austria Purchase Agreement as described above,
- for the portion of shares received by means of a contribution from Reorganized Xerium, equal to the fair market value of the Xerium stock at the time of its contribution into the capital of Xerium Austria as described under "Austrian Tax Consequences of the Austria Contribution Agreement" above.

Such capital gain or loss is considered in the taxable income of Xerium Austria unless the international participation exemption applies. This exemption should, however, not apply when Xerium Austria transfers the Xerium stock because several of the conditions for the exemption do not exist. Inter alia, the exemption requires a holding period of one year which will not be met based on the Plan. Thus, the capital gain or loss, if any, resulting from the transfer of the Xerium stock should be considered in the taxable income of Xerium Austria.

However, as the transfer of the New Common Stock is intended to take place immediately after the stock has been contributed into the capital of Xerium Austria, there should not be a significant difference, if any, between the tax book value of the shares and the amount of debt deemed repaid by the transfer of the New Common Stock immediately after the contribution. Based on that, there should not be a significant taxable capital gain or loss from the transfer of the New Common Stock.

(e) Austrian Tax Consequences of Issuing a New Note to the Lenders

(i) Income Tax

When Xerium Austria incurs interest expenses for the new debt, these interest expenses will continue to be deductible as long as they are business related. If, however, the interest expenses are related to non taxable income, they are not deductible. As an exception, interest expenses incurred for the debt financing of shares are deductible even if these shares qualify for the national or international participation exemption.

(ii) Withholding Tax

The interest that Xerium Austria pays for its new debt should be subject to withholding tax only if the new debt is securitized as a bearer bond and if the interest is paid by Xerium Austria or an Austrian paying agent. In other cases, the interest should not be subject to withholding tax. In case of interest paid to a creditor which is neither an Austrian resident nor has an Austrian permanent establishment, the withholding tax would be subject to a refund procedure upon application.

(iii) Stamp Duty

Unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized by Austria, the new note(s) to be issued by Xerium Austria for the remaining amount of debt will likely qualify as a written agreement subject to stamp duty.

The stamp duty would be 0.8% or 1.5% of the principal amount. Stamp duty would not become due if the Plan or transactions effected pursuant to the confirmed Plan have already been subject to stamp duty and if the note does not constitute any additional or different rights and obligations; multiple documents evidencing one and the same loan or credit agreement are no longer subject to stamp duty following a ruling of the Austrian Constitutional Court.

The comments on the stamp duty consequences of the Plan apply accordingly.

2. **Austrian Tax Consequences of the Austrian Debt Restructuring <u>Transactions to Holders of Allowed Credit Facility Claims</u>**

Austrian Tax Consequences to holders of Allowed Credit Facility Claims are described based on the assumption that all such holders are organized as corporate entities, which may be resident in Austria or abroad.

(a) Holders that are Resident in Austria or have an Austrian permanent Establishment

(i) Income Tax

A holder is subject to unlimited corporate income tax liability in Austria if it has its registered seat or place of management within Austria. It is subject to a corporate income tax of 25% on its profit which, for tax purposes, is determined as the profit according to Austrian GAAP and the Austrian Commercial Code (Unternehmensgesetzbuch) after book-to-tax adjustments. In principle, all income is taxed as a uniform type of income.

A holder is subject to limited corporate income tax liability if it has neither its statutory seat nor its place of management within Austria, but maintains a permanent establishment within Austria. An Austrian branch of a foreign bank carrying out banking activities will, as a rule, be considered an Austrian permanent establishment. The profits of such a permanent establishment are subject to Austrian corporate income tax. Subject to some exceptions, the permanent establishment is subject to the same tax accounting rules as an Austrian resident company, which are described above. One of these exceptions relates to holders which are not established as a company covered by Appendix 2 to the EU Parent Subsidiary Directive (Directive 90/435/EEC); permanent establishments of such companies are not eligible for the participation exemption for dividends and capital gains. Another exception relates to the use of carried-forward losses; such carry-forwards may be offset only to the extent they are related to losses from the Austrian permanent establishment and to the extent that the losses exceeded the non-Austrian income of the holder for the year in which the losses were incurred; non-discrimination clauses for permanent establishments in certain tax treaties may modify these rules.

When Reorganized Xerium Austria transfers the Xerium Austria Shares Distribution to the holders of Allowed Credit Facility Claims in exchange for a portion of the Allowed Credit Facility Claims against Xerium Austria, this transaction may lead to the recognition of taxable income or a loss for the holders. If the fair market value of the portion of the Allowed Credit Facility Claims which is considered repaid upon transfer – which is intended to equal the fair market value of the Xerium Austria Shares Distribution – exceeds this portion's

tax book value, the exchange will lead to the recognition of a taxable profit of the holder. If, on the other hand, the fair market value of the portion of the Allowed Credit Facility Claims which is considered repaid upon transfer is lower than its tax book value, the exchange will lead to the recognition of a loss of the holder.

The exchange described in the preceding paragraph is considered an acquisition of the Xerium stock constituting the Xerium Austria Shares Distribution by the holders. The stock will initially be recorded in the current assets or investments of the holder at its acquisition price which is intended to be the fair market value of the exchanged portion of the Allowed Credit Facility Claims at the time of the exchange. Subsequent decreases in value of the Xerium stock leading to a write-off will be deductible unless the stock qualifies for the international participation exemption (described below); if, however, the holder has elected the stock to be tax effective in spite of qualifying for the international participation exemption, the write-off may be deductible. The loss in value needs to be substantiated by a valuation following a generally accepted method. If the stock is held for investment purposes, the loss in value needs to be a lasting loss in value in order to qualify for a tax deductible write off; write-offs shortly after the acquisition of stock held as an investment are likely not considered deductible. Subsequent capital gains from Xerium stock are taxable income to the holder unless the international participation exemption applies; if, however, the holder has elected the stock to be tax effective in spite of qualifying for the international participation exemption, the capital gain will be taxable.

Dividend income from the Xerium stock will lead to taxable income of the holders unless the international participation exemption applies. If the dividends are taxable, a foreign tax credit will likely be available based on the prorated underlying corporate income tax and prorated foreign withholding tax, limited to the tax allowed by the applicable treaty. The tax credit is limited to the Austrian tax due on the dividends, so that a foreign tax credit is not available, or not fully available, for periods without a sufficient taxable Austrian profit.

The newly introduced portfolio dividend exemption does not apply as this exemption is limited to certain European Union and European Economic Area sourced dividends. However, this limited scope of the exemption may contravene European law; a European Court of Justice judgment on this issue is pending and may lead to an exemption of dividends from Xerium stock for the holders regardless of the international participation exemption.

The international participation exemption applies to dividends and capital gains from Xerium stock subject to the following requirements:

- The holder is an Austrian resident company or a permanent establishment of a company covered by Appendix 2 to the EU Parent Subsidiary Directive (Directive 90/435/EEC).
- The holder has an interest of 10% or more in Reorganized Xerium which is held for an uninterrupted period of one year or more.

- The company in which the shares are held needs to be comparable to an Austrian company, which should be the case for a U.S. corporation based on an opinion published by the Austrian Ministry of Finance.
- The company in which the shares are held needs to pass an active business and taxation test. If the company is subject to taxation at a tax rate of 15% or less and if the company earns predominantly passive income (interest, capital gains from shares, rental income from movable property, royalties), the company will not pass the test. While normally the company needs to pass only the active business or taxation test, the participation exemption may still be denied in cases of extremely low taxation or extremely high levels of passive income.

(ii) Stamp Duty

As a rule, unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized in Austria, all parties to a loan agreement or credit facility are liable for stamp duty due for such an agreement. Thus, all comments on Austrian stamp duty in the preceding text apply to the holders of Allowed Credit Facility Claims.

(b) Holders that are not Resident in Austria and do not have an Austrian Permanent Establishment

(i) Income Tax

Holders that are not resident in Austria and that do not have an Austrian permanent establishment are subject to limited corporate income tax liability.

Profits and losses related to the exchange of a portion of Allowed Credit Facility Claims for the Xerium Austria Share Distribution should, as a rule, not be within the scope of Austrian taxation for such holders.

Dividend income or future capital gains from the stock constituting the Xerium Austria Share Distribution should, as a rule, not be within the scope of Austrian taxation for such holders.

Interest income should, similar to the situation prior to the partial exchange of Allowed Credit Facility Claims, not be within the scope of Austrian taxation for such holders except for the following cases:

- The debt is securitized as a bearer bond and the interest is paid by Xerium Austria or an Austrian paying agent. In this case, interest withholding tax would apply. However, the withholding tax should be subject to a refund procedure upon application.
- The debt is directly or indirectly secured by Austrian real estate or vessels registered in Austria.

(ii) Stamp Duty

As a rule, unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized in Austria, all parties to a loan agreement or credit facility are liable for stamp duty due for such an agreement. Thus, all comments on Austrian stamp duty in the preceding text apply to the holders of Allowed Credit Facility Claims accordingly.

3. **Austrian Tax Consequences of the Italian Debt Restructuring Transactions to Xerium Austria**

(a) Contribution of Portion of Allowed Credit Facility Claims

(i) Income Tax

When Reorganized Xerium contributes to Reorganized Xerium Austria the portion of Allowed Credit Facility Claims against Xerium Italy exchanged for the Xerium Italy Shares Distribution and all receivables related thereto, such transfer should not be recognized as taxable income of Reorganized Xerium Austria. The contribution may be carried out without new shares being issued.

For tax accounting purposes, the assets side of the balance sheet of Xerium Austria should show the Claims, which have been contributed, at fair market value. The same amount should be recorded as a capital reserve (Kapitalruecklage) in the equity section of the liabilities side of Reorganized Xerium Austria's balance sheet and should be part of the company's equity for tax purposes.

(ii) Capital Duty

When Claims against Xerium Italy are transferred to Xerium Austria by means of a contribution into the capital of Xerium Austria by Reorganized Xerium, being an indirect shareholder, without involvement of any interposed entity or a sister entity, in particular Xerium Germany ("grandparent contribution"), such transfer should not be subject to capital duty. A sister entity is an entity which has at least one shareholder in common with the entity receiving the contribution. This tax treatment is based on an opinion published by the Ministry of Finance, but has not been confirmed by the Supreme Administrative Court (Verwaltungsgerichtshof) yet.

(iii) Stamp Duty

Unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized in Austria, transfers of receivables against consideration are subject to Austrian stamp duty of 0.8% based on the consideration granted. In case of a contribution to an indirect subsidiary, the increase in value of the subsidiary and the interposed entities may be considered as consideration. If the Austria Contribution Agreement is executed outside of Austria, stamp duty should not become due on the contribution of the receivable.

(b) Forgiveness of Debt by Reorganized Xerium Austria

When Reorganized Xerium Austria forgives the Allowed Credit Facility Claims against Xerium Italy which have previously been transferred to Xerium Austria, such

forgiveness is likely considered to have its reason in the shareholder relationship between Reorganized Xerium Austria and Xerium Italy. A third party creditor would not be expected to forgive debt claims shortly after having acquired such a claim. Thus, the forgiveness would be considered an investment of Reorganized Xerium Austria into its subsidiary Xerium Italy, thus increasing the tax book value of the shares in Xerium Austria's books. The increased book value of the shares would replace the book value of the claims previously entered upon the contribution of the claims by Reorganized Xerium to Reorganized Xerium Austria. Depending on the fair market value of the Italian shares, writing off the shares may be necessary to a certain extent. If the Italian shares qualify under the international participation exemption described above, such write-off is not deductible for corporate income tax purposes unless Reorganized Xerium Austria has elected the shares in Xerium Italy to be tax effective. Even in the latter case, the write-off would only be deductible if the loss in value is permanent, supported by a valuation according to accepted standards, and does not occur within a short period of time within the acquisition of the Italian shares; if deductible, the deduction from the write-off would be spread evenly over a seven-year period.

D. Certain Canadian Tax Consequences of the Plan

The following summary is intended to address certain Canadian income tax consequences of the proposed Plan to Xerium Canada (a wholly owned Canadian subsidiary of Xerium) and the holders of Allowed Credit Facility Claims and holders of Unsecured Swap Termination Claims.

Xerium Canada has outstanding borrowings of approximately C$57,832,000 which were issued as a C$ denominated loan. The Xerium Canada debts are not convertible into shares of either Xerium Canada or Xerium.

It is assumed that the lending syndicate will receive fair value consideration in the form of Cash, Term Notes issued by Reorganized Xerium Canada and New Common Stock as repayment of Xerium Canada's debt obligations.

It is also assumed that members of the lending syndicate may transfer their rights under the Credit Facility (due from Xerium Canada) to unrelated third parties either before or as part of the proposed arrangement transactions. Further, members of the lending syndicate may also transfer their rights to the Term Notes due from Reorganized Xerium Canada to unrelated third parties after the proposed arrangement transactions.

The following summary of certain Canadian tax consequences expected to result from the implementation of the Plan is for informational purposes only and is not a substitute for careful tax planning and advice based upon the individual circumstances pertaining to a holder of an Allowed Claim. Holders of Allowed Claims are urged to consult their own tax advisors with respect to the Canadian tax consequences expected to result from the implementation of the Plan.

1. Summary Conclusions

The proposed distributions on account of the Plan should not result in a forgiveness of debt to Xerium Canada based on the understanding that the principal amount of

the Term Notes of Reorganized Xerium Canada, the amount of Cash and the value of the New Common Stock to be used to repay the debts is intended to equal the principal amount of the Allowed Credit Facility Claims against Xerium Canada (the debtor) being settled.

Any transfer of an outstanding debt due from Xerium Canada or Reorganized Xerium Canada is not expected to give rise to the application of the Canadian debt parking rules (discussed below) as the transfer price is expected to exceed 80% of the principal amount. However, even if the transfer price is less than 80% of the principal amount of the debt, it is expected that the transfer will occur between persons who deal with Xerium Canada or Reorganized Xerium Canada at arm's length and who would not have a significant interest in the debtor (Xerium Canada or Reorganized Xerium Canada). Accordingly, it is expected that the Canadian debt parking rules would not apply to such a transfer or as a result of the proposed transactions.

A transfer of debt instruments (due from Xerium Canada or Reorganized Xerium Canada) between arm's length persons should not give rise to adverse Canadian income tax consequences to either a Canadian resident or a non-resident transferor (i.e., any such transfer should be considered to occur for fair market value consideration and should not be subject to any loss limitation rule assuming the transfer would be to an arm's length unaffiliated person).

2. **Canadian Income Tax Consequences**

(a) Debt Forgiveness Rules on Distributions on Account of Credit Facility Claims

The proposed distributions on account of Xerium Canada debt through the payment of Cash consideration; the delivery of a new debt instrument (to be issued by Reorganized Xerium Canada); and the transfer of shares of New Common Stock should not give rise to debt forgiveness income based on the understanding that the aggregate of the Cash consideration plus the principal amount of the Term Notes to be issued by Reorganized Xerium Canada and the fair market value of the Reorganized Xerium share consideration are assumed to equal or exceed the principal amount of the debt obligation so repaid. The amount paid through the transfer of shares of New Common Stock is assumed to be equal to the fair market value thereof. Further, under paragraph 80(2)(h) of the Income Tax Act Canada R.S.C. 1985, c.1, 5th Supplement as amended (the "Canadian Act"), the amount deemed paid through the issuance of a new debt obligation will be equal to the principal amount of that new debt obligation.

(b) Debt Parking Rules re Transfers of Rights to the Revolver Facility or the Term Loan

A commercial debt obligation of a corporate debtor (Xerium Canada) will be deemed to be settled at the cost of the debt instrument to the holder where:

(i) the obligation is a "specified obligation" of the debtor (Xerium Canada);

(ii) the holder of the debt instrument is a person who does not deal at arm's length with the debtor or is a person who has a significant interest in the debtor as

required by subparagraph 80.01(7)(a)(ii) of the Canadian Act (the "significant interest" test is set out in paragraph 80.01(2)(b) of the Canadian Act and requires that the holder (either alone or together with non-arm's length persons) hold 25% or more of the votes and value of the debtor corporation (Xerium Canada)); and

(iii) the cost of the debt instrument was less than 80% of the principal amount of the obligation, as required by subsection 80.01(8) of the Canadian Act.

An obligation will be a specified obligation if the debt instrument was previously held by a person who dealt at arm's length with the debtor and did not have a significant interest in the debtor or the debt instrument was acquired from a person unrelated to the holder or related only because of the application of paragraph 251(5)(b) of the Canadian Act (as required by subparagraph 80.01(6)(a)(ii)).

In this context, in determining whether any two (2) persons (i.e., the holder of the debt and either Xerium Canada or Reorganized Xerium Canada, as the case may be) are related to each other or in determining whether any person is controlled by another person, the rules in paragraph 80(2)(j) of the Canadian Act will apply (the deeming rule in paragraph 80(2)(j) of the Canadian Act applies for purposes of the debt parking rules by virtue of the deeming rule in paragraph 80.01(2)(a)) to treat a partnership as if it were a corporation with a single class of voting shares divided into 100 issued shares AND each member of that partnership will be treated as owning the number of issued shares of that class that is equal to the proportion of 100 that the fair market value of that member's interest in the partnership is of the fair market value of all members' interests in the partnership. Where a partnership holds a portion of the Xerium Canada or Reorganized Xerium Canada debt instrument, the application of this deeming rule will need to be considered.

Further, when considering an entity's related party status, each person that has a right to acquire a share (whether an absolute right or a contingent right) will be treated as having exercised that right pursuant to paragraph 251(5)(b) of the Canadian Act.

It is expected that any transfer of the debt instrument from one lender to another would cause the debt instrument to become a specified obligation as the acquirer would either deal at arm's length with the debtor (Xerium Canada or Reorganized Xerium Canada) or would not have a significant interest in the debtor. Accordingly, it is expected that the first requirement for the application of the debt parking rules would be met.

Even though the Allowed Credit Facility Claims against Xerium Canada or the Term Notes of Reorganized Xerium Canada may become a specified obligation, it is expected that the second requirement for the application of the debt parking rules would not be met. In this case, it is assumed that the holders of the debt instrument would at all times deal at arm's length with the Debtor (Xerium Canada or Reorganized Xerium Canada, as the case may be) and would not have a significant interest in the Debtor (Xerium Canada or Reorganized Xerium Canada, as the case may be) (per subparagraph 80.01(2)(b) of the Canadian Tax Act). It should be noted that in determining whether a particular holder would have a significant interest in Xerium Canada or Reorganized Xerium Canada as the case may be (25% or more of the votes or value of all issued shares), one would aggregate all shareholdings held by persons non-arm's

length to that holder. It has been assumed that none of the holders of the debt instruments due from Xerium Canada (or Reorganized Xerium Canada as the case may be) could be considered to have (i) a significant interest in Xerium Canada (or Reorganized Xerium Canada as the case may be) as Xerium is indirectly the sole shareholder of Xerium Canada (and Reorganized Xerium Canada as the case may be), (ii) any relationship with Xerium Canada (or Reorganized Xerium Canada as the case may be) other than as a holder of debt instruments due from Xerium Canada (or Reorganized Xerium Canada as the case may be); or (iii) any relationship with Xerium (or Reorganized Xerium as the case may be) other than as a holder of debt instruments due from Xerium (or Reorganized Xerium as the case may be). In addition, where there is no relationship of subordination and the parties act in their own self interest (i.e., no acting in concert or with a mutuality of interests), then unrelated persons should be considered to deal with each other on an arm's length basis. Based solely on the foregoing, Xerium Canada, Xerium, Reorganized Xerium Canada and Reorganized Xerium should be treated as dealing with the holders of the debt instruments on an arm's length basis.

Further, it is noted that generally the cost of the debt instrument to the holder is expected to be at least equal to 80% of the principal amount of the obligation (in order for the debt parking rule in subsection 80.01(8) of the Canadian Act to apply, the cost of the debt instrument must be less than 80% of the principal amount of the obligation). However, even where the transfer price is less than 80% of the principal amount, the debt parking rules should still not apply to Xerium Canada or Reorganized Xerium Canada where the transferee deals at arm's length with Xerium Canada, Xerium, Reorganized Xerium Canada and Reorganized Xerium.

(c) Taxation of Holders of the Reorganized Xerium Canada Term Note

(i) Canadian Consequences of the Plan to Holders of Allowed Credit Facility Claims - Canadian Residents

A Canadian resident holder of Allowed Credit Facility Claims should recognize a gain or loss for Canadian income tax purposes on the disposition of Allowed Credit Facility Claims as a result of the Plan. Such a gain or loss would be equal to the difference between the net proceeds received (i.e., the sum of Cash, the fair value of New Common Stock and Term Notes less any costs of disposition) and the tax cost of the Allowed Credit Facility Claims. The characterization of this gain or loss will depend on the intentions of the particular Canadian resident holder and the manner in which that holder has dealt with the Xerium Canada Allowed Credit Facility Claims.

A portion of any capital loss arising on the Plan will be denied for Canadian income tax purposes per paragraph 40(2)(e.2) of the Canadian Act (i.e., the percentage of total consideration received on the settlement of the Allowed Credit Facility Claims against Xerium Canada that consists of the Term Notes of Reorganized Xerium Canada). This denied loss would be added to the tax cost of the Term Note per paragraph 53(1)(f.12) of the Canadian Act.

(ii) Canadian Tax Consequences of the Plan to Holders of Allowed Credit Facility Claims - Non Residents of Canada

A non-resident of Canada should not be taxable in Canada as a result of the Plan as the Allowed Credit Facility Claims do not qualify as "taxable Canadian property" as they are not convertible or exchangeable into Xerium Canada shares or any other form of taxable Canadian property.

(iii) Canadian Tax Consequences of the Plan to Holders of Unsecured Swap Termination Claims - Canadian Resident Recipients

A Canadian resident holder of an Unsecured Swap Termination Claim should recognize a gain or loss for Canadian income tax purposes on the disposition of that Unsecured Swap Termination Claim as a result of the Plan. Such a gain or loss would be equal to the difference between the net proceeds received (i.e., the sum of Cash, the fair value of New Common Stock and Term Notes due from Reorganized Xerium Canada less any costs of disposition) and the tax cost of the Unsecured Swap Termination Claim. The characterization of this gain or loss will depend on the intentions of the particular Canadian resident holder, the manner in which that holder has dealt with the Unsecured Swap Termination Claim, and the income tax treatment of the underlying transactions giving rise to the Swap Termination Claim. A portion of any capital loss arising as a result of the disposition of the Swap Termination Claim will be denied for Canadian income tax purposes (i.e., the percentage of total consideration received on the settlement of the Unsecured Swap Termination Claim that consists of the Term Notes of Reorganized Xerium Canada). This denied loss would be added to the tax cost of the Term Note due from Reorganized Xerium Canada.

(iv) Canadian Tax Consequences of the Plan to Holders of Unsecured Swap Termination Claims that are Non-Residents of Canada

There should not be any Canadian income tax consequences to a non-resident person on the disposition of property pursuant to the Plan if such person does not carry on business in Canada, is not employed in Canada, and does not dispose of taxable Canadian property. The swap termination claim should not represent taxable Canadian property based on the understanding that it arose with respect to Allowed Credit Facility Claims that are not taxable Canadian property.

(v) Canadian Taxation of Interest Income - Canadian Resident Persons

Canadian resident persons will be taxable on the payment or accrual of interest income on debt obligations issued by either Xerium, Xerium Canada, Reorganized Xerium or Reorganized Xerium Canada. This should not change as a result of the proposed transactions.

(vi) Canadian Taxation of Interest Income - Non-Resident Persons

Non-resident persons would not be subject to Canadian income tax on Canadian source interest income.

(vii) Canadian Withholding Tax on Payments of Interest by Xerium Canada

Payments of interest to arm's length non-resident persons should generally not be subject to Canadian withholding tax. However, it must be clear that the payment is truly "interest" and is not a disguised profit allocation. In particular, no portion of the interest can be "participating interest" (i.e., where all or any portion of the interest is "contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders"). Provided that there is no relationship of subordination and the parties act in their own self-interest (i.e., no acting in concert or with a mutuality of interests), then unrelated persons should be considered to deal with each other on an arm's length basis.

In addition, interest payable by Reorganized Xerium Canada on its indebtedness may be exempt from Canadian withholding tax to the extent payable to a holder that is entitled to the benefits of the income tax treaty currently in effect between the United States and Canada. A holder of Xerium Canada indebtedness is urged to consult its own tax advisor regarding such holder's entitlement to an exemption from Canadian withholding tax with respect to interest payments made to such holder, including any applicable exemption pursuant to the income tax treaty currently in effect between the United States and Canada.

E. Certain Italian Tax Consequences of the Plan

The following summary of certain Italian tax consequences expected to result from the implementation of the Plan is for informational purposes only and is not a substitute for careful tax planning and advice based upon the individual circumstances pertaining to a holder of an Allowed Claim. Holders of Allowed Claims are urged to consult their own tax advisors with respect to the Italian tax consequences expected to result from the implementation of the Plan.

Xerium Italy is a limited liability company, organized under the law and having its statutory seat in Italy. The company is in fiscal unity with Huyck.Wangner Italia S.p.A., another Italian company. It is subject to a corporate income tax of 27% plus 3.9% IRAP on its profit which, for tax purposes, is determined as the profit according to Italian GAAP and the Italian Tax Code.

1. **Italian Tax Consequences of the Exchange of Xerium Shares <u>with a Loan Receivable</u>**

The Debtors understand that Reorganized Xerium will issue new shares and transfer such new shares to the lenders (the "<u>Xerium Italy Lenders</u>") to Xerium Italy under the Credit Facility. Under the Plan, the Xerium Italy Lenders will exchange a portion of the loans and all connected obligations to Reorganized Xerium. This transaction is referred to as "Xerium Italy Exchange" and the loan receivable and connected obligations are referred to as "Allowed Credit Facility Claims".

(a) Income Tax

The transfer of a loan receivable by the lenders in exchange of shares would be deemed as a true sale, under Italian Tax Law, article 9 of Decree 917/1986, at a consideration equal to the fair market value of the assets received.

The difference between the tax base of the receivable and the fair market value of the shares received is taxable / deductible as business income, at 27% + 3.9% = 31.4% rate.

(b) Stamp Duty and Other Indirect Taxation

There should be no stamp duty on this transaction. In addition to the exemption provided under section 1146 of the Bankruptcy Code, a flat registration tax of €168.00 may apply if such deeds are notarized in Italy and deposited with the local Tax Office.

The transfer of shares is VAT exempt under Italian law.

2. **Italian Tax Consequences of the Forgiveness of Allowed Credit Facility Claims Against Xerium Italy**

The Debtors understand that Xerium will contribute to the equity of Reorganized Xerium Austria a portion of the Allowed Credit Facility Claims. As a consequence of such transaction, Reorganized Xerium Austria will be the beneficial owner of the contributed Allowed Credit Facility Claims. Immediately thereafter, Reorganized Xerium Austria shall forgive the Allowed Credit Facility Claims against Xerium Italy.

(a) Income Tax

According to Italian Tax Code, a forgiveness / waiver of a receivable is considered as a taxable event both for the creditor and the debtor. The income / loss upon forgiveness is accounted as an extraordinary income / loss, according to Italian GAAP.

As a consequence, on the one hand, the lender should recognize a capital loss equal to the book value of the asset receivable forgiven, which is deductible for Italian tax purposes. On the other hand, the debtor should recognize a capital gain, equal to the book value of the payable forgiven that is subject to tax. Please note the above mentioned capital gain / loss is subject to IRES at 27.5%.

Italian tax law provides for an exception on the above rule. According to article 84.4 of the Italian Income Tax Code, forgiveness / waiver of receivables is not taxable in the hands of the debtor to the extent the holder of the receivable is a direct shareholder.

Based on the above provisions, the forgiveness by Reorganized Xerium Austria of Allowed Credit Facility Claims against Xerium Italy is exempt from income tax consequences.

(b) Withholding Tax

Forgiveness of the receivable by Reorganized Xerium Austria does not trigger any withholding tax from an Italian standpoint.

(c) Stamp Duty, Other Indirect Taxation

There should be no stamp duty nor other indirect taxation related to such forgiveness.

3. **Italian Tax Implications for Xerium Italy and Xerium Italy Lenders Regarding the Residual Balance of the Loans**

(a) Income Tax

Interest expense accrued by Xerium Italy on the Term Notes will be deductible by Xerium Italy consolidated income according to the provisions set off by article 96 of the Italian Tax Code. Based on such provision, interest expenses would be deductible on an accrual basis, up to the amount of interest income. Any excess net interest expenses would be deductible on accrual, up to 30% of the Italian consolidated EBITDA. Any further excess can be carried forward indefinitely and would be deductible within the above-described limitations. However, for the interest paid with respect to the portion of the Credit Facility that is allocable to a Xerium Lender that is resident in a country currently considered as a "black listed country" under the provisions of article 110 of the Italian Tax Code, deduction of interest would not be allowed unless it is demonstrated that such Xerium Italy Lenders are effectively engaged in a bona fide trade or business and that a substantial benefit exists to Xerium Italy.

Xerium Italy Lenders resident in Italy would be taxed on the interest income from the Term Note on accrual basis. Xerium Italy Lenders that are Italian non-residents would be subject to withholding tax of 12.5%, unless the beneficial owner of the interest is eligible for a reduced rate pursuant to an applicable double tax treaty between Italy and the country of residence of the applicable Xerium Italy Lender.

(b) Stamp Duty, Other Indirect Taxation

The Term Notes to be issued by Reorganized Xerium Italy are anticipated to take the form of a financing ("finanziamento"), and should not be subject to Italian stamp duty. However, if the Term Notes to be issued by Reorganized Xerium Italy are issued as "cambiale", then in principle, unless the exemption provided under section 1146 of the Bankruptcy Code referenced above is recognized by Italy, both parties to the agreement, i.e., the lender(s) and Xerium Italy, are liable to pay a 1.2% stamp duty on the issuance of such Term Notes (cambiale).

XII.

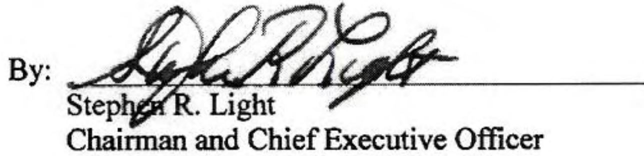
CONCLUSION

The Debtors believe the Plan is in the best interests of all creditors and urge the holders of Impaired Claims in Class 2 and Class 5 to vote to accept the Plan and to evidence such acceptance by returning their signed ballots so that they will be received by the Voting Agent no later than 4:00 p.m. (prevailing Eastern time) on March 22, 2010.

Dated: March 2, 2010

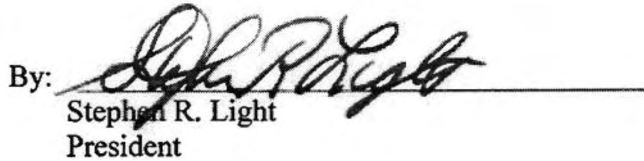
Respectfully submitted,

Xerium Technologies, Inc.



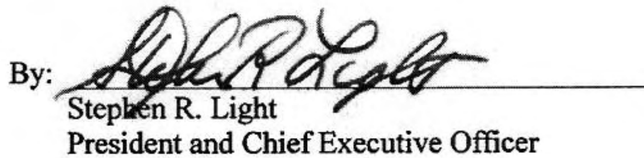
By: ______________________
Stephen R. Light
Chairman and Chief Executive Officer

Xerium III (US) Limited
Xerium IV (US) Limited
Xerium V (US) Limited
Huyck Licensco Inc.
Stowe Woodward Licensco LLC
Wangner Itelpa I LLC
Wangner Itelpa II LLC
Xerium Asia, LLC



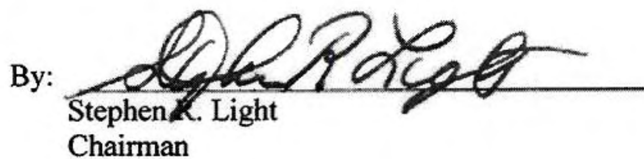
By: ______________________
Stephen R. Light
President

Stowe Woodward LLC
Weavexx, LLC
Xerium Canada Inc.



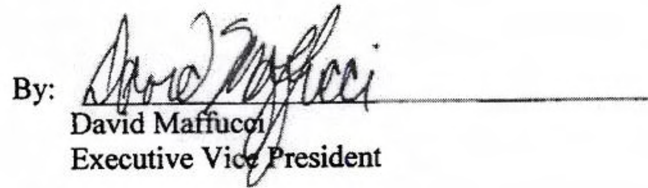
By: ______________________
Stephen R. Light
President and Chief Executive Officer

Xerium Italia S.p.A.

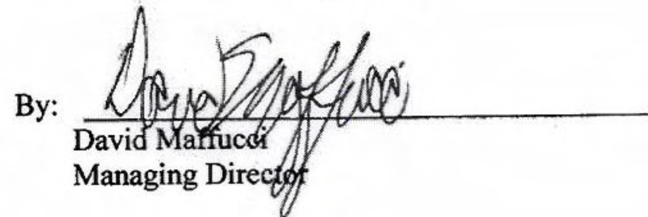


By: ______________________
Stephen R. Light
Chairman

XTI LLC

By: 
David Maffucci
Executive Vice President

Xerium Germany Holding GmbH

By: 
David Maffucci
Managing Director

Huyck.Wangner Austria GmbH

By: ______________________________

David Pretty
Managing Director

EXHIBIT A

DEBTORS' JOINT PREPACKAGED PLAN OF REORGANIZATION

--- x

In re	:	Chapter 11
	:	
XERIUM TECHNOLOGIES, INC., et al.,		Case No. __-_____ ( )
	:	
Debtors.	:	(Jointly Administered)

--- x

DEBTORS' JOINT PREPACKAGED PLAN OF
REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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Xerium Technologies, Inc.; Huyck Licensco Inc.; Stowe Woodward Licensco LLC; Stowe Woodward LLC; Wangner Itelpa I LLC; Wangner Itelpa II LLC; Weavexx, LLC; Xerium Asia, LLC; Xerium III (US) Limited; Xerium IV (US) Limited; Xerium V (US) Limited; XTI LLC; [Xerium Canada Inc.; Huyck.Wangner Austria GmbH; Xerium Germany Holding GmbH; and Xerium Italia S.p.A.], as debtors and debtors in possession in the above-captioned chapter 11 cases, propose the following joint prepackaged chapter 11 plan of reorganization pursuant to section 1121(a) of title 11 of the United States Code:

SECTION 1. DEFINITIONS AND INTERPRETATION

A. Definitions.

The following terms used herein shall have the respective meanings defined below (such meanings to be equally applicable to both the singular and plural):

1.1 ***Administrative Agent*** means Citicorp North America, Inc., as administrative and collateral agent under the Credit Facility.

1.2 ***Administrative Expense Claim*** means any right to payment constituting a cost or expense of administration of any of the Reorganization Cases Allowed under and in accordance with, as applicable, sections 330, 364, 365, 503(b), 507(a)(2), and 507(b) of the Bankruptcy Code, including, without limitation, (a) any actual and necessary costs and expenses of preserving the Debtors' estates or operating the Debtors' businesses, (b) any indebtedness or obligations incurred or assumed by the Debtors, as debtors in possession, during the Reorganization Cases, and (c) any compensation for professional services rendered and reimbursement of expenses incurred by a professional retained by order of the Bankruptcy Court or otherwise Allowed pursuant to section 503(b) of the Bankruptcy Code. Any fees or charges assessed against the estate of any of the Debtors under section 1930, chapter 123, title 28, United States Code are excluded from the definition of "Administrative Expense Claim" and shall be paid in accordance with Section 12.1 of the Plan.

1.3 ***Allowed*** means, with respect to any Claim or Equity Interest, any Claim or Equity Interest as to which (a) no objection to the allowance and no request for estimation have been interposed on or before the deadline established in Section 7.2 of the Plan or such other deadline established by the Bankruptcy Court or (b) any timely objection or request for estimation has been withdrawn with prejudice or determined by a Final Order to the extent such determination is in favor of the respective holder.

1.4 ***Amended and Restated Credit Agreement*** means that certain second amended and restated credit and guaranty agreement, to be effective as of the Effective Date, among the Reorganized Borrowers, as borrowers, the Reorganized Debtors, the Non-Debtor Guarantors, and Robec Brazil LLC, as guarantors, and Citicorp North America, Inc., as administrative and collateral agent (as amended or otherwise modified from time to time in accordance with the terms thereof), in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the form set forth in the Plan Supplement.

1.5 ***Amended and Restated Credit Facility*** means, collectively (a) the Amended and Restated Credit Agreement, (b) the Amended and Restated Pledge and Security Agreement, and (c) the related amended and restated loans, guarantees, pledges, security agreements, and other agreements and documents to be given or issued pursuant to or in connection with, the foregoing, having the principal terms and conditions set forth in Exhibit A to the Plan.

1.6 ***Amended and Restated Pledge and Security Agreement*** means that certain amended and restated pledge and security agreement, to be effective as of the Effective Date, among the collateral agent under the Amended and Restated Credit Agreement, the Reorganized U.S. Debtors, and Robec Brazil LLC, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the form set forth in the Plan Supplement.

1.7 ***Austria Contribution Agreement*** means the contribution agreement between Reorganized Xerium and Reorganized Xerium Austria to be effective on the Effective Date, substantially in the form set forth in the Plan Supplement.

1.8 ***Austria Note*** means the note to be issued by Reorganized Xerium Austria to Reorganized Xerium on the Effective Date, substantially in the form set forth in the Plan Supplement (a) in a principal amount equal to 99% of the United States dollar equivalent of €8,623,016 based on the "New York Closing" conversion rate published online at http://online.wsj.com for February 23, 2010, which amount shall be restated on the date that is two (2) business days prior to the Effective Date using the "New York Closing" conversion rate published online at http://online.wsj.com for such date and (b) bearing interest at a rate not to exceed 9.25% per annum and subordinated to all debt for which Reorganized Xerium Austria is an obligor.

1.9 ***Austria Purchase Agreement*** means the purchase and sale agreement between Reorganized Xerium and Reorganized Xerium Austria to be effective on the Effective Date, substantially in the form set forth in the Plan Supplement.

1.10 ***Bankruptcy Code*** means title 11 of the United States Code, as amended from time to time, as applicable to the Reorganization Cases.

1.11 ***Bankruptcy Court*** means the United States Bankruptcy Court for the District of Delaware having jurisdiction over the Reorganization Cases, and to the extent of any reference made under section 157 of title 28 of the United States Code, the unit of such District Court having jurisdiction over the Reorganization Cases under section 151 of title 28 of the United States Code.

1.12 ***Bankruptcy Rules*** means the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as amended from time to time, applicable to the Reorganization Cases, and any local rules of the Bankruptcy Court.

1.13 ***Borrowers*** means Xerium, XTI LLC, Xerium Italy, Xerium Canada, Xerium Austria, and Xerium Germany.

1.14 ***Business Day*** means any day other than a Saturday, a Sunday, or any other day on which banking institutions in New York, New York are required or authorized to close by law or executive order.

1.15 ***Canada Direction Letter Agreement*** means the direction letter agreement between Reorganized Xerium Canada and Reorganized Xerium V to be effective on the Effective Date, substantially in the form set forth in the Plan Supplement.

1.16 ***Cash*** means legal tender of the United States of America.

1.17 ***Claim*** has the meaning set forth in section 101(5) of the Bankruptcy Code, and for the avoidance of doubt, includes Administrative Expense Claim.

1.18 ***Class*** means any group of substantially similar Claims or Equity Interests classified by the Plan pursuant to sections 1122 and 1123(a)(1) of the Bankruptcy Code.

1.19 ***Collateral*** means any property or interest in property of the estate of any Debtor subject to a lien, charge or other encumbrance to secure the payment or performance of a Claim, which lien, charge or other encumbrance is not subject to avoidance or otherwise invalid under the Bankruptcy Code or applicable nonbankruptcy law.

1.20 ***Commencement Date*** means the date on which each of the Debtors commenced its respective Reorganization Case.

1.21 ***Commitment Letter*** means that certain Commitment Letter, dated February 26, 2010, as amended and modified from time to time, between Citigroup Global Markets Inc. and Xerium, including the term sheets attached thereto, set forth in Exhibit B to the Plan.

1.22 ***Confirmation Date*** means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order.

1.23 ***Confirmation Hearing*** means the hearing to be held by the Bankruptcy Court regarding confirmation of the Plan, as such hearing may be adjourned or continued from time to time.

1.24 ***Confirmation Order*** means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

1.25 ***Credit Facility*** means that certain Amended and Restated Credit and Guaranty Agreement, dated as of May 30, 2008, as amended prior to the Effective Date, by and among the Borrowers, as borrowers, the Debtors and the Non-Debtor Guarantors, as guarantors, the Administrative Agent, and the lenders party thereto, and any notes, guarantees, pledges, security agreements, or other agreements or documents given or issued pursuant thereto or in connection therewith.

1.26 ***Credit Facility Claims*** means the Secured Claims arising under the Credit Facility, other than a Deferred Waiver Claim.

1.27 ***Debtors*** means Xerium; Huyck Licensco Inc.; Stowe Woodward Licensco LLC; Stowe Woodward LLC; Wangner Itelpa I LLC; Wangner Itelpa II LLC; Weavexx, LLC; Xerium Asia, LLC; Xerium III (US) Limited; Xerium IV (US) Limited; Xerium V; XTI LLC; [Xerium Canada; Xerium Austria; Xerium Germany; and Xerium Italy].

1.28 ***Deferred Waiver Claim*** means the unpaid principal amount of the Secured Claim arising under section 4 of the First Credit Facility Waiver.

1.29 ***DIP Credit Agreement*** means that certain debtor in possession credit and guaranty agreement, to be dated on or about the Commencement Date, by and among Xerium, as borrower, the U.S. Debtors (other than Xerium), as guarantors, Citicorp North America, Inc., as administrative agent and issuing bank, and the lender parties thereto (as amended or otherwise modified from time to time in accordance with the terms thereof).

1.30 ***DIP Facility*** means, collectively (a) the DIP Credit Agreement and (b) the related loans, guarantees, pledges, security agreements, and other agreements and documents to be given or issued pursuant to or in connection with, the foregoing, having the principal terms and conditions set forth in the Commitment Letter.

1.31 ***Disbursement Agent*** means any entity (including any applicable Debtor if it acts in such capacity) in its capacity as a Disbursement Agent under Sections 6.4, 6.5, and 6.7 hereof.

1.32 ***Disclosure Statement*** means that written disclosure statement, dated March 2, 2010, relating to the Plan, including, without limitation, all exhibits and schedules thereto, as the same may be amended, supplemented, or otherwise modified from time to time, as approved by the Bankruptcy Court pursuant to sections 1125 and 1126(b) of the Bankruptcy Code.

1.33 ***Disputed*** means, with respect to any Claim or Equity Interest, any Claim or Equity Interest as to which an objection to allowance or a request for estimation has been interposed on or before the deadline established in Section 7.2 of the Plan and such objection or request has not been withdrawn with prejudice or determined by a Final Order.

1.34 ***Distributable Share*** means, with reference to any distribution on account of any Allowed Credit Facility Claim, Allowed Secured Swap Termination Claim, or Allowed Unsecured Swap Termination Claim, a distribution equal in amount to the ratio (expressed as a percentage) that the amount such Allowed Claim bears to the aggregate amount of (a) Allowed Credit Facility Claims, Allowed Secured Swap Termination Claims, and Allowed Unsecured Swap Termination Claims plus (b) Disputed Credit Facility Claims, Disputed Secured Swap Termination Claim, and Disputed Unsecured Swap Termination Claims, if any, until disallowed.

1.35 ***Distribution Record Date*** means the record date for purposes of making distributions under the Plan on account of Allowed Claims and Allowed Equity Interests, which date shall be (a) the Confirmation Date, with respect to (i) all Allowed Claims and (ii) all Allowed Equity Interests in the Subsidiary Debtors and (b) the day immediately preceding the Effective Date, with respect to all Allowed Equity Interests in Xerium represented by issued and outstanding shares of Existing Common Stock.

1.36 ***Effective Date*** means the Business Day on or after the Confirmation Date specified by the Debtors on which (a) no stay of the Confirmation Order is in effect and (b) the conditions to the effectiveness of the Plan specified in Section 9 hereof have been satisfied or waived.

1.37 ***Entity*** has the meaning set forth in section 101(15) of the Bankruptcy Code.

1.38 ***Equity Interest*** means the interest of any holder of an equity security of any of the Debtors represented by any issued and outstanding shares of common or preferred stock or other instrument evidencing a present ownership or membership interest in any of the Debtors, whether or not transferable, or any option, warrant or right, contractual or otherwise, to acquire any such interest.

1.39 ***Existing Common Stock*** means the shares of common stock of Xerium, par value $0.01 per share, issued and outstanding immediately prior to the Effective Date.

1.40 ***Existing Management Agreement*** means an employment agreement between a Debtor and a member of its senior management employed by the Debtor in such capacity immediately prior to the Effective Date.

1.41 ***Existing Management Incentive Plan*** means the 2005 Equity Incentive Plan of Xerium, including any outstanding awards thereunder, in effect as of the Commencement Date.

1.42 ***Exit Facility*** means, collectively (a) the Exit Facility Credit Agreement, (b) the Exit Facility Pledge and Security Agreement, and (c) the related loans, guarantees, pledges, security agreements, and other agreements and documents to be given or issued pursuant to or in connection with, the foregoing, having the principal terms and conditions set forth in the Commitment Letter.

1.43 ***Exit Facility Credit Agreement*** means that certain credit and guaranty agreement, to be effective as of the Effective Date, by and among the Reorganized Borrowers, as borrowers, the Reorganized Debtors, the Non-Debtor Guarantors, and Robec Brazil LLC, as guarantors, Citicorp North America, Inc., as administrative agent, collateral agent, and issuing bank, and the lender parties thereto (as amended or otherwise modified from time to time in accordance with the terms thereof), in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the form set forth in the Plan Supplement.

1.44 ***Exit Facility Pledge and Security Agreement*** means that certain pledge and security agreement among the collateral agent under the Exit Facility Credit Agreement, the Reorganized U.S. Debtors, and Robec Brazil LLC, to be effective as of the Effective Date, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the form set forth in the Plan Supplement.

1.45 ***Final Order*** means an order or judgment of a court of competent jurisdiction that has been entered on the docket maintained by the clerk of such court which has not been reversed, vacated or stayed and as to which (a) the time to appeal, petition for certiorari

or move for a stay, new trial, reargument or rehearing has expired and as to which no appeal, petition for certiorari or other proceedings for a stay, new trial, reargument or rehearing shall then be pending or (b) if an appeal, writ of certiorari, stay, new trial, reargument or rehearing thereof has been sought, (i) such order or judgment shall have been affirmed by the highest court to which such order was appealed, certiorari shall have been denied, or a stay, new trial, reargument or rehearing shall have been denied or resulted in no modification of such order, and (ii) the time to take any further appeal, petition for certiorari or move for a stay, new trial, reargument or rehearing shall have expired; provided, however, that the possibility that a motion pursuant to section 502(j) or 1144 of the Bankruptcy Code or under Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed relating to such order shall not cause such order to not be a "Final Order."

1.46 ***First Credit Facility Waiver*** means that certain Waiver and Amendment No. 1, dated as of September 29, 2009, by and among the Borrowers, as borrowers, the Debtors and the Non-Debtor Guarantors, as guarantors, the Administrative Agent, and the lenders party thereto.

1.47 ***Fourth Credit Facility Waiver*** means that certain Waiver and Amendment No. 4, dated as of February 26, 2010, by and among the Borrowers, as borrowers, the Debtors and the Non-Debtor Guarantors, as guarantors, the Administrative Agent, and the lenders party thereto.

1.48 ***General Unsecured Claim*** means any Claim against any of the Debtors that (a) is not an Administrative Expense Claim, Priority Tax Claim, Priority Non-Tax Claim, Secured Claim, Unsecured Swap Termination Claim, or Intercompany Claim or (b) is otherwise determined by the Bankruptcy Court to be a General Unsecured Claim.

1.49 ***Germany Assumption Agreement*** means the assumption agreement between Reorganized Xerium and Reorganized Xerium Germany to be effective on the Effective Date, substantially in the form set forth in the Plan Supplement.

1.50 ***Impaired*** has the meaning set forth in section 1124 of the Bankruptcy Code.

1.51 ***Intercompany Claim*** means any Claim held by (a) a Debtor against another Debtor or (b) a non-Debtor subsidiary of a Debtor against a Debtor.

1.52 ***Intercreditor Agreement*** means the intercreditor agreement, to be effective as of the Effective Date, by and among the collateral agent under the Amended and Restated Credit Agreement (as amended or otherwise modified from time to time in accordance with the terms thereof), the collateral agent under the Exit Facility Credit Agreement (as amended or otherwise modified from time to time in accordance with the terms thereof), the Reorganized Debtors, the Non-Debtor Guarantors, and Robec Brazil LLC, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the form set forth in the Plan Supplement.

1.53 ***New Boards*** means the respective boards of directors or other governing bodies, as the case may be, of the Reorganized Debtors appointed pursuant to Section 5.9(d) of the Plan.

1.54 ***New Common Stock*** means the shares of common stock of Reorganized Xerium, par value $0.001 per share, issued or outstanding on or after the Effective Date

1.55 ***New Management Incentive Plan*** means the 2010 Equity Incentive Plan of Reorganized Xerium, to be effective as of the Effective Date, substantially in the form set forth in Exhibit C to the Plan.

1.56 ***New Warrants*** means the warrants to purchase New Common Stock to be issued by Reorganized Xerium on the Effective Date, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the form set forth in the Plan Supplement, and having the principal terms and conditions set forth in Exhibit D to the Plan.

1.57 ***Nominating Agreements*** means the nominating agreements by and between Reorganized Xerium and each of American Securities LLC, Carl Marks Strategic Investments, L.P., and Cerberus Capital Management, L.P., on behalf of its affiliated funds and accounts, to be effective on the Effective Date, in each case, in form and substance reasonably satisfactory to the parties thereto and substantially in the form set forth in the Plan Supplement.

1.58 ***Non-Debtor Guarantors*** means Huyck Wangner Australia Pty Ltd; Xerium do Brasil Ltda; Xerium Technologies Brasil Indústria e Comércio SA; Wangner Itelpa Participacoes Ltda; Stowe Woodward France SAS; Xerium (France) SAS; Huyck Wangner Japan Ltd; Stowe Woodward Mexico SA de CV; TIAG Transworld Interweaving GmbH; Huyck Wangner UK Limited; Stowe Woodward (UK) Limited; Xerium Technologies Limited; Huyck Wangner Scandinavia AB; Stowe Woodward Sweden AB; Huyck Wangner Vietnam Co Ltd; Huyck Wangner Germany GmbH; Stowe Woodward AG; and Robec Walzen GmbH.

1.59 ***Non-U.S. Debtors*** means [Xerium Canada, Xerium Austria, Xerium Germany, and Xerium Italy].

1.60 ***Non-U.S. Term Notes*** means those Term Notes for which the Reorganized Non-U.S. Debtors are obligors.

1.61 ***Other Secured Claim*** means a Secured Claim that is not a Credit Facility Claim, a Secured Swap Termination Claim, or a Claim arising under the DIP Facility. For the avoidance of doubt, "Other Secured Claim" includes the Deferred Waiver Claim.

1.62 ***Plan*** means this joint plan of reorganization, including the exhibits and schedules hereto and the Plan Supplement, as the same may be amended or modified from time to time in accordance with the provisions of the Bankruptcy Code.

1.63 ***Plan Documents*** means the documents to be executed, delivered, assumed, or performed in connection with the consummation and implementation of the Plan including, but not limited to, the New Warrants, the Restated Charters, the Restated Bylaws, the

Amended and Restated Credit Agreement, the Amended and Restated Pledge and Security Agreement, the Nominating Agreements, the Registration Rights Agreement, the Shareholder Rights Plan, the Intercreditor Agreement, the Exit Facility Credit Agreement, the Exit Facility Pledge and Security Agreement, the Austria Contribution Agreement, the Austria Purchase Agreement, the Austria Note, the Germany Assumption Agreement, the Canada Direction Letter Agreement, the U.S. Direction Letter Agreement, the Existing Management Agreements, the Existing Management Incentive Plan, and the New Management Incentive Plan.

1.64 ***Plan Supplement*** means the supplemental appendix to the Plan, described in Section 10.6 of the Plan.

1.65 ***Preferred Stock*** means the shares of preferred stock of Reorganized Xerium authorized to be issued on or after the Effective Date.

1.66 ***Priority Non-Tax Claim*** means any Claim against any of the Debtors, other than an Administrative Expense Claim or a Priority Tax Claim, entitled to priority in payment as specified in sections 507(a)(3), (4), (5), (6), (7) or (9) of the Bankruptcy Code.

1.67 ***Priority Tax Claim*** means any Claim of a governmental unit of the kind entitled to priority in payment as specified in sections 502(i) and 507(a)(8) of the Bankruptcy Code.

1.68 ***Pro Rata Share*** means, with reference to any distribution on account of any Allowed Equity Interest in Xerium or any Allowed Claim, a distribution equal in amount to the ratio (expressed as a percentage) that the amount such Allowed Equity Interest or Allowed Claim bears to the aggregate amount of (a) Allowed Equity Interests in Xerium or Allowed Claims in such Class, as the case may be plus (b) Disputed Equity Interests in Xerium or Disputed Claims in such Class, as the case may be, if any, until disallowed.

1.69 ***Registration Rights Agreement*** means the registration rights agreement by and among Reorganized Xerium, American Securities LLC, Carl Marks Strategic Investments, L.P., Cerberus Capital Management, L.P., on behalf of its affiliated funds and accounts, and certain other holders of New Common Stock or New Warrants that may be deemed to be "underwriters" under section 1145 of the Bankruptcy Code or 2(a)(11) of the Securities Act, or "issuers" under section 2(a)(11) of the Securities Act, to be effective on the Effective Date, in form and substance reasonably satisfactory to the parties thereto and substantially in the form set forth in the Plan Supplement.

1.70 ***Reorganization Cases*** means the voluntary cases under chapter 11 of the Bankruptcy Code commenced by the Debtors in the United States Bankruptcy Court for the District of Delaware.

1.71 ***Reorganized Borrowers*** means the Borrowers, as reorganized on and after the Effective Date in accordance with the Plan.

1.72 ***Reorganized Debtors*** means the Debtors, as reorganized on and after the Effective Date in accordance with the Plan.

1.73 ***Reorganized Non-U.S. Debtors*** means the Non-U.S. Debtors, as reorganized on and after the Effective Date in accordance with the Plan.

1.74 ***Reorganized U.S. Debtors*** means the U.S. Debtors, as reorganized on and after the Effective Date in accordance with the Plan.

1.75 ***Reorganized Xerium*** means Xerium, as reorganized on and after the Effective Date in accordance with the Plan.

1.76 ***Reorganized Xerium Austria*** means Xerium Austria, as reorganized on and after the Effective Date in accordance with the Plan.

1.77 ***Reorganized Xerium Canada*** means Xerium Canada, as reorganized on and after the Effective Date in accordance with the Plan.

1.78 ***Reorganized Xerium Canada Preferred Stock*** means the shares of Series A preferred stock of Reorganized Xerium Canada, with no par value, issued or outstanding on or after the Effective Date.

1.79 ***Reorganized Xerium Germany*** means Xerium Germany, as reorganized on and after the Effective Date in accordance with the Plan.

1.80 ***Reorganized Xerium Italy*** means Xerium Italy, as reorganized on and after the Effective Date in accordance with the Plan.

1.81 ***Reorganized Xerium V*** means Xerium V, as reorganized on and after the Effective Date in accordance with the Plan.

1.82 ***Restated Bylaws*** means the respective amended and restated bylaws or equivalent documents, as applicable, of each of the Reorganized Debtors to be adopted on the Effective Date, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the forms set forth in the Plan Supplement.

1.83 ***Restated Charters*** means the respective amended and restated corporate charters, certificates of incorporation, or equivalent organizational documents, as applicable, of each of the Reorganized Debtors to be adopted and filed by the Reorganized Debtors in their respective jurisdictions of incorporation, formation, or organization on the Effective Date, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the forms set forth in Plan Supplement.

1.84 ***Secured Claim*** means a Claim to the extent (a) of the value of the Collateral securing such Claim, (b) determined by a Final Order in accordance with section 506(a) of the Bankruptcy Code as secured, or (c) of any rights of setoff of the holder thereof under section 553 of the Bankruptcy Code.

1.85 ***Secured Lender Ad Hoc Working Group*** means American Securities LLC, on behalf of its affiliated funds; ING Investment Management Co., on behalf of its affiliated funds; Carl Marks Strategic Investments, L.P.; Citicorp North America, Inc.; Cerberus

Capital Management, L.P., on behalf of its affiliated funds and accounts; and Harbourmaster Capital Management Ltd.

1.86 ***Secured Swap Termination Agreement*** means that certain Forbearance Agreement, dated as of January 4, 2010, by and among Xerium, XTI LLC, and Merrill Lynch Capital Services, Inc., as amended from time to time.

1.87 ***Secured Swap Termination Claim*** means a Secured Claim arising under the Secured Swap Termination Agreement.

1.88 ***Securities Act*** means the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

1.89 ***Shared Collateral Claims*** means Credit Facility Claims and Secured Swap Termination Claims.

1.90 ***Shareholder Rights Plan*** means the shareholder rights plan of Reorganized Xerium, to be effective as of the Effective Date, in form and substance reasonably satisfactory to the Secured Lender Ad Hoc Working Group and substantially in the form set forth in Plan Supplement.

1.91 ***Subsidiary Debtors*** means Huyck Licensco Inc.; Stowe Woodward Licensco LLC; Stowe Woodward LLC; Wangner Itelpa I LLC; Wangner Itelpa II LLC; Weavexx, LLC; Xerium Asia, LLC; Xerium III (US) Limited; Xerium IV (US) Limited; Xerium V; XTI LLC; [Xerium Canada; Xerium Austria; Xerium Germany; and Xerium Italy].

1.92 ***Tax Code*** means the Internal Revenue Code of 1986, as amended from time to time, and the Treasury regulations promulgated thereunder.

1.93 ***Term Notes*** means the second lien term notes in the aggregate principal amount of $410,000,000.00 (four hundred ten million dollars) to be issued under the Amended and Restated Credit Facility on the Effective Date.

1.94 ***Unsecured Swap Termination Agreement*** means that certain Forbearance Agreement, dated as of December 31, 2009, by and among Xerium, XTI LLC, Xerium Canada, and Deutsche Bank AG, as amended from time to time.

1.95 ***Unsecured Swap Termination Claim*** means collectively (a) the Termination Claim as defined in the Unsecured Swap Termination Agreement and (b) the Unsecured Swap Termination Interest Component.

1.96 ***Unsecured Swap Termination Interest Component*** means interest on the Termination Claim (as defined in the Unsecured Swap Termination Agreement) as provided in section 3(a) of the Unsecured Swap Termination Agreement, that is accrued and unpaid through the date immediately prior to the Effective Date.

1.97 ***U.S. Debtors*** means Xerium; Huyck Licensco Inc.; Stowe Woodward Licensco LLC; Stowe Woodward LLC; Wangner Itelpa I LLC; Wangner Itelpa II LLC;

Weavexx, LLC; Xerium Asia, LLC; Xerium III (US) Limited; Xerium IV (US) Limited; Xerium V; and XTI LLC.

1.98 ***U.S. Direction Letter Agreement*** means the direction letter agreement between Reorganized Xerium V and Reorganized Xerium to be effective on the Effective Date, substantially in the form set forth in the Plan Supplement.

1.99 ***Xerium*** means Xerium Technologies, Inc.

1.100 ***Xerium Austria*** means Huyck.Wangner Austria GmbH.

1.101 ***Xerium Austria Shares Distribution*** means the shares of New Common Stock to which the holders of Allowed Credit Facility Claims against Xerium Austria are entitled pursuant to Section 4.2(b) of the Plan.

1.102 ***Xerium Canada Distribution*** means, collectively, the Xerium Canada Shares Distribution and the Xerium Canada Cash Distribution.

1.103 ***Xerium Canada*** means Xerium Canada Inc.

1.104 ***Xerium Canada Cash Distribution*** means, collectively, the difference between (a) the amount of Cash to which holders of Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims against Xerium Canada are entitled pursuant to Sections 4.2(b) and 4.5(b), respectively, of the Plan and (b) the amount of Cash that Xerium Canada directly transfers to such holders of Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims pursuant to Sections 4.2(b) and 4.5(b), respectively, of the Plan.

1.105 ***Xerium Canada Shares Distribution*** means, collectively, the shares of New Common Stock to which holders of Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims against Xerium Canada and are entitled pursuant to Sections 4.2(b) and 4.5(b), respectively, of the Plan.

1.106 ***Xerium Germany*** means Xerium Germany Holding GmbH.

1.107 ***Xerium Germany Shares Distribution*** means the shares of New Common Stock to which the holders of Allowed Credit Facility Claims against Xerium Germany are entitled pursuant to Section 4.2(b) of the Plan.

1.108 ***Xerium Italy*** means Xerium Italia S.p.A.

1.109 ***Xerium Italy Exchange*** means the exchange of the Xerium Italy Share Distribution by Reorganized Xerium for the portion of Allowed Credit Facility Claims against Xerium Italy to be exchanged for the Xerium Italy Shares Distribution pursuant to Section 4.2(b) of the Plan.

1.110 ***Xerium Italy Shares Distribution*** means the shares of New Common Stock to which the holders of Allowed Credit Facility Claims against Xerium Italy are entitled pursuant to Section 4.2(b) of the Plan.

1.111 ***Xerium V*** means Xerium V (US) Limited.

B. Interpretation, Application of Definitions, and Rules of Construction.

For purposes of the Plan: (1) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, feminine and the neuter gender, (2) unless otherwise specified, any reference in the Plan to an existing document, schedule, or exhibit, whether or not filed with the Bankruptcy Court, shall mean such document, schedule, or exhibit, as it may have been or may be amended, modified, or supplemented, (3) any reference to an entity as a holder of a Claim or Equity Interest includes that entity's permitted successors and assigns, (4) unless otherwise specified, all references in the Plan to sections are references to sections of the Plan, (5) unless otherwise specified, all references in the Plan to exhibits are references to exhibits in the Plan Supplement, (6) the words "herein," "hereof," and "hereto" refer to the Plan in its entirety rather than to a particular provision of the Plan, (7) subject to the provisions of any contract, certificate of incorporation, bylaw, instrument, release, or other agreement or document entered into in connection with the Plan, the rights and obligations arising pursuant to the Plan shall be governed by, and construed and enforced in accordance with, applicable federal law, including the Bankruptcy Code and Bankruptcy Rules, (8) captions and headings to sections of the Plan are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Plan, (9) unless otherwise set forth in the Plan, the rules of construction set forth in section 102 of the Bankruptcy Code shall apply, (10) any term used in capitalized form in the Plan that is not otherwise defined but that is used in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning assigned to such term in the Bankruptcy Code or the Bankruptcy Rules, as applicable, (11) all references to docket numbers of documents filed in the Reorganization Cases are references to the docket numbers under the Bankruptcy Court's CM/ECF system, (12) all references to statutes, regulations, orders, rules of courts, and the like shall mean as amended from time to time, as applicable to the Reorganization Cases, unless otherwise stated, and (13) any immaterial effectuating provisions may be interpreted by the Reorganized Debtors after the Effective Date in such a manner that is consistent with the overall purpose and intent of the Plan all without further Bankruptcy Court order.

In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) shall apply.

SECTION 2. ADMINISTRATIVE EXPENSE AND PRIORITY TAX CLAIMS

2.1 ***Administrative Expense Claims.***

(a) Except to the extent that the holder of an Allowed Administrative Expense Claim agrees to a less favorable treatment, and except as provided in Section 2.1(b) of the Plan, each Allowed Administrative Expense Claim shall be paid in full, in Cash, on the latest of (i) the Effective Date, (ii) the date on which such Administrative Expense Claim is Allowed, and (iii) the date on which such Administrative Expense Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder

of such Allowed Administrative Expense Claim, or, in each case, as soon as practicable thereafter; provided, however, that Allowed Administrative Expense Claims representing obligations incurred in the ordinary course of business or assumed by any of the Debtors shall be paid in full, in Cash, or performed by the applicable Debtor or Reorganized Debtor in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements or regulations governing, instruments evidencing, or other documents relating to, such transactions.

(b) All Entities seeking awards of compensation for services rendered or reimbursement of expenses incurred through and including the Confirmation Date under section 503(b)(2), 503(b)(3), 503(b)(4), or 503(b)(5) of the Bankruptcy Code shall (i) file their respective applications for final allowances of compensation for services rendered and reimbursement of expenses incurred on or before the date that is forty-five (45) days after the Effective Date and (ii) be paid in full, in Cash, in such amounts as are Allowed by the Bankruptcy Court. The Debtors or the Reorganized Debtors, as applicable, are authorized to pay compensation for services rendered and reimbursement of expenses incurred after the Confirmation Date in the ordinary course and without the need for Bankruptcy Court approval.

2.2 *Priority Tax Claims.*

Except to the extent that a holder of an Allowed Priority Tax Claim agrees to a less favorable treatment, on the later of (a) the Effective Date and (b) the date on which such Priority Tax Claim is Allowed, or, in each case, as soon as practicable thereafter, each holder of an Allowed Priority Tax Claim shall, in full satisfaction, release, and discharge of such Allowed Priority Tax Claim, (i) to the extent such Claim is due and owing on the Effective Date, be paid in full, in Cash, on the Effective Date or (ii) to the extent such Claim is not due and owing on the Effective Date, be paid in full, in Cash (A) in accordance with the terms of any agreement between the Debtors and such holder, (B) as may be due and owing under applicable nonbankruptcy law, or (C) in the ordinary course of business.

2.3 *DIP Financing Claims.*

In satisfaction of the Debtors' respective obligations under the DIP Facility, on the Effective Date or as soon thereafter as practicable, (a) all obligations of the Debtors under the DIP Facility shall be assumed under, and become subject to the terms and conditions of, the Exit Facility and (b) all liens and security interests granted to secure the Debtors' obligations under the DIP Facility shall be satisfied, discharged, and terminated in full and of no further force or effect.

SECTION 3. CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

The Plan is premised upon the procedural consolidation of the Debtors for Plan purposes only.

The following table designates the Classes of Claims against, and Equity Interests in, the Debtors, and specifies which of those Classes are (a) Impaired and entitled to vote to accept or reject the Plan in accordance with section 1126 of the Bankruptcy Code,

(b) unimpaired and presumed to accept the Plan, and therefore, not entitled to vote to accept or reject the Plan, and (c) Impaired and deemed to reject the Plan.

Class	Designation	Impairment	Entitled to Vote
1	Priority Non-Tax Claims	Unimpaired	No (presumed to accept)
2	Shared Collateral Claims	Impaired	Yes
3	Other Secured Claims	Unimpaired	No (presumed to accept)
4	General Unsecured Claims	Unimpaired	No (presumed to accept)
5	Unsecured Swap Termination Claims	Impaired	Yes
6	Intercompany Claims	Unimpaired	No (presumed to accept)
7	Equity Interests in Subsidiary Debtors	Unimpaired	No (presumed to accept)
8	Equity Interests in Xerium	Impaired	No (deemed to reject)

SECTION 4. TREATMENT OF CLAIMS AND EQUITY INTERESTS

4.1 *Priority Non-Tax Claims (Class 1).*

(a) Classification. Class 1 consists of all Allowed Priority Non-Tax Claims.

(b) Treatment. Except to the extent that a holder of an Allowed Priority Non-Tax Claim agrees to a less favorable treatment, on the latest of (i) the Effective Date, (ii) the date on which such Priority Non-Tax Claim is Allowed, and (iii) the date on which such Allowed Priority Non-Tax Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder of such Claim, or, in each case, as soon as practicable thereafter, each Allowed Priority Non-Tax Claim shall be paid in Cash in an amount equal to the Allowed amount of such Claim, together with postpetition interest to the extent required to render such Claim unimpaired.

(c) Impairment and Voting. Class 1 is not Impaired. The holders of Claims in Class 1 are conclusively presumed to have accepted the Plan, and accordingly, are not entitled to vote to accept or reject the Plan.

4.2 *Shared Collateral Claims (Class 2).*

(a) Classification. Class 2 consists of all Allowed Credit Facility Claims and Allowed Secured Swap Termination Claims. Pursuant to the Plan, the Credit Facility Claims shall be Allowed in the aggregate principal amount of $597,069,009 and the Secured Swap

Termination Claims shall be Allowed in the aggregate principal amount of $6,769,826, plus, in each case, any interest accrued thereon through the date immediately prior to the Effective Date, as provided in the Credit Facility or Secured Swap Termination Agreement, as applicable. Notwithstanding that a portion of the Allowed Credit Facility Claims and the Allowed Secured Swap Termination Claims is denominated in a currency other than U.S. dollars, the Allowed amounts set forth herein with respect to the Allowed Credit Facility Claims and Allowed Secured Swap Termination Claims are stated in U.S. dollars after converting the amounts of such Claims using the "New York Closing" conversion rate published online at http://online.wsj.com for February 23, 2010. The final amount of the Allowed Credit Facility Claims and the Allowed Secured Swap Termination Claims shall be restated as of the date that is two (2) business days prior to the Effective Date (i) using the "New York Closing" conversion rate published online at http://online.wsj.com for such date and (ii) to reflect any payments made thereon during the Reorganization Cases, as adequate protection or otherwise. Distributions required under the Plan with respect to Allowed Credit Facility Claims and Allowed Secured Swap Termination Claims shall be made in accordance with such restated amounts.

(b) Treatment. Except to the extent that a holder of an Allowed Shared Collateral Claim agrees to a less favorable treatment, on the Effective Date or as soon as practicable thereafter, each holder of an Allowed Shared Collateral Claim shall receive (i) its Distributable Share of (A) Cash in an amount equal to $10,000,000.00 (ten million dollars), (B) the Term Notes, and (C) 82.6% of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan and (ii) Cash in an amount equal to (A) the unpaid interest on the principal amount of such holder's Allowed Credit Facility Claim or Allowed Secured Swap Termination Claim, as the case may be, accrued through the date immediately prior to the Effective Date at the rate set forth in section 4 of the Fourth Credit Facility Waiver, with respect to Allowed Credit Facility Claims, and at the rate set forth in section 3(a) of the Secured Swap Termination Agreement, with respect to Allowed Secured Swap Termination Claims less (B) any amounts paid to such holder during the Reorganization Cases, as adequate protection or otherwise.

(c) Issuance of Distribution Consideration.

(i) Except as otherwise provided in the Plan, including Section 5.9(i) of the Plan, the Cash and Term Notes distributable pursuant to this Section 4 to the holders of Class 2 Claims against (A) U.S. Debtors, shall be issued and distributed by Xerium and (B) Non-U.S. Debtors, shall be issued and distributed by the respective Non-U.S. Debtor as borrower under the Credit Facility, against which borrower such Class 2 Claim is held.

(ii) Except as otherwise provided in the Plan, including Section 5.9(i) of the Plan, the New Common Stock distributable pursuant to this Section 4 to the holders of Class 2 Claims against (A) U.S. Debtors, shall be distributed by Xerium and (B) Non-U.S. Debtors, shall be distributed by the respective Non-U.S. Debtor as borrower under the Credit Facility, against which borrower such Class 2 Claim is held.

(d) Manner of Distribution to Holders of Allowed Credit Facility Claims. Except as otherwise provided in Section 5.9(i) of the Plan, on the Effective Date, the applicable Debtors or Reorganized Debtors shall make all distributions of (i) Cash and Term Notes required under the Plan with respect to Allowed Credit Facility Claims to the Administrative Agent, and the Administrative Agent shall thereafter distribute such Cash and Term Notes to the holders of Allowed Credit Facility Claims and (ii) New Common Stock required under the Plan with respect to Allowed Credit Facility Claims to the holders of Allowed Credit Facility Claims. Such distributions by the Debtors or Reorganized Debtors, as applicable, shall be in complete satisfaction and discharge of all obligations of the Debtors and the Non-Debtor Guarantors to the holders of Allowed Credit Facility Claims. Without limiting Section 10 of the Plan or section 524 or 1141 of the Bankruptcy Code, each holder of an Allowed Credit Facility Claim that accepts such distribution shall be deemed to consent to the amendment and restatement of the Credit Facility pursuant to the Plan.

(e) Impairment and Voting. Class 2 is Impaired, and accordingly, the holders of Claims in Class 2 are entitled to vote to accept or reject the Plan.

4.3 ***Other Secured Claims (Class 3).***

(a) Classification. Class 3 consists of all Allowed Other Secured Claims. Pursuant to the Plan, the Deferred Waiver Claim shall be Allowed in the amount set forth in section 4 of the First Credit Facility Waiver.

(b) Treatment. Except to the extent that a holder of an Allowed Other Secured Claim agrees to a less favorable treatment, on the Effective Date, or as soon as practicable thereafter, each Allowed Other Secured Claim shall be, at the option of the Debtors or Reorganized Debtors, as applicable, (i) reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, (ii) paid in full, in Cash, together with postpetition interest to the extent required to render such Claim unimpaired, (iii) satisfied by the surrender of the Collateral securing such Claim, or (iv) otherwise rendered unimpaired in accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed Other Secured Claim to demand or receive payment of such Claim prior to its stated maturity from and after the occurrence of default. Notwithstanding the foregoing, the Allowed Deferred Waiver Claim shall be paid by the Debtors or the Reorganized Debtors, as applicable, in full, in Cash, on the Effective Date, together with postpetition interest at the rate set forth in section 4 of the First Credit Facility Waiver, to the Administrative Agent and the Administrative Agent shall thereafter distribute such Cash to the applicable lender under the Credit Facility. Such payment by the Debtors or the Reorganized Debtors, as applicable, shall be in complete satisfaction and discharge of all obligations of the Debtors and the Non-Debtor Guarantors with respect to the Allowed Deferred Waiver Claim.

(c) Impairment and Voting. Class 3 is not Impaired. The holders of Claims in Class 3 are conclusively presumed to have accepted the Plan, and accordingly, are not entitled to vote to accept or reject the Plan.

4.4 *General Unsecured Claims (Class 4).*

(a) Classification. Class 4 consists of all Allowed General Unsecured Claims.

(b) Treatment. Except to the extent that a holder of an Allowed General Unsecured Claim agrees to a less favorable treatment, on the latest of (i) the Effective Date, (ii) the date on which such General Unsecured Claim is Allowed, and (iii) the date on which such General Unsecured Claim is due and payable in the ordinary course of business under any agreement or understanding between the applicable Debtor and the holder of such Claim, or, in each case, as soon as practicable thereafter, each Allowed General Unsecured Claim shall, at the Reorganized Debtors' option, (A) be paid in full, in Cash, with postpetition interest to the extent required to render such Claim unimpaired or (B) otherwise be rendered unimpaired in accordance with section 1124 of the Bankruptcy Code.

(c) Impairment and Voting. Class 4 is not Impaired. The holders of Claims in Class 4 are conclusively presumed to have accepted the Plan, and accordingly, are not entitled to vote to accept or reject the Plan.

4.5 *Unsecured Swap Termination Claims (Class 5).*

(a) Classification. Class 5 consists of all Allowed Unsecured Swap Termination Claims. Pursuant to the Plan, the Unsecured Swap Termination Claims shall be Allowed in the aggregate principal amount of $12,837,079, plus the amount of the Unsecured Swap Termination Interest Component. Notwithstanding that a portion of the Allowed Unsecured Swap Termination Claims is denominated in a currency other than U.S. dollars, the Allowed amount set forth herein with respect to the Allowed Unsecured Swap Termination Claims is stated in U.S. dollars after converting the amount of such Claims using the "New York Closing" conversion rate published online at http://online.wsj.com for February 23, 2010. The final amount of the Allowed Unsecured Swap Termination Claims shall be restated as of the date that is two (2) business days prior to the Effective Date using the "New York Closing" conversion rate published online at http://online.wsj.com for such date. Distributions required under the Plan with respect to Allowed Unsecured Swap Termination Claims shall be made in accordance with such restated amounts.

(b) Treatment. Except to the extent that a holder of an Allowed Unsecured Swap Termination Claim agrees to a less favorable treatment, on the Effective Date or as soon as practicable thereafter, each holder of an Allowed Unsecured Swap Termination Claim shall receive its (i) Distributable Share of (A) Cash in an amount equal to $10,000,000.00 (ten million dollars), (B) the Term Notes, and (C) 82.6 % of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan and (ii) Pro Rata Share of Cash in an amount equal to the Unsecured Swap Termination Interest Component.

(c) Issuance of Distribution Consideration.

(i) Except as otherwise provided in the Plan, including Section 5.9(i) of the Plan, the Cash and Term Notes distributable pursuant to this Section 4 to the holders of Class 5 Claims against (A) U.S. Debtors, shall be issued and distributed by Xerium and (B) Non-U.S. Debtors, shall be issued and distributed

by the respective Non-U.S. Debtor identified in Schedule 1 to the Unsecured Swap Termination Agreement, against which Non-U.S. Debtor such Class 5 Claim is held.

(ii) Except as otherwise provided in the Plan, including Section 5.9(i) of the Plan, the New Common Stock distributable pursuant to this Section 4 to the holders of Class 5 Claims against (A) U.S. Debtors, shall be distributed by Xerium and (B) Non-U.S. Debtors, shall be distributed by the respective Non-U.S. Debtor identified in Schedule 1 to the Unsecured Swap Termination Agreement, against which Non-U.S. Debtor such Class 5 Claim is held.

(d) Impairment and Voting. Class 5 is Impaired, and accordingly, the holders of Claims in Class 5 are entitled to vote to accept or reject the Plan.

4.6 ***Intercompany Claims (Class 6).***

(a) Classification. Class 6 consists of all Allowed Intercompany Claims.

(b) Treatment. On the Effective Date or as soon as practicable thereafter, all Allowed Intercompany Claims shall either be reinstated to the extent determined to be appropriate by the Reorganized Debtors or adjusted, continued, or capitalized, either directly or indirectly, in whole or in part.

(c) Impairment and Voting. Class 6 is not Impaired. The holders of Claims in Class 6 are conclusively presumed to have accepted the Plan, and accordingly, are not entitled to vote to accept or reject the Plan.

4.7 ***Equity Interests in Subsidiary Debtors (Class 7).***

(a) Classification. Class 7 consists of all Allowed Equity Interests in the Subsidiary Debtors.

(b) Treatment. On the Effective Date, all Allowed Equity Interests in the Subsidiary Debtors shall be reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code.

(c) Impairment and Voting. Class 7 is not Impaired. The holders of Equity Interests in Class 7 are conclusively presumed to have accepted the Plan, and accordingly, are not entitled to vote to accept or reject the Plan.

4.8 ***Equity Interests in Xerium (Class 8).***

(a) Classification. Class 8 consists of all Allowed Equity Interests in Xerium represented by shares of Existing Common Stock issued and outstanding immediately prior to the Effective Date.

(b) Treatment. On the Effective Date, (i) the Existing Common Stock shall be canceled and (ii) each holder of an Allowed Equity Interest in Class 8 shall receive its Pro Rata

Share of (A) a number of shares of New Common Stock that is equal to the difference between (1) 17.4% of the shares of New Common Stock to be issued on the Effective Date pursuant to Section 5.2(a)(ii) of the Plan and (2) the number of shares of New Common Stock to be reserved pursuant to Section 5.2(a)(iii) of the Plan and (B) New Warrants to purchase up to 10% of the issued and outstanding shares of New Common Stock as of the Effective Date (on a fully diluted basis).

(c) Impairment and Voting. Class 8 is Impaired. The holders of Equity Interests in Class 8 are deemed to have rejected the Plan, and accordingly, are not entitled to vote to accept or reject the Plan.

4.9 *Nonconsensual Confirmation.*

In the event that any Impaired Class of Claims or Equity Interests rejects the Plan or is deemed to have rejected the Plan, the Debtors (a) request that the Bankruptcy Court confirm the Plan in accordance with 1129(b) of the Bankruptcy Code with respect to such non-accepting Class, in which case the Plan shall constitute a motion for such relief and (b) reserve the right to amend the Plan in accordance with Section 12.5 hereof.

SECTION 5. MEANS FOR IMPLEMENTATION

5.1 *Procedural Consolidation of Debtors for Plan Purposes Only.*

The Plan provides for the procedural consolidation of the Debtors for Plan purposes only and shall serve as a motion by the Debtors for entry of an order of the Bankruptcy Court granting such relief. The Debtors propose procedural consolidation to avoid the inefficiency of proposing, voting on, and making distributions in respect of entity-specific claims. Accordingly, except as otherwise provided in the Plan, on the Effective Date, all of the Debtors and their estates shall, for purposes of the Plan only, be treated as though they were merged and (a) all assets and liabilities of the Debtors shall, for purposes of the Plan only, be treated as though they were merged, (b) all guarantees of the Debtors of payment, performance, or collection of obligations of any other Debtor shall be eliminated and canceled, (c) all joint obligations of two or more Debtors, and all multiple Claims against such entities on account of such joint obligations, shall be considered a single claim against the Debtors, and (d) any Claim filed in the Reorganization Cases shall be deemed filed against the consolidated Debtors and a single obligation of the consolidated Debtors on and after the Effective Date. Unless otherwise set forth herein, such consolidation shall not (other than for voting, treatment, and distribution purposes under the Plan) affect (i) the legal and corporate structures of the Debtors (including the corporate ownership of the Subsidiary Debtors), (ii) any intercompany claims, or (iii) the substantive rights of any creditor. If any party in interest challenges the proposed procedural consolidation, the Debtors reserve the right to establish at the Confirmation Hearing the ability to confirm the Plan on an entity-by-entity basis.

5.2 *Issuance of Capital Stock and New Warrants.*

(a) The issuance of the shares of New Common Stock, shares of Preferred Stock, and New Warrants by Reorganized Xerium is hereby authorized without the need for any

further corporate action and without further action by the holders of Claims or Equity Interests. On the Effective Date:

(i) The capital stock of Reorganized Xerium shall consist of (A) 20,000,000 shares of New Common Stock, $0.001 par value per share, which shares shall be duly authorized, fully paid, and nonassessable and (B) 1,000,000 shares of Preferred Stock, $0.001 par value per share. The Preferred Stock may be issued in one or more series at any time, and from time to time for future corporate purposes as determined by the New Board of Reorganized Xerium and authorized by the Restated Charter of Reorganized Xerium, including in connection with the Shareholder Rights Plan.

(ii) 14,991,640 shares of New Common Stock shall be issued and distributed pursuant to Section 4 of the Plan, or withheld pursuant to Section 7.3 of the Plan, as applicable.

(iii) 39,729 shares of New Common Stock shall be issued and distributed or reserved for future distribution, as applicable, pursuant to the Existing Management Incentive Plan and Existing Management Agreements; provided, however, that to the extent that equity incentive awards granted prior to the Effective Date pursuant to the Existing Management Incentive Plan or the Existing Management Agreements do not vest on or after the Effective Date in accordance with their terms, the shares of New Common Stock reserved pursuant to this Section 5.2(a)(iii) of the Plan with respect thereto shall be added to the number of shares of New Common Stock reserved for distribution pursuant to the New Management Incentive Plan under Section 5.2(a)(iv)(A) of the Plan.

(iv) The remaining authorized shares of New Common Stock shall be reserved as follows:

(A) 463,525 shares of New Common Stock shall be reserved for future distribution pursuant to the New Management Incentive Plan, from which distributions may be granted by a committee comprised of disinterested members of the New Board of Reorganized Xerium; provided, however, that to the extent that equity incentive awards granted prior to the Effective Date pursuant to the Existing Management Incentive Plan or the Existing Management Agreements do not vest on or after the Effective Date in accordance with their terms, the shares of New Common Stock reserved pursuant to Section 5.2(a)(iii) of the Plan with respect thereto shall be added to the number of shares of New Common Stock reserved for distribution pursuant to the New Management Incentive Plan under this Section 5.2(a)(iv)(A) of the Plan.

(B) 1,665,738 shares of New Common Stock shall be reserved for issuance upon exercise of the New Warrants.

(C) 2,839,368 shares of New Common Stock shall be reserved for future corporate purposes as determined by the New Board of Reorganized Xerium consistent with its Restated Charter.

(v) New Warrants to purchase up to 10% of the issued and outstanding shares of New Common Stock as of the Effective Date (on a fully diluted basis) shall be issued and distributed pursuant to Section 4 of the Plan.

(b) The issuance of one hundred (100) shares of Reorganized Xerium Canada Preferred Stock is hereby authorized without further action by the holders of Claims or Equity Interests. On the Effective Date, one hundred (100) shares of Reorganized Xerium Canada Preferred Stock shall be issued by Reorganized Xerium Canada and transferred pursuant to Section 5.9(i)(iv) of the Plan.

5.3 *Capitalization of Reorganized Xerium on the Effective Date; No Fractional Shares or Warrants.*

(a) Capitalization of Reorganized Xerium. All shares of New Common Stock distributable pursuant to Section 4 of the Plan are subject to dilution by (i) equity incentive awards to be granted under the New Management Incentive Plan on or after the Effective Date and (ii) the exercise of the New Warrants. All shares of New Common Stock distributable on account of equity incentive awards granted prior to but that are scheduled to vest on or after the Effective Date (x) shall not dilute the shares of New Common Stock distributed to holders of Allowed Claims in Class 2 and Class 5 pursuant to Section 4 of the Plan and (y) shall be reserved in accordance with Section 5.2(a)(iii) of the Plan.

(b) No Fractional Shares or Warrants. No fractional shares of New Common Stock or fractional New Warrants shall be issued or distributed under the Plan and no Cash shall be distributed in lieu of such fractional shares or warrants. When any distribution pursuant to the Plan on account of an Allowed Claim or Allowed Equity Interest would otherwise result in the issuance of a number of shares of New Common Stock or number of New Warrants that is not a whole number, the actual number of shares of New Common Stock or New Warrants distributed shall be rounded as follows: (i) fractions of ½ (one half) or greater shall be rounded up to the next whole number and (ii) fractions of less than ½ (one half) shall be rounded down to the next whole number with no further payment therefor. All Claims and Equity Interests of a holder shall be aggregated in making such determination. The total number of authorized shares of New Common Stock and number of New Warrants to be distributed to holders of Allowed Claims or Allowed Equity Interests shall be adjusted as necessary to account for the foregoing rounding.

5.4 *Amended and Restated Credit Facility.*

The following actions are hereby authorized without the need for any further corporate action and without further action by the holders of Claims or Equity Interests: On the Effective Date, (i) the Reorganized Borrowers, as borrowers, and the Reorganized Debtors, the Non-Debtor Guarantors, and Robec Brazil LLC, as guarantors, shall enter into the Amended and Restated Credit Facility having principal terms and conditions not materially less favorable to the

Reorganized Debtors than those set forth in Exhibit A to the Plan and (ii) the Reorganized Borrowers shall issue the Term Notes. The Term Notes may be represented by notes or other documents or instruments or by notations in the register that shall be established by the administrative agent under the Amended and Restated Credit Agreement on or before the Effective Date.

5.5 *Exit Financing.*

On the Effective Date, without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, the Reorganized Debtors shall enter into the Exit Facility.

5.6 *New Management Incentive Plan.*

On the Effective Date, without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, the New Management Incentive Plan shall become effective. Awards and distributions to be made under the New Management Incentive Plan shall be determined and granted by a committee comprised of disinterested members of the New Board of Reorganized Xerium. The solicitation of votes on the Plan shall include, and be deemed to be, a solicitation for approval of the New Management Incentive Plan. Entry of the Confirmation Order shall constitute such approval.

5.7 *Existing Debt Securities and Agreements; Release of Liens.*

On the Effective Date, (a) the Credit Facility shall be amended and restated as the Amended and Restated Credit Facility and each of the guarantees by (i) the Non-U.S. Debtors and the Non-Debtor Guarantors under the Credit Facility shall be amended and restated to reduce the aggregate amount of such guaranteed obligations to an amount that is not more than the lesser of (A) the maximum amount permitted under the laws of the jurisdiction of the respective Non-U.S. Debtor or Non-Debtor Guarantor, as the case may be and (B) the aggregate amount of Non-U.S. Term Note obligations and all other obligations of the Non-U.S. Debtors and the Non-Debtor Guarantors under the Amended and Restated Credit Facility and (ii) the U.S. Debtors under the Credit Facility shall be amended and restated to reduce the aggregate amount of such guaranteed obligations to an amount that is not more than the aggregate amount of the Term Notes and all other obligations of the U.S. Debtors, the Non-U.S. Debtors, and the Non-Debtor Guarantors under the Amended and Restated Credit Facility and (b) with respect to Secured Claims other than Credit Facility Claims, except to the extent the Plan provides otherwise, on the Effective Date, all liens, security interests, and pledges securing the obligations of the Debtors shall be released and the holders of such Secured Claims shall be authorized and directed to release any Collateral or other property and to take such actions as may be requested by the Reorganized Debtors to evidence the release of such liens, security interests, and pledges, including the execution, delivery, and filing or recording of such releases. The filing of the Confirmation Order with any federal, state, or local agency or department shall constitute good and sufficient evidence of, but shall not be required to effect, the termination of such liens, security interests, and pledges.

5.8 *Surrender of Existing Securities.*

As a condition to receiving any distribution under the Plan, each holder of a promissory note, certificate, or other instrument evidencing a Claim must surrender such promissory note, certificate, or other instrument to Reorganized Xerium or its designee. Any holder of a Claim that fails to (a) surrender such instrument or (b) execute and deliver an affidavit of loss and/or indemnity reasonably satisfactory to Reorganized Xerium before the later to occur of (i) the second anniversary of the Effective Date and (ii) six months following the date such holder's Claim is Allowed, shall be deemed to have forfeited all rights and claims with respect thereto, may not participate in any distribution under the Plan on account thereof, and all amounts owing with respect to such Allowed Claim shall be retained by Reorganized Xerium; provided, however, that any promissory note, certificate, or other instrument, if any, issued under the Credit Facility shall be canceled on the Effective Date and holders of Allowed Credit Facility Claims shall not be required to surrender any such instruments prior to receiving distributions pursuant to the Plan.

5.9 *Corporate Action.*

(a) Due Authorization. On the Effective Date, all matters provided for under the Plan that otherwise would require approval of the stockholders or directors of one or more of the Debtors shall be deemed to have occurred and shall be in effect on and after the Effective Date pursuant to the applicable general corporation (or similar) law of the jurisdictions in which the Debtors are incorporated, formed, or organized, as applicable, without any requirement of further action by the stockholders or directors of the Debtors or the Reorganized Debtors.

(b) General. On the Effective Date, all actions contemplated by the Plan (including, without limitation, the transactions contemplated by Section 5.9(i) of the Plan) shall be deemed authorized and approved in all respects without the need for any further corporate action and without further action by the holders of Claims or Equity Interests. On the Effective Date, the appropriate officers of the Debtors or the Reorganized Debtors, as applicable, shall be authorized and directed to issue, execute, and deliver the agreements, documents, shares and other securities, and instruments contemplated by the Plan (or necessary or desirable to effect the transactions contemplated by the Plan) in the name of and on behalf of the Reorganized Debtors, including, without limitation, the Amended and Restated Credit Facility, the Exit Facility, the Nominating Agreements, the Registration Rights Agreement, the Shareholder Rights Plan, the New Warrants, the Restated Charters, the Restated Bylaws, the Intercreditor Agreement, the Austria Contribution Agreement, the Austria Purchase Agreement, the Austria Note, the Germany Assumption Agreement, the Canada Direction Letter Agreement, the U.S. Direction Letter Agreement, the New Management Incentive Plan and any and all other agreements, documents, securities and instruments relating to the foregoing (including without limitation security documents). The authorizations and approvals contemplated by this Section 5.9(b) shall be effective notwithstanding any requirements under nonbankruptcy law.

(c) Restated Charters and Restated Bylaws of the Reorganized Debtors. On the Effective Date, each of the Reorganized Debtors shall be deemed to have adopted its respective Restated Charter and Restated Bylaws. On the Effective Date or as soon as practicable thereafter, the Reorganized Debtors shall file their respective Restated Charters in the

respective jurisdictions of their incorporation, formation, or organization, as applicable. Pursuant to and only to the extent required by section 1123(a)(6) of the Bankruptcy Code, the Restated Charters shall include, among other things, (i) a provision prohibiting the issuance of non-voting equity securities and (ii) a provision setting forth an appropriate distribution of voting power among classes of equity securities possessing voting power. The Restated Charter of Reorganized Xerium also shall include, among other things, an election by Reorganized Xerium to be governed by section 203 of the Delaware General Corporation Law.

(d) Boards of Directors of the Reorganized Debtors. On the Effective Date, the operation of the Reorganized Debtors shall become the general responsibility of their New Boards, subject to, and in accordance with, their respective Restated Charters and Restated Bylaws. The initial New Board of Reorganized Xerium shall consist of seven (7) directors, as follows: (i) the Chief Executive Officer of Xerium in office immediately prior to the Effective Date, (ii) one (1) director nominated by the board of directors of Xerium, and (iii) five (5) directors nominated by members of the Secured Lender Ad Hoc Working Group. The initial directors of the Reorganized Debtors shall be disclosed, together with biographical information, in the Plan Supplement and shall be deemed elected or appointed, as the case may be, pursuant to the Confirmation Order, but shall not take office and shall not be deemed to be elected or appointed until the occurrence of the Effective Date. Those directors not continuing in office shall be deemed removed therefrom as of the Effective Date pursuant to the Confirmation Order.

(e) Officers of the Reorganized Debtors. The initial officers of the Reorganized Debtors shall be disclosed, together with biographical information, in the Plan Supplement and shall be deemed elected or appointed, as the case may be, pursuant to the Confirmation Order, but shall not take office and shall not be deemed to be elected or appointed until the occurrence of the Effective Date. Those officers not continuing in office shall be deemed removed therefrom as of the Effective Date pursuant to the Confirmation Order.

(f) Nominating Agreements. On Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, the Nominating Agreements shall be executed and delivered by the parties thereto.

(g) Registration Rights Agreement. On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, the Registration Rights Agreement shall be executed and delivered by the parties thereto.

(h) Shareholder Rights Plan. On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests, Reorganized Xerium shall adopt the Shareholder Rights Plan.

(i) Intercompany Transactions. On the Effective Date, and without the need for any further corporate action and without further action by the holders of Claims or Equity Interests:

(i) (A) Reorganized Xerium and Reorganized Xerium Austria shall (1) enter into the Austria Purchase Agreement, pursuant to which Reorganized

Xerium shall sell and Reorganized Xerium Austria shall purchase 99% of the Xerium Austria Shares Distribution in exchange for the Austria Note and (2) enter into the Austria Contribution Agreement, pursuant to which Reorganized Xerium shall contribute to Reorganized Xerium Austria 1% of the Xerium Austria Shares Distribution and (B) Reorganized Xerium Austria shall, in exchange for the portion of the Allowed Credit Facility Claims against Xerium Austria to be exchanged for the Xerium Austria Shares Distribution, transfer the Xerium Austria Shares Distribution to the holders of such Allowed Credit Facility Claims pursuant to Section 4.2(b) of the Plan.

(ii) (A) Reorganized Xerium and Reorganized Xerium Germany shall enter into the Germany Assumption Agreement, pursuant to which Reorganized Xerium shall (1) assume with discharging effect the obligations of Xerium Germany with respect to the portion of Allowed Credit Facility Claims against Xerium Germany to be exchanged for the Xerium Germany Shares Distribution and (2) unconditionally waive any recourse it may have against Xerium Germany with respect thereto and (B) Reorganized Xerium shall (1) in exchange for the portion of Allowed Credit Facility Claims against Xerium Germany assumed by Reorganized Xerium, transfer the Xerium Germany Shares Distribution to the holders of such Allowed Credit Facility Claims pursuant to Section 4.2(b) of the Plan and (2) forgive such Allowed Credit Facility Claims against Xerium Germany.

(iii) (A) Reorganized Xerium shall, in exchange for the portion of Allowed Credit Facility Claims against Xerium Italy to be exchanged for the Xerium Italy Shares Distribution, transfer the Xerium Italy Shares Distribution to the holders of such Allowed Credit Facility Claims pursuant to Section 4.2(b) of the Plan and (B) pursuant to the Austria Contribution Agreement and the Xerium Italy Exchange (1) Reorganized Xerium shall contribute to Reorganized Xerium Austria the portion of Allowed Credit Facility Claims against Xerium Italy exchanged for the Xerium Italy Shares Distribution and all receivables related thereto and (2) Reorganized Xerium Austria shall forgive such Allowed Credit Facility Claims against Xerium Italy.

(iv) (A) Reorganized Xerium Canada and Reorganized Xerium V shall enter into the Canada Direction Letter Agreement, pursuant to which (1) Reorganized Xerium Canada shall direct Reorganized Xerium V, and Reorganized Xerium V shall agree, to transfer or cause the transfer by Reorganized Xerium of the Xerium Canada Distribution to the holders of Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims against Xerium Canada, and in consideration therefor, (2) Reorganized Xerium Canada shall transfer to Reorganized Xerium V one hundred (100) shares of Reorganized Xerium Canada Preferred Stock and (B) Reorganized Xerium V and Reorganized Xerium shall enter into the U.S. Direction Letter Agreement, pursuant to which (1) Reorganized Xerium V shall direct Reorganized Xerium, and Reorganized Xerium shall agree, to transfer the Xerium Canada Distribution to the holders of Allowed Credit Facility Claims and Allowed Unsecured Swap

Termination Claims against Xerium Canada in satisfaction of the obligations of Reorganized Xerium V under the Canada Direction Letter Agreement, and in consideration therefor, (2) Reorganized Xerium shall be deemed for U.S. federal income tax purposes to make a capital contribution to Reorganized Xerium V in exchange for a deemed transfer of Reorganized Xerium V shares to Reorganized Xerium and (3) Reorganized Xerium shall, in exchange for the portion of the Allowed Credit Facility Claims and the Allowed Unsecured Swap Termination Claims against Xerium Canada to be exchanged for the Xerium Canada Distribution, transfer the Xerium Canada Distribution to the holders of such Allowed Credit Facility Claims and Allowed Unsecured Swap Termination Claims pursuant to Sections 4.2(b) and 4.5(b), respectively, of the Plan.

5.10 ***Compromise of Controversies.***

In consideration for the distributions and other benefits provided under the Plan, the provisions of the Plan constitute a good faith compromise and settlement of all Claims and controversies resolved under the Plan, and the entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of such compromise and settlement under Bankruptcy Rule 9019.

5.11 ***Exemption from Securities Laws.***

To the maximum extent provided by section 1145 of the Bankruptcy Code and applicable nonbankruptcy law, the issuance under the Plan of the New Common Stock and New Warrants will be exempt from registration under the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

5.12 ***Exemption from Transfer Taxes.***

Pursuant to section 1146(a) of the Bankruptcy Code, any issuance, transfer or exchange of notes or equity securities under the Plan, the creation of any mortgage, deed of trust or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any instrument of transfer from a Debtor to a Reorganized Debtor or any other Entity pursuant to the Plan shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment. Without limiting the foregoing, any issuance, transfer or exchange of a security or any making or delivery of an instrument of transfer pursuant to the Plan shall be exempt from the imposition and payment of any and all transfer taxes (including, without limitation, any and all stamp taxes or similar taxes and any interest, penalties and addition to the tax that may be required to be paid in connection with the consummation of the Plan and the Plan Documents) pursuant to sections 1146(a), 505(a), 106, and 1141 of the Bankruptcy Code.

SECTION 6. DISTRIBUTIONS

6.1 *Distribution Record Date.*

As of the close of business on the Distribution Record Date, the various transfer registers for each of the Classes of Claims and Equity Interests as maintained by the Debtors, or their respective agents, shall be deemed closed, there shall be no further changes in the record holders of any Claims or Equity Interests for purposes of Plan distributions, and the Debtors or the Reorganized Debtors, as applicable, shall have no obligation to recognize, for distribution purposes, any transfer of Claims or Equity Interests occurring on or after the Distribution Record Date. The Debtors, the Reorganized Debtors or any party responsible for making distributions pursuant to this Section 6 shall be entitled to recognize and deal for all purposes hereunder only with those record holders stated on the transfer ledgers as of the close of business on the Distribution Record Date, to the extent applicable.

6.2 *Date of Distributions.*

Except as otherwise provided herein, any distributions and deliveries to be made under the Plan shall be made on the Effective Date or as soon as practicable thereafter. In the event that any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but shall be deemed to have been completed as of the required date.

6.3 *Sources of Cash for Distributions.*

All Cash required for the payments to be made hereunder shall be obtained from the Debtors' and the Reorganized Debtors' operations, Cash on hand, and borrowings under the Exit Facility.

6.4 *Disbursement Agent.*

Unless otherwise provided in the Plan, all distributions under this Plan shall be made on the Effective Date by Reorganized Xerium as Disbursement Agent or such other entity designated by Reorganized Xerium as a Disbursement Agent. No Disbursement Agent hereunder, including, without limitation, the Administrative Agent, shall be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court.

6.5 *Rights and Powers of Disbursement Agent.*

Each Disbursement Agent shall be empowered to (a) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties under the Plan, (b) make all distributions contemplated by the Plan, (c) employ professionals to represent it with respect to its responsibilities, and (d) exercise such other powers as may be vested in the Disbursement Agent by order of the Bankruptcy Court, pursuant to the Plan or as deemed by such Disbursement Agent to be necessary and proper to implement the provisions hereof.

6.6 *Expenses of the Disbursement Agent.*

The amount of any reasonable fees and expenses incurred by each Disbursement Agent acting in such capacity (including taxes and reasonable attorneys' fees and expenses) on or after the Effective Date shall be paid in Cash by the Reorganized Debtors in the ordinary course of business.

6.7 *Delivery of Distributions.*

Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim or Equity Interest shall be made to the address of such holder as set forth in the books and records of the Debtors or its agents, as applicable, unless the Debtors or Reorganized Debtors have been notified in writing of a change of address, including by the filing of a proof of claim or interest by such holder that contains an address for such holder different from the address reflected in the Debtors' books and records. In the event that any distribution to any holder is returned as undeliverable, the Disbursement Agent shall use reasonable efforts to determine the current address of such holder, but no distribution to such holder shall be made unless and until the Disbursement Agent has determined the then-current address of such holder, at which time such distribution shall be made to such holder without interest; provided, however, that such distributions shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of one year from the Effective Date. After such date, all unclaimed property or interest in property shall revert to the Reorganized Debtors, and the Claim of any other holder to such property or interest in property shall be discharged and forever barred notwithstanding any applicable federal or state escheat, abandoned, or unclaimed property laws to the contrary.

6.8 *Manner of Payment Under Plan.*

(a) Cash distributable to holders of Allowed Claims against Non-U.S. Debtors shall be (i) converted to the legal tender of the country in which such Non-U.S. Debtor is incorporated, formed, or organized, as applicable, using the "New York Closing" conversion rate published online at http://online.wsj.com for the date that is two (2) business days prior to the Effective Date and (ii) distributed to such holders in such converted legal tender.

(b) Term Notes distributable to holders of Allowed Claims against Non-U.S. Debtors shall be (i) converted to the currency of the country in which such Non-U.S. Debtor is incorporated, formed, or organized, as applicable, using the "New York Closing" conversion rate published online at http://online.wsj.com for the date that is two (2) business days prior to the Effective Date and (ii) distributed as so converted.

(c) At the option of the applicable Disbursement Agent, any Cash payment to be made under the Plan may be made by a check or wire transfer or as otherwise required or provided in applicable agreements.

(d) Except as otherwise provided in Section 5.9(i) of the Plan, all distributions of Cash, Term Notes, New Common Stock, and New Warrants to the holders of Claims against, or Equity Interests in, Debtors domiciled in the United States of America shall be made by, or on behalf of, the applicable Debtor.

6.9 *Setoffs and Recoupment.*

The Debtors and the Reorganized Debtors may, but shall not be required to, set off against any Claim (for purposes of determining the Allowed amount of such Claim on which distribution shall be made) any claims of any nature whatsoever that the Debtors or the Reorganized Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors of any such claim the Debtors or the Reorganized Debtors may have against the holder of such Claim.

6.10 *Distributions After Effective Date.*

Distributions made after the Effective Date to holders of Disputed Claims or Disputed Equity Interests that are not Allowed Claims or Allowed Equity Interests, as the case may be, as of the Effective Date but which later become Allowed Claims or Allowed Equity Interests shall be deemed to have been made on the Effective Date.

6.11 *Allocation of Distributions Between Principal and Interest.*

The aggregate consideration to be distributed to the holders of Allowed Claims under the Plan shall be treated as first satisfying an amount equal to the stated principal amount of the Allowed Claims of such holders, as determined for federal income tax purposes, and any remaining consideration as satisfying accrued, but unpaid, interest, if any.

6.12 *No Postpetition Interest on Claims.*

Unless otherwise specifically provided for in this Plan, the Confirmation Order, or any other order entered by the Bankruptcy Court, or as required by applicable law, postpetition interest shall not accrue on or after the Commencement Date on account of any Claim.

SECTION 7. PROCEDURES FOR DISPUTED CLAIMS OR EQUITY INTERESTS

7.1 *Proofs of Claims and Equity Interests.*

Proofs of Claim arising from the rejection of executory contracts or unexpired leases pursuant to the Plan shall be served and filed in accordance with Section 8.3 of the Plan. Except as otherwise provided in the Plan or by order of the Bankruptcy Court, holders of other Claims or Equity Interests shall not be required to file proofs of Claims or Equity Interests in the Reorganization Cases.

7.2 *Objections to Claims and Equity Interests/Requests for Estimation*

(a) The Debtors and Reorganized Debtors shall be entitled to dispute Claims and Equity Interests, and if the Debtors dispute any Claim or Equity Interest, such dispute shall be determined, resolved, or adjudicated, as the case may be, by the Bankruptcy Court. On and after the Effective Date, except to the extent that the Reorganized Debtors consent, only the

Reorganized Debtors shall have the authority to file, settle, compromise, withdraw, or litigate to judgment objections to, and requests for estimation of, Claims and Equity Interests.

(b) The Debtors and the Reorganized Debtors may at any time request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claims or Disputed Equity Interests pursuant to section 502(c) of the Bankruptcy Code, regardless of whether the Debtor previously objected to such Claim or Equity Interest or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim or Equity Interest at any time during litigation concerning any objection to any Claim or Equity Interest, including, without limitation, during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim or Disputed Equity Interest, the amount so estimated shall constitute either the Allowed amount of such Claim or Equity Interest or a maximum limitation on such Claim or Equity Interest, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim or Equity Interest, the Reorganized Debtors may pursue supplementary proceedings to object to the allowance of such Claim or Equity Interest. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. Claims or Equity Interests may be estimated and subsequently compromised, settled, withdrawn, or resolved by any mechanism approved by the Bankruptcy Court.

(c) Any objections to Claims or Equity Interests or requests for estimation thereof shall be served and filed (i) in the case of Claims or Equity Interests known to the Debtors prior to the Effective Date, on or before the date that is the later of (A) 120 (one hundred twenty) days after the Effective Date and (B) such later date as may be fixed by the Bankruptcy Court, (ii) in the case of Claims arising from the rejection of executory contracts or unexpired leases pursuant to the Plan, on or before the date that is the later of (A) 120 (one hundred twenty) days after the date on which proof of such Claim is served and filed in accordance with Section 8.3 of the Plan and (B) such later date as may be fixed by the Bankruptcy Court, and (iii) in the case of other Claims or Equity Interests not known to the Debtors prior to the Effective Date, on or before that date that is the later of (A) 120 (one hundred twenty) days after such Claim or Equity Interest is known to the Debtors and (B) such later date as may be fixed by the Bankruptcy Court.

7.3 ***No Distributions Pending Allowance.***

Notwithstanding any other provision of the Plan, if all or any portion of a Claim or Equity Interest is a Disputed Claim or Disputed Equity Interest, as the case may be, no payment or distribution provided under the Plan shall be made on account of such Claim or Equity Interest unless and until such Disputed Claim or Disputed Equity Interest becomes an Allowed Claim or Allowed Equity Interest, as the case may be. In the event that a Claim or an Equity Interest in Xerium is Disputed, until such time as such Disputed Claim or Disputed Equity Interest is determined by Final Order, the Debtors or the Reorganized Debtors, as applicable, shall withhold on account of such Claim or Equity Interest the distribution to which the holder of such Claim or Equity Interest would be entitled under Section 4 of the Plan if such Claim or Equity Interest were Allowed in full.

7.4 *Distributions After Allowance.*

At such time as a Disputed Claim or Disputed Equity Interest becomes an Allowed Claim or Allowed Equity Interest, as the case may be, the Disbursement Agent shall distribute to the holder of such Claim or Equity Interest the property distributable to such holder pursuant to Section 4 of the Plan. To the extent that all or a portion of a Disputed Claim or Disputed Equity Interest is disallowed, the holder of such Claim or Equity Interest shall not receive any distribution on account of the portion of such Claim or Equity Interest, as the case may be, that is disallowed.

7.5 *Preservation of Claims and Rights to Settle Claims.*

Except as otherwise provided in the Plan, or in any contract, instrument, or other agreement or document entered into in connection with this Plan, in accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Debtors shall retain and may enforce, sue on, settle, compromise, otherwise resolve, discontinue, abandon, or dismiss all claims, rights, causes of action, suits, and proceedings, including those described in the Plan Supplement, whether at law or in equity, whether known or unknown, that the Debtors or their estates may hold against any Entity, without the approval of the Bankruptcy Court, subject to the terms of Section 7.2 of the Plan, the Confirmation Order, and any contract, instrument, release, or other agreement entered into in connection herewith. The Reorganized Debtors or their successor(s) may pursue such retained claims, rights, causes of action, suits, or proceedings, as appropriate, in accordance with the best interests of the Reorganized Debtors or their successor(s) that hold such rights.

SECTION 8. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

8.1 *Assumption and Rejection of Contracts and Leases.*

Except for any executory contracts or unexpired leases that are (a) the subject of a motion to assume or reject that is pending on the Confirmation Date, which shall be assumed or rejected in accordance with the disposition of such motions or (b) listed on Exhibit E to the Plan or in any amendment to Exhibit E that may be included in the Plan Supplement, which are specifically rejected pursuant to the Plan, all executory contracts (including, without limitation, the Existing Management Incentive Plan and Existing Management Agreements) and unexpired leases to which any of the Debtors is a party are hereby specifically assumed (x) as of the Confirmation Date, with respect to the Existing Management Incentive Plan and the Existing Management Agreement of the Chief Executive Officer of Xerium and (y) as of the Effective Date, with respect to all other executory contracts and unexpired leases assumed pursuant to the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute an order of the Bankruptcy Court under sections 365 and 1123(b) of the Bankruptcy Code approving the contract and lease assumptions or rejections described above, as of the Confirmation Date or the Effective Date, as applicable, and determining that, with respect to such assumptions pursuant to the Plan, that "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) by the Reorganized Debtors has been demonstrated and no further adequate assurance is required.

8.2 *Cure of Defaults.*

Any monetary amounts by which any executory contract and unexpired lease to be assumed pursuant to the Plan is in default shall be satisfied, under section 365(b)(1) of the Bankruptcy Code, by the Debtors upon assumption thereof or as soon as practicable thereafter. If there is a dispute regarding (a) the nature or amount of any cure, (b) the ability of the Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the contract or lease to be assumed, or (c) any other matter pertaining to assumption, any cure shall occur following the entry of a Final Order resolving the dispute and approving the assumption or assumption and assignment, as the case may be.

8.3 *Rejection Damage Claims.*

All Claims arising from the rejection of executory contracts and unexpired leases pursuant to the Plan must be served upon the Debtors and their counsel on or before the date that is thirty (30) days after the later of (a) the Confirmation Date and (b) the date of entry of an order of the Bankruptcy Court approving such rejection. Any Claims not filed within such time shall be forever barred from assertion against the Debtors, their estates, the Reorganized Debtors, and their property.

8.4 *Indemnification Obligations.*

(a) Directors, Officers, Agents, and Employees. Any obligations of the Debtors pursuant to their certificates of incorporation and bylaws, or organizational documents, as applicable, or any other agreements entered into by any Debtor at any time prior to the Effective Date, to indemnify current and former directors, officers, agents, and/or employees with respect to all present and future actions, suits, and proceedings against the Debtors or such directors, officers, agents, and/or employees, based upon any act or omission for or on behalf of the Debtors, irrespective of whether such indemnification is owed in connection with an event occurring before or after the Commencement Date, shall not be discharged or Impaired by confirmation of the Plan. Such obligations shall be deemed and treated as executory contracts to be assumed by the Debtors hereunder and shall continue as obligations of the Reorganized Debtors.

(b) Administrative Agent. The obligations of the Debtors to indemnify the Administrative Agent pursuant to section 10.4 of the Credit Facility, irrespective of whether such indemnification is owed in connection with an event occurring before or after the Commencement Date, shall not be discharged or Impaired by confirmation of the Plan and shall continue as obligations of the Reorganized Debtors.

8.5 *Compensation and Benefit Plans.*

All employee compensation and benefit plans, policies, and programs of the Debtors entered into before or after the Commencement Date and not since terminated shall be deemed to be, and shall be treated as if they were, executory contracts to be assumed pursuant to the Plan. Employee benefit plans, policies, and programs include, without limitation, the Existing Management Incentive Plan, all medical and health insurance, life insurance, dental

insurance, disability benefits and coverage, leave of absence, retirement plans, retention plans, severance plans, and other such benefits. The Debtors' obligations under such plans, policies, and programs shall survive confirmation of the Plan and shall be performed by the applicable Debtor or Reorganized Debtor in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements or regulations governing, instruments evidencing, or other documents relating to, such plans, policies, and programs, except for (a) executory contracts or employee benefit plans specifically rejected pursuant to the Plan (to the extent such rejection does not violate sections 1114 and 1129(a)(13) of the Bankruptcy Code) and (b) such executory contracts or employee benefit plans that are the subject of a motion to reject pending as of the Confirmation Date.

8.6 *Retiree Benefits.*

On and after the Effective Date, the payment of retiree benefits (as defined in section 1114 of the Bankruptcy Code), if any, at the level established pursuant to section 1114 of the Bankruptcy Code, shall continue for the duration of the period the Debtors have obligated themselves to provide such benefits.

8.7 *Insurance Policies.*

All insurance policies pursuant to which the Debtors have any obligations in effect as of the date of the Confirmation Order shall be deemed and treated as executory contracts pursuant to the Plan and shall be assumed by the respective Debtors and Reorganized Debtors and shall continue in full force and effect. All other insurance policies shall re-vest in the Reorganized Debtors.

SECTION 9. CONDITIONS PRECEDENT TO THE EFFECTIVE DATE

9.1 *Conditions Precedent to the Effective Date.*

The Effective Date shall not occur and the Plan shall not become effective unless and until the following conditions have been satisfied in full or waived in accordance Section 9.2 of the Plan:

(a) Entry of Confirmation Order. The Confirmation Order, in form and substance satisfactory to the Debtors, shall have been entered and shall be in full force and effect and there shall not be a stay or injunction (or similar prohibition) in effect with respect thereto.

(b) Administrative Agent. The Confirmation Order shall be in form and substance reasonably satisfactory to the Administrative Agent and shall have been entered and shall be in full force and effect and there shall not be a stay or injunction (or similar prohibition) in effect with respect thereto.

(c) Execution and Delivery of Other Documents. All other actions and all agreements, instruments or other documents necessary to implement the Plan, including without limitation, the Exit Facility and the Amended and Restated Credit Facility, shall have been (i) effected or (ii) duly and validly executed and delivered by the parties thereto and all conditions to their effectiveness shall have been satisfied or waived.

(d) Access to Funding. The Debtors shall have access to funding under the Exit Facility.

(e) Regulatory Approvals. The Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents necessary to implement the Plan and that are required by law, regulation, or order.

(f) Consents. All authorizations, consents and approvals determined by the Debtors to be necessary to implement the Plan shall have been obtained.

(g) Corporate Formalities. Prior to or simultaneously with the effectiveness of the Plan, the Restated Charters shall have been filed in the Debtors' respective jurisdictions of incorporation, formation, or organization.

(h) Other Acts. Any other actions the Debtors determine are necessary to implement the terms of the Plan shall have been taken.

9.2 *Waiver of Conditions Precedent.*

Each of the conditions precedent in Section 9.1(b)-(h) of the Plan may be waived, in whole or in part, by the Debtors in writing without notice to third parties or order of the Bankruptcy Court or any other formal action; provided, however, the condition precedent in Section 9.1(b) of the Plan and the condition precedent in Section 9.1(c) of the Plan that the Amended and Restated Credit Facility shall have been duly and validly executed, may be waived, in whole or in part, by the Debtors, only with the consent of the Administrative Agent.

9.3 *Effect of Failure of Conditions.*

If the conditions specified in Section 9.1 hereof have not been satisfied or waived in the manner provided in Section 9.2 hereof on or before the date that is thirty (30) days after the Confirmation Date, then (a) the Confirmation Order shall be of no further force or effect, (b) no distributions under the Plan shall be made, (c) the Debtors and all holders of Claims and Equity Interests in the Debtors shall be restored to the status quo ante as of the day immediately preceding the Confirmation Date as though the Confirmation Date had never occurred, (d) all of the Debtors' obligations with respect to the Claims and Equity Interests shall remain unaffected by the Plan and nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any Entity in any further proceedings involving the Debtors, and (e) the Plan shall be deemed withdrawn.

SECTION 10. EFFECT OF CONFIRMATION

10.1 *Vesting of Assets.*

On the Effective Date, except as otherwise provided in the Plan, pursuant to sections 1141(b) and 1141(c) of the Bankruptcy Code, all property of the Debtors' estates shall vest in the Reorganized Debtors free and clear of all Claims, liens, encumbrances, charges, and other interests. Except as otherwise provided in the Plan, each of the Debtors, as Reorganized

Debtors, shall continue to exist on and after the Effective Date as a separate legal entity with all of the powers available to such legal entity under applicable law, without prejudice to any right to alter or terminate such existence (whether by merger or otherwise) in accordance with such applicable law. On and after the Effective Date, the Reorganized Debtors shall be authorized to operate their respective businesses, and to use, acquire, or dispose of assets, without supervision or approval by the Bankruptcy Court and free from any restrictions of the Bankruptcy Code or the Bankruptcy Rules.

10.2 ***Binding Effect.***

Subject to the occurrence of the Effective Date, on and after the Confirmation Date, the provisions of the Plan shall bind any holder of a Claim against, or Equity Interest in, the Debtors, and such holder's respective successors and assigns, whether or not the Claim or Equity Interest of such holder is Impaired under the Plan, whether or not such holder has accepted the Plan, and whether or not such holder is entitled to a distribution under the Plan.

10.3 ***Discharge of the Debtors.***

(a) Scope. Except to the extent otherwise provided in the Plan, the rights afforded in the Plan and the treatment of all Claims against, or Equity Interests in, the Debtors under the Plan shall be in exchange for and in complete satisfaction, discharge and release of all Claims against, and Equity Interests in, the Debtors of any nature whatsoever, known or unknown, including without limitation, any interest accrued or expenses incurred thereon from and after the Commencement Date, or against their estates, the Reorganized Debtors, or their properties or interests in property. Except as otherwise provided in the Plan, upon the Effective Date, all Claims against, and Equity Interests in, the Debtors shall be satisfied, discharged, and released in full exchange for the consideration, if any, provided under the Plan. Except as otherwise provided in the Plan, all Entities shall be precluded from asserting against the Debtors, the Reorganized Debtors, or their respective properties or interests in property, any other Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date.

(b) Statutory Injunction. In accordance with section 524 of the Bankruptcy Code, the discharge provided by the Plan and section 1141 of the Bankruptcy Code, among other things, acts as an injunction against the commencement or continuation of any action, employment of process, or an act, to collect, recover or offset the claims discharged upon confirmation of the Plan.

10.4 ***Exculpation.***

The Debtors, the Reorganized Debtors, the Administrative Agent, the lender parties to the Credit Facility, the administrative agent under the DIP Facility, the lender parties to the DIP Facility, Deutsche Bank AG, Merrill Lynch Capital Services, Inc., the members of the Secured Lender Ad Hoc Working Group, and their respective principals, members, partners, officers, directors, employees, agents, managers, representatives, advisors, attorneys, accountants, and professionals shall neither have nor incur any liability to any Entity for any act taken or omitted to be taken in connection with, or arising out of, the Reorganization Cases, the

negotiation, formulation, dissemination, confirmation, consummation, or administration of the Plan, or property to be distributed under the Plan, or any other act or omission in connection with the Reorganization Cases, the Plan, the Disclosure Statement, or any contract, instrument, or other agreement or document related thereto or delivered thereunder, or any act taken or omitted to be taken in connection with the restructuring of the Debtors; provided, however, that the foregoing shall not affect the liability of any Entity that otherwise would result from any such act or omission to the extent that such act or omission is determined by a Final Order to have constituted willful misconduct or gross negligence.

10.5 *Reservation of Rights.*

The Plan shall have no force or effect unless and until the Effective Date. Prior to the Effective Date, none of the filing of the Plan, any statement or provision contained in the Plan, or action taken by the Debtors with respect to the Plan shall be, or shall be deemed to be, an admission or waiver of any rights of any Debtor or any other party with respect to any Claims or Equity Interests or any other matter.

10.6 *Plan Supplement.*

The Plan Supplement shall include certain documents relating to the Plan and its consummation and implementation, including the form of the New Warrants, the Restated Charters, the Restated Bylaws, the Amended and Restated Credit Agreement, the Amended and Restated Pledge and Security Agreement, the Nominating Agreements, the Registration Rights Agreement, the Shareholder Rights Plan, the Intercreditor Agreement, the Exit Facility Credit Agreement, the Exit Facility Pledge and Security Agreement, the Austria Contribution Agreement, the Austria Purchase Agreement, the Austria Note, the Germany Assumption Agreement, the Canada Direction Letter Agreement, the U.S. Direction Letter Agreement, a description of the claims, rights, causes of action, suits, and proceedings to be retained by the Reorganized Debtors, and modifications, if any, to Exhibit E to the Plan. The Plan Supplement shall be filed with the Clerk of the Bankruptcy Court on the Commencement Date. Upon its filing with the Bankruptcy Court, the Plan Supplement may be accessed on the docket electronically maintained by the Clerk of the Bankruptcy Court or inspected in the office of the Clerk of the Bankruptcy Court during normal court hours.

SECTION 11. RETENTION OF JURISDICTION

The Bankruptcy Court shall have exclusive jurisdiction over all matters arising in, arising under, and related to, the Reorganization Cases and the Plan pursuant to, and for purposes of sections 105(a) and 1142 of the Bankruptcy Code, and for, among other things, the following purposes:

(a) To hear and determine applications for the assumption or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom;

(b) To determine any and all motions, adversary proceedings, applications, contested matters, or other litigated matters pending on the Effective Date;

(c) To ensure that distributions to holders of Allowed Claims and Allowed Equity Interests are accomplished as provided herein;

(d) To enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(e) To issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Entity with the consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

(f) To hear and determine objections to Claims and Equity Interests, including any objections to the classification of any Claim or Equity Interest, and to allow or disallow any Disputed Claim or Disputed Equity Interest, in whole or in part;

(g) To consider any amendments to or modifications of the Plan, or remedy any defect or omission or reconcile any inconsistency in any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(h) To hear and determine all applications of retained professionals under sections 330, 331, and 503(b) of the Bankruptcy Code for allowances of compensation for services rendered and reimbursement of expenses incurred prior to the Confirmation Date;

(i) To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Plan Documents, the Confirmation Order, any transactions contemplated thereby, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(j) To hear and determine any issue for which the Plan or a Plan Document requires a Final Order of the Bankruptcy Court;

(k) To issue such orders as may be necessary or appropriate to aid in execution of the Plan or to maintain the integrity of the Plan following consummation, to the extent authorized by section 1142 of the Bankruptcy Code;

(l) To determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(m) To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

(n) To hear and determine all disputes involving the existence, scope and nature of the discharges granted under the Plan and the Bankruptcy Code;

(o) To hear and determine all disputes involving or in any manner implicating the exculpation or indemnification provisions contained in the Plan;

(p) To hear and determine any matters arising under or related to section 1145 of the Bankruptcy Code;

(q) To hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and title 28 of the United States Code;

(r) To recover all assets of the Debtors and property of the Debtors' estates, wherever located; and

(s) To enter a final decree closing the Reorganization Cases.

SECTION 12. MISCELLANEOUS PROVISIONS

12.1 *Payment of Statutory Fees.*

On the Effective Date, and thereafter as may be required, the Debtors shall pay all fees payable pursuant to section 1930 of chapter 123 of title 28 of the United States Code. Notwithstanding Section 5.1 above, the Debtors shall pay all of the foregoing fees on a per-Debtor basis.

12.2 *Dissolution of Statutory Committees and Cessation of Fee and Expense Payment.*

Any statutory committees appointed in the Reorganization Cases shall dissolve on the Effective Date. Provided that all such fees and expenses payable as of the Effective Date have been paid in full, the Reorganized Debtors shall not be responsible for paying any fees and expenses incurred after the Effective Date by the professionals retained by any statutory committees.

12.3 *Substantial Consummation.*

On the Effective Date, the Plan shall be deemed to be substantially consummated under sections 1101 and 1127(b) of the Bankruptcy Code.

12.4 *Expedited Determination of Postpetition Taxes.*

The Reorganized Debtors shall have the right to request an expedited determination of their tax liability, if any, under section 505(b) of the Bankruptcy Code with respect to any tax returns filed, or to be filed, for any and all taxable periods ending after the Commencement Date through the Effective Date.

12.5 *Amendments.*

Subject to section 1127 of the Bankruptcy Code and, to the extent applicable, sections 1122, 1123, and 1125 of the Bankruptcy Code, alterations, amendments or modifications of the Plan may be proposed in writing by the Debtors at any time prior to or after the Confirmation Date, but prior to the Effective Date. Holders of Claims that have accepted the Plan shall be deemed to have accepted the Plan, as altered, amended, or modified, if the proposed

alteration, amendment, or modification complies with the requirements of this Section 12.5 and does not materially and adversely change the treatment of the Claim of such holder; provided, however, that any holders of Claims that were deemed to accept the Plan because such Claims were unimpaired shall continue to be deemed to accept the Plan only if, after giving effect to such amendment or modification, such Claims continue to be unimpaired.

12.6 *Effectuating Documents and Further Transactions.*

Each of the officers of the Reorganized Debtors is authorized, in accordance with his or her authority under the resolutions of the applicable New Board, to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

12.7 *Additional Intercompany Transactions.*

The Debtors and Reorganized Debtors, as applicable, are hereby authorized without the need for any further corporate action and without further action by the holders of Claims or Equity Interests to (a) engage in intercompany transactions to transfer Cash for distribution pursuant to the Plan and (b) continue to engage in intercompany transactions (subject to applicable contractual limitations, including those in the Exit Facility Credit Agreement and the Amended and Restated Credit Agreement) including, without limitation, transactions relating to the incurrence of intercompany indebtedness.

12.8 *Revocation or Withdrawal of the Plan.*

The Debtors reserve the right to revoke or withdraw the Plan prior to the Effective Date. If the Debtors take such action, the Plan shall be deemed null and void. In such event, nothing contained herein shall constitute or be deemed to be a waiver or release of any Claims by or against the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any Entity in further proceedings involving the Debtors.

12.9 *Severability.*

If, prior to the entry of the Confirmation Order, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court, at the request of the Debtors, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

12.10 ***Schedules and Exhibits Incorporated.***

All exhibits and schedules to the Plan, including the Plan Supplement, are incorporated into and are a part of the Plan as if fully set forth herein.

12.11 ***Solicitation.***

The Debtors have, and upon the Confirmation Date shall be deemed to have, solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code, including without limitation, sections 1125(a) and (e) of the Bankruptcy Code, and any applicable nonbankruptcy law, rule, or regulation governing the adequacy of disclosure in connection with such solicitation. The Debtors, the Reorganized Debtors, and each of their respective principals, members, partners, officers, directors, employees, agents, managers, representatives, advisors, attorneys, accountants, and professionals shall be deemed to have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer, issuance, sale, and purchase of any securities offered or sold under the Plan, and therefore, are not, and on account of such offer, issuance, sale, solicitation, or purchase shall not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer, issuance, sale, or purchase of any securities offered or sold under the Plan.

12.12 ***Governing Law.***

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an exhibit hereto or a schedule in the Plan Supplement provides otherwise, the rights, duties, and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflict of laws thereof.

12.13 ***Compliance with Tax Requirements.***

In connection with the Plan and all instruments issued in connection herewith and distributed hereunder, any Entity issuing any instruments or making any distribution under the Plan, including any Entity described in Sections 5.2 and 5.4 hereof, shall comply with all applicable withholding and reporting requirements imposed by any federal, state, local, or foreign taxing authority, and all distributions under the Plan shall be subject to any such withholding or reporting requirements. Any Entity issuing any instruments or making any distribution under the Plan to a holder of an Allowed Claim or Allowed Equity Interest has the right, but not the obligation, to not make a distribution until such holder has provided to such Entity the information necessary to comply with any withholding requirements of any such taxing authority, and any required withholdings (determined after taking into account all information provided by such holder pursuant to this Section 12.13) shall reduce the distribution to such holder.

12.14 *Conflict Between Plan and Disclosure Statement*.

In the event of any conflict between the terms and provisions in the Plan and the terms and provisions in the Disclosure Statement, the terms and provisions of the Plan shall control and govern.

12.15 *Notices.*

Any notice required or permitted to be provided under the Plan to be effective shall be in writing (including by facsimile transmission) and, unless otherwise expressly provided in the Plan, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

(a) if to the Debtors or Reorganized Debtors to:

XERIUM TECHNOLOGIES, INC.
8537 Six Forks Road, Suite 300
Raleigh, NC 27615
Attn: Mr. Stephen R. Light
Telephone: (919) 526-1402
Facsimile: (919) 526-1430
Email: Stephen.Light@xerium.com

with copies to:

CADWALADER, WICKERSHAM & TAFT LLP
One World Financial Center
New York, NY 10281
Attn: John J. Rapisardi, Esq.
Sharon J. Richardson, Esq.
Telephone: (212) 504-6000
Facsimile: (212) 504-6666
Email: john.rapisardi@cwt.com
sharon.richardson@cwt.com

(b) if to the Administrative Agent, to:

Citicorp North America, Inc.
388 Greenwich Street
New York, NY 10013
Attn: Ryan Falconer
Telephone: (212) 816-3130
Facsimile: (866) 535-9445
Email: ryan.falconer@citi.com

with copies to:

CHADBOURNE & PARKE LLP
30 Rockefeller Plaza
New York, NY 10112
Attn: Howard Seife, Esq.
Andrew Rosenblatt, Esq.
Telephone: (212) 408-5100
Facsimile: (212) 541-5369
Email: hseife@chadbourne.com
arosenblatt@chadbourne.com

Dated: ____________, 2010

Respectfully submitted,

Xerium Technologies, Inc.

By:_____________________________________

Stephen R. Light
Chairman and Chief Executive Officer

Xerium III (US) Limited
Xerium IV (US) Limited
Xerium V (US) Limited
Huyck Licensco Inc.
Stowe Woodward Licensco LLC
Wangner Itelpa I LLC
Wangner Itelpa II LLC
Xerium Asia, LLC

By:_____________________________________

Stephen R. Light
President

Stowe Woodward LLC
Weavexx, LLC
[Xerium Canada Inc.]

By:_____________________________________

Stephen R. Light
President and Chief Executive Officer

[Xerium Italia S.p.A.

By:_____________________________________

Stephen R. Light
Chairman]

XTI LLC

By:____________________________________
David Maffucci
Executive Vice President

[Xerium Germany Holding GmbH

By:____________________________________
David Maffucci
Managing Director]

[Huyck.Wangner Austria GmbH

By:________________________________

David Pretty

Managing Director]

EXHIBIT A

AMENDED AND RESTATED CREDIT FACILITY

The following describes the principal terms of the Amended and Restated Credit Facility.

XERIUM TECHNOLOGIES, INC.

Summary of Terms and Conditions

US$410,000,000 Second Lien Secured Term Loan Facility

The following is a summary (the "Preliminary Term Sheet") of certain material terms of a proposed restructuring of the loans under the Amended and Restated Credit and Guaranty Agreement of Xerium Technologies, Inc. ("Xerium") and certain of its subsidiaries, dated as of May 30, 2008, as amended (the "Prepetition Credit Agreement"). The restructuring of such loans shall be effectuated through a plan of reorganization (the "Plan of Reorganization") to be filed by Xerium with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

1.	***Administrative and Collateral Agent:***	Citicorp North America, Inc. (the "New Term Loan Agent").
2.	***Sole Lead Arranger and Sole Bookrunner:***	Citigroup Global Markets, Inc.
3.	***Lenders:***	The banks and financial institutions party to the Prepetition Credit Agreement and the Prepetition Swap Parties (the "New Term Loan Lenders").
4.	***Prepetition Swap Parties:***	Deutsche Bank AG and Merrill Lynch Capital Services, Inc.
5.	***Borrowers:***	Xerium Technologies, Inc. (the "Company"), XTI LLC ("XTI", and together with the Company, the "U.S. Borrowers"), Xerium Canada, Inc. ("Xerium Canada"), Huyck Wangner Austria GmbH ("Huyck Austria"), Xerium Italia S.p.A. ("Xerium Italia") and Xerium Germany Holding GmbH ("Xerium Germany", and together with Xerium Canada, Huyck Austria and Xerium Italia, the "Non U.S. Borrowers").
6.	***Guarantors:***	The guarantors under the Prepetition Credit Agreement and Robec Brazil LLC (the "Guarantors"). The Guarantors organized under the laws of the United States or any state thereof are referred to as the "U.S. Guarantors", and the Guarantors organized outside the United States are referred to as the "Non U.S. Guarantors."
7.	***Joint and Several Obligations; Limitation on***	The obligations of the Borrowers under the Term Loan Facility and the related loan documents shall be joint and several, provided that none of the Non

Obligations:

U.S. Borrowers shall be liable for any of the obligations of any U.S. Borrower.

The obligations of the Guarantors under the loan documents shall be joint and several, provided that none of the Non U.S. Guarantors shall be liable for any of the obligations of any U.S. Guarantor.

Notwithstanding the foregoing, any payments received by the New Term Loan Agent with respect to the Term Loans or the Collateral shall be applied to the payment of the obligations under the loan documents for the ratable benefit of the New Term Loan Lenders.

8. ***Term Loan Facility:***

The Borrowers shall issue to the New Term Loan Lenders term loans (the "Term Loans") in an aggregate amount equal to US$410,000,000.[1] The Term Loans shall be issued by the Borrowers in the following amounts and currencies:

Borrower	Amount[2]	Currency
Xerium	US$225,145,947.36	US Dollars
XTI	US$43,677,549.37	Euros
Xerium Canada	US$46,532,560.48	Canadian Dollars
Huyck Austria	US$24,267,534.91	Euros
Xerium Italia	US$16,957,549.73	Euros
Xerium Germany	US$53,418,858.16	Euros

The Term Loans shall be deemed to have been

[1] The $410 million will represent a pro rata reduction of the existing loans under the Prepetition Credit Agreement.

[2] Based on the applicable "New York Closing" exchange rate published online at http://online.wsj.com for Tuesday, February 23, 2010, to be adjusted at closing based on exchange rates two business days prior to closing.

made to the Borrowers on the Closing Date without any actual funding. Term Loans that are repaid shall not be reborrowed.

9. ***Closing Date:*** The date on which the conditions precedent to the closing of the Term Loan Facility shall have been satisfied or waived.

10. ***Amortization:*** 2% annual amortization, payable on the 15th day of the last month of each calendar quarter, beginning in the first full calendar quarter after the Closing Date.

11. ***Maturity Date:*** Five years following the Closing Date.

12. ***Interest:*** The Term Loans shall bear interest as follows:

(i) in the case of the Term Loans issued by Xerium Canada, at the BA Rate plus the Applicable Margin;

(ii) in the case of the Term Loans issued by Xerium, at the LIBOR Rate plus the Applicable Margin; and

(iii) in the case of the Term Loans issued by XTI, Xerium Italia, Huyck Austria and Xerium Germany, at the Euribor Rate plus the Applicable Margin.

The terms "BA Rate", "LIBOR Rate" and "Euribor Rate" shall have the same meanings as set forth in the Prepetition Credit Agreement except that the BA Rate, the LIBOR Rate and the Euribor Rate shall not be less than 2.00% per annum.

The term "Applicable Margin" means (i) 625 bps if the Leverage Ratio equals or exceeds 2.75:1.00, and (ii) 575 bps if the Leverage Ratio is less than 2.75:1.00.

Interest periods will be 1, 2, 3 or 6 months.

If any Event of Default occurs and is continuing, then the Borrowers will pay interest on the unpaid balance of the outstanding Term Loans at a per annum rate of two percent (2%) greater than the rate

of interest specified above.

13.	***Interest Payments:***	Interest shall be payable in arrears on the last day of each interest period.
14.	***Mandatory Prepayment:***	Mandatory prepayment of the Term Loans shall be made from (i) 100% of the net cash proceeds from asset sales in excess of US$100,000 (with the obligation to mandatorily prepay commencing when such asset sales are greater than US$250,000) made outside the ordinary course of business, less any taxes payable by the Borrowers with respect to such asset sales; provided that with respect to the net cash proceeds from the Australia and Vietnam Assets (as defined in Section 20(h)), only 50% of the net cash proceeds shall be subject to mandatory prepayment, (ii) 100% of insurance and condemnation award payments, less any taxes payable by the Borrowers with respect to such award payments, (iii) cash proceeds from debt issuances, other than permitted debt and permitted refinancing debt and (iv) 50% of excess cash flow, which shall exclude non-cash items and shall include certain working capital adjustments, after the end of each fiscal year, beginning at the end of fiscal year 2011 (payable in 2012), with (in the case of clauses (i), (ii) and (iii)) exceptions, baskets and reinvestment rights to be agreed upon. Mandatory prepayments pursuant to clauses (i), (ii) and (iv) will be shared ratably with the lenders under the First Lien Facility pursuant to the terms of the Intercreditor Agreement. Borrowers will bear all costs related to any mandatory prepayment of Term Loans on a day that is not the last day of an interest period.
15.	***Voluntary Prepayment:***	The Term Loans may be prepaid without penalty, on 3 business days' notice, in minimum amounts and increments to be agreed upon. Borrowers will bear all costs related to the voluntary prepayment of Term Loans prior to the last day of the interest period thereof.
16.	***Security and Second Priority:***	The New Term Loan Agent for and on behalf of the New Term Loan Lenders shall have perfected second priority security interests in and liens upon (i) all existing and after acquired real and personal,

tangible and intangible, property of the U.S. Borrowers and U.S. Guarantors and (ii) the real and personal, tangible and intangible, property of the Non U.S. Borrowers and Non U.S. Guarantors securing the obligations under the Prepetition Credit Agreement (together, the "Collateral").

All amounts owing under the Term Loan Facility and the related loan documents in respect thereof at all times will be subject and subordinate to the liens granted under the Company's US$80,000,000 revolving and term loan credit facility to become effective concurrently with the Term Loan Facility (the "First Lien Facility"), subject to the terms of the Intercreditor Agreement.

17. ***Conditions to Closing:***

The closing of the Term Loan Facility shall be subject to the satisfaction of the conditions customary for a transaction of this type, including:

(a) The Bankruptcy Court shall have entered an order confirming the Company's Plan of Reorganization, which order (i) shall be in form and substance satisfactory to the New Term Loan Agent and (ii) shall be in full force and effect and shall not have been reversed, modified, amended or stayed (or application therefor made).

(b) All fees and other payments required to be made under the Term Loan Agreement or any other written agreement shall have been paid.

(c) No Event of Default and no condition which would constitute an Event of Default with the giving of notice or lapse of time or both shall exist.

(d) Representations and warranties shall be true and correct in all material respects, except where such representation or warranty relates to an earlier date, in which case it shall be true and correct in all material respects as of such earlier date; provided that any representation or warranty that is by its terms qualified by materiality shall be true and correct in all

respects.

(e) Execution and delivery of all loan and collateral documents for the Term Loan Facility and the Intercreditor Agreement, including but not limited to mortgages, ALTA mortgage title insurance policies and evidence of flood insurance with respect to any property located in any flood hazard zone.

(f) The New Term Loan Agent shall have a perfected second priority security interest in the Collateral and all filings and recordings and searches necessary or desirable in connection with such liens and security interest shall have been duly made.

(g) Delivery of legal opinion by counsel to the Borrowers and the Guarantors.

(h) Delivery of customary officers' and secretaries' certificates, incumbency/specimen signature certificates, resolutions and good standing certificates.

(i) All required consents shall have been obtained.

(j) The Company's debtor-in-possession credit facility shall have been repaid in full and commitments thereunder terminated, and all liens and security interests related thereto shall have been terminated and released, unless continued or refinanced pursuant to the terms of the First Lien Facility.

(k) The New Term Loan Agent shall have received reasonably satisfactory evidence that the conditions to effectiveness under the First Lien Facility shall have been satisfied or waived in accordance with the terms thereof.

(l) Issuance of common stock of the Company to the lenders under the Prepetition Credit Agreement and to the Prepetition Swap Parties as contemplated by the Company's Plan of Reorganization.

(m) The agent under the Prepetition Credit

Agreement (on behalf of the lenders thereunder) and the Prepetition Swap Parties shall have received the cash payment contemplated by the Company's Plan of Reorganization.

(n) The collateral agent for the First Lien Facility, as bailee for the New Term Loan Agent and other parties, shall have received the certificates representing the shares of capital stock pledged pursuant to the security documents, together with undated stock powers (or the equivalent) for each such certificate executed by the applicable Borrower or Guarantor.

(o) The New Term Loan Agent shall have received a detailed consolidated budget and business plan of the Company and its subsidiaries through fiscal year 2015 (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of fiscal year 2015), in form and substance acceptable to the New Term Loan Agent.

(p) The Company's US$80,000,000 First Lien Facility shall have become effective.

18. ***Representations and Warranties:***

The Term Loan Agreement will contain representations and warranties that are customary for a transaction of this type and shall be based on the representations and warranties set forth in the Prepetition Credit Agreement (subject to materiality qualifiers and exceptions in the Prepetition Credit Agreement, as well as matters disclosed in SEC filings and the Disclosure Statement), including:

(a) Confirmation of corporate status and authority of the Company and its subsidiaries.

(b) Capital stock of each of the Company and its subsidiaries has been duly authorized and validly issued and is fully paid and non-assessable.

(c) Due authorization, execution and delivery of

the loan documents.

(d) Execution, delivery, and performance by the Borrowers and Guarantors of the loan documents do not conflict with law, existing agreements or organization documents except where such conflict would not reasonably be expected to result in a Material Adverse Effect.

(e) No governmental or regulatory approvals required.

(f) Legality, validity, binding effect and enforceability of the loan documents.

(g) Accuracy of information and financial statements.

(h) Projections based on good faith estimates.

(i) No occurrence of any event, matter or circumstance since the petition date: (a) which is materially adverse to the: (i) business, assets or financial condition of Company and its subsidiaries taken as a whole; or (ii) ability of any Borrower or any Guarantor to perform any of its obligations in accordance with their terms under any of the loan documents; or (b) which in the reasonable opinion of the Requisite Lenders results in any (i) loan document not being legal, valid and binding on and, subject to reservations contained in the legal opinions provided as conditions precedent thereto, enforceable against any party thereto, from and after the Effective Date of the Plan of Reorganization, and/or (ii) collateral document not being a valid and effective security interest, from and after the Effective Date of the Plan of Reorganization, and in the case of (b), in each case in a manner or to an extent materially prejudicial to the interest of any New Term Loan Lenders under the loan documents ("Material Adverse Effect").

(j) Payment of taxes by the Company and its subsidiaries, except those taxes being contested

in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP.

(k) Good, sufficient and legal title to properties owned by the Company or its subsidiaries.

(l) Environmental compliance by the Company and its subsidiaries, except where non-compliance would not reasonably be expected to result in a Material Adverse Effect.

(m) No defaults by the Company or its subsidiaries in any contractual obligations except where such default would not reasonably be expected to result in a Material Adverse Effect and except as contemplated by the Plan of Reorganization.

(n) List of material contracts in effect on the Closing Date is true, correct and complete.

(o) Neither the Company nor any of its subsidiaries is an investment company.

(p) Neither the Company nor any of its subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying any margin stock and no part of the proceeds of the Term Loans made will be used to purchase or carry any such margin stock.

(q) No unfair labor practices by the Company or its subsidiaries and other employment law non-compliance matters that could reasonably be expected to result in a Material Adverse Effect.

(r) Compliance by the Company and its subsidiaries with employee benefit plans, except where non-compliance would not reasonably be expected to result in a Material Adverse Effect.

(s) No broker's or finder's fee or commission will be payable in connection with the transactions contemplated by the loan documents.

(t) Borrowers and Guarantors are solvent.

(u) Full and accurate disclosure by Borrowers and Guarantors.

(v) Compliance with laws, except where non-compliance would not reasonably be expected to result in a Material Adverse Effect.

19. ***Affirmative Covenants:***

The Term Loan Agreement will contain affirmative covenants that are customary for a transaction of this type and shall be based on the affirmative covenants set forth in the Prepetition Credit Agreement, including:

(a) The Company to deliver to the New Term Loan Agent the following: (i) audited annual financial statements within 90 days after the end of each fiscal year; (ii) unaudited quarterly financial statements within 45 days after the end of each fiscal quarter; (iii) detailed consolidated budget and business plan of the Company and its subsidiaries through fiscal year 2015 (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of fiscal year 2015) on or before April 1 of each fiscal year; (iv) compliance certificates; (v) notices of default; (vi) notices of litigation; (vii) notices of ERISA events; (viii) annual collateral verification reports; and (ix) other information.

(b) The Company to file all reports and other documents with the Securities and Exchange Commission required under the Securities Exchange Act.

(c) Each Borrower, each Guarantor and their respective subsidiaries to preserve and maintain in full force and effect its corporate existence and all rights and franchises, licenses and permits material to its business, except where its board of directors determines that such preservation is no longer desirable in the conduct of its business and the loss is not disadvantageous in any material respect to it or

the New Term Loan Lenders.

(d) Each Borrower, each Guarantor and their respective subsidiaries to pay all material taxes, except those taxes which are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP.

(e) Each Borrower, each Guarantor and their respective subsidiaries to maintain in good repair, working order and condition, ordinary wear and tear excepted, all material properties used or useful in the business of the Company and its subsidiaries and make all appropriate repairs, renewals and replacements thereof, except where failure to do so would not reasonably be expected to have a Material Adverse Effect.

(f) The Company will maintain or cause to be maintained, with financially sound and reputable insurers, such public liability insurance, third party property damage insurance, business interruption insurance and casualty insurance with respect to liabilities, losses or damage in respect of the assets, properties and businesses of the Company and its subsidiaries as may customarily be carried or maintained under similar circumstances by persons of established reputation engaged in similar businesses, in each case in such amounts, with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for such persons.

(g) Each Borrower, each Guarantor and their respective subsidiaries to maintain accurate books and records and, as reasonably requested and with reasonable notice, permit visitation and inspection by the New Term Loan Agent representatives.

(h) Each Borrower, each Guarantor and their respective subsidiaries to comply in all

material respects, with the requirements of all applicable laws, rules, regulations and orders of any governmental authority (including all environmental laws), except where failure to do so would not reasonably be expected to have a Material Adverse Effect.

(i) The Company to deliver to the New Term Loan Agent environmental reports and disclosures.

(j) Each Borrower to cause any person that becomes a material subsidiary to become a Guarantor and a grantor under the applicable collateral documents.

(k) Each Borrower, each Guarantor and their respective subsidiaries, upon acquisition of a material real estate asset, to take all actions to create in favor of New Term Loan Agent a valid and perfected second priority security interest.

(l) Each Borrower and Guarantors to take all actions the New Term Loan Agent may reasonably request in order to effect fully the purposes of the loan and collateral documents.

(m) Each Borrower and each of its subsidiaries will continue to own or possess the right to use, free from any restrictions, all patents, trademarks, copyrights, and domain names that are used in the operation of their respective businesses as presently conducted and as proposed to be conducted, except to the extent the failure to so own or possess would not reasonably be expected to have a Material Adverse Effect.

(n) Each Borrower and each Guarantor to supply to the New Term Loan Agent or any New Term Loan Lender documents and evidence reasonably requested and necessary to comply with "know your customer" or other similar checks.

(o) Each Borrower, each Guarantor and their

respective subsidiaries to ensure that its payment obligations under each of the loan and collateral documents rank and will at all times rank junior only to the obligations under the First Lien Facility in accordance with the terms of the Intercreditor Agreement and Permitted Liens (as defined in the Prepetition Credit Agreement) and will at all times rank at least pari passu to the obligations of all other present and future secured and unsubordinated indebtedness, other than obligations under the First Lien Facility.

(p) If the audit opinion delivered with the audited consolidated financial statements of the Company and its subsidiaries for the fiscal year 2009 contains a going concern qualification, the Company will use its commercially reasonable efforts to cause its auditors to deliver a revised opinion withdrawing the going concern qualification.

20. *Negative Covenants:*

The Term Loan Agreement will contain negative covenants that are customary for a transaction of this type and shall be based on the negative covenants set forth in the Prepetition Credit Agreement, including:

(a) No incurrence of indebtedness by any Borrower or any Guarantor or any of their subsidiaries, other than:

1. the obligations under the Term Loan Agreement and the related loan and collateral documents (the "Obligations");

2. indebtedness of any subsidiary to any Borrower or to any other subsidiary, or of any Borrower to any subsidiary; provided, (i) all such indebtedness shall be evidenced by promissory notes and all such notes shall be subject to a lien pursuant to the collateral documents, (ii) all such indebtedness shall be unsecured and subordinated in right of payment to the payment in full of the Obligations pursuant to the terms of the applicable

promissory notes or an intercompany subordination agreement that in any such case, is reasonably satisfactory to the New Term Loan Agent, and (iii) any payment by any such subsidiary under any guaranty of the Obligations shall result in a pro tanto reduction of the amount of any indebtedness owed by such subsidiary to the Company or to any of its subsidiaries for whose benefit such payment is made;

3. senior or subordinated unsecured debt; provided, that (i) no default or event of default is continuing under the Term Loan Agreement or would result from such issuance, (ii) each Borrower is in compliance (and certifies as to such compliance) with the financial covenants on a pro forma basis after giving effect to the such issuance, (iii) the proceeds of such issuance are applied in accordance with the mandatory prepayment provisions of the Term Loan Agreement, (iv) such debt shall have a maturity of not earlier than six months after the Maturity Date, and (v) the documentation relating to such subordinated debt shall not contain any covenant or event of default that is either (x) not substantially provided for in the Term Loan Agreement or (y) more favorable to the holder of such subordinated debt than the comparable covenant or event of default set forth in the Term Loan Agreement, and, in the case of any subordinated debt, shall contain customary subordination provisions pursuant to which such debt is subordinated to the prior payment in full of the obligations under the Term Loan Agreement;

4. indebtedness incurred by the Company or any of its subsidiaries arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guaranties or letters of credit, surety bonds or performance

bonds securing the performance of each Borrower or any such subsidiary pursuant to such agreements, in connection with certain permitted acquisitions or permitted dispositions of any business, assets or subsidiary of the Company or any of its subsidiaries;

5. indebtedness which may be deemed to exist pursuant to any guaranties, performance, surety, statutory, appeal or similar obligations incurred in the ordinary course of business;

6. indebtedness in respect of netting services, overdraft protections and otherwise in connection with deposit accounts;

7. guaranties in the ordinary course of business of obligations to suppliers, customers, franchisees and licensees of the Company and its subsidiaries;

8. guaranties or the provision of other credit support by a Borrower of indebtedness of a subsidiary or guaranties or the provision of other credit support by a subsidiary of a Borrower of indebtedness of a Borrower or a subsidiary with respect, in each case, to indebtedness otherwise permitted to be incurred pursuant to the lien covenant section below;

9. existing disclosed indebtedness, but not any extensions, renewals or replacements of such indebtedness except (i) renewals and extensions expressly provided for in the agreements evidencing any such indebtedness as the same are in effect on the Closing Date and (ii) refinancings and extensions of any such indebtedness if the terms and conditions thereof are not materially less favorable to the obligor thereon or to the New Term Loan Lenders than the indebtedness being refinanced or extended, and the average life to maturity

thereof is greater than or equal to that of the indebtedness being refinanced or extended; provided, such indebtedness permitted under the immediately preceding clause (i) or (ii) above shall not (A) include indebtedness of an obligor that was not an obligor with respect to the indebtedness being extended, renewed or refinanced, (B) exceed in a principal amount the indebtedness being renewed, extended or refinanced or (C) be incurred, created or assumed if any default or event of default under the Term Loan Agreement has occurred and is continuing or would result therefrom;

10. indebtedness with respect to capital leases or purchase money indebtedness in an amount not to exceed at any time US$25 million in the aggregate (including any indebtedness acquired in connection with certain permitted acquisitions); provided, any such purchase money indebtedness shall be secured only to the asset(s) acquired in connection with the incurrence of such indebtedness;

11. other indebtedness of the Company and its subsidiaries in an aggregate amount not to exceed at any time US$25 million;

12. indebtedness under certain factoring agreements;

13. unsecured working capital facilities of any subsidiary in respect of which a letter of credit in an amount equal to the maximum principal amount of such facilities has been issued under the First Lien Facility;

14. hedging obligations entered into for the purpose of hedging risks associated with the operations of the Company and its subsidiaries;

15. the obligations under the First Lien

Facility;

16. any replacement, renewal or refinancing of and debt described in 3, 10, 11 and 15 ("Permitted Refinancing Indebtedness") that (i) does not exceed the aggregate principal amount of the debt being replaced, renewed or refinanced, (ii) does not have a maturity date earlier than the debt being replaced renewed or refinanced, (iii) does not rank at the time of such replacement, renewal or refinancing senior to the debt being replaced, renewed or refinanced and (iv) the documentation relating to such debt shall not contain any covenant or event of default that is either (x) not substantially provided for in the Term Loan Agreement or (y) more favorable to the holder of such debt than the comparable covenant or event of default set forth in the Term Loan Agreement; and

17. scheduled indebtedness existing on the Closing Date.

(b) No liens on any property or assets of the Company or its subsidiaries, other than:

1. liens in favor of New Term Loan Agent for the benefit of New Term Loan Lenders granted pursuant to any security document;

2. liens for taxes not then due or if due obligations with respect to such taxes that are not at such time required to be paid pursuant to the payment of taxes covenant or which are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP;

3. statutory liens of landlords, banks (and rights of set off), of carriers, warehousemen, mechanics, repairmen,

workmen and materialmen, and other liens imposed by law, in each case incurred in the ordinary course of business (i) for amounts not yet overdue or (ii) for amounts that are overdue and that (in the case of any such amounts overdue for a period in excess of 15 days) are being contested in good faith by appropriate proceedings, so long as such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made for any such contested amounts;

4. liens incurred in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money or other indebtedness), so long as no foreclosure, sale or similar proceedings have been commenced with respect to any portion of the Collateral on account thereof;

5. easements, rights of way, restrictions, encroachments, and other minor defects or irregularities in title, in each case which do not and will not interfere in any material respect with the ordinary conduct of the business of the Company or any of its subsidiaries;

6. any (i) interest or title of a lessor or sublessor under any lease of real estate permitted under the Term Loan Agreement, (ii) restriction or encumbrance that the interest or title of such lessor or sublessor may be subject to, or (iii) subordination of the interest of the lessee or sublessee under such lease to any restriction or encumbrance referred to

in the preceding clause (ii), so long as the holder of such restriction or encumbrance agrees to recognize the rights of such lessee or sublessee under such lease;

7. liens solely on any cash earnest money deposits made by the Company or any of its subsidiaries in connection with any letter of intent or purchase agreement permitted under the Term Loan Agreement;

8. purported liens evidenced by the filing of precautionary UCC financing statements or, for property located in foreign jurisdictions, the preparation and/or filing of functionally similar documents, relating solely to operating leases of personal property entered into in the ordinary course of business;

9. liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

10. any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property;

11. (i) licenses of patents, trademarks and other intellectual property rights granted by the Company or any of its subsidiaries in the ordinary course of business and not interfering in any material respect with the ordinary conduct of the business of the Company or such subsidiary and (ii) leases or subleases granted by Company of any of its subsidiaries to third parties in respect of surplus property which is not fundamental to the operation of the business in the ordinary course of business; provided that such leases and subleases are on arms-length commercial terms and are otherwise satisfactory to the

New Term Loan Agent;

12. liens described on a title report delivered in connection with any real property securing the obligations under the Term Loan Agreement;

13. liens securing indebtedness permitted pursuant to clauses 10. and 11. of the debt covenant above; provided, any such lien shall encumber only the asset acquired with the proceeds of such indebtedness;

14. liens granted by entities acquired pursuant to the asset sale covenant prior to their acquisition and not in contemplation of such acquisition and which are discharged within three months of the date of acquisition and in relation to which the secured amount is not increased in contemplation of or after the date of the relevant acquisition;

15. liens in favor of the collateral agent under the security documents relating to the First Lien Facility;

16. liens securing Permitted Refinancing Indebtedness, provided that any such lien shall encumber only the assets that secure the debt being replaced, renewed or refinanced by such Permitted Refinancing Indebtedness;

17. scheduled liens outstanding on the Closing Date and replacements thereof so long as the replacement liens encumber only the assets subject to the liens being replaced; and

18. a general lien basket of US$15 million so long as the assets subject to such lien are located outside the United States and are not included in the Collateral, of which US$5 million of such general lien basket may apply to assets subject to such lien that are located in the United States and

are not included in the Collateral.

(c) If any Borrower or any of its subsidiaries creates any lien upon any of its properties or assets, other than Permitted Liens, it shall make provisions whereby the obligations under the Term Loan Agreement will be secured by such lien equally and ratably.

(d) No further negative pledges by any Borrower, any Guarantor or their subsidiaries, other than:

1. specific property encumbered to secure payment of particular indebtedness or to be sold pursuant to an executed agreement with respect to a permitted asset sale;

2. restrictions contained in any documents evidencing subordinated debt; provided, that in respect of subordinated debt such restrictions do not restrict the ability to grant security interests under the Term Loan Agreement or any agreement that refinances the obligations under the Term Loan Agreement;

3. restrictions by reason of customary provisions restricting assignments, subletting or other transfers contained in leases, licenses and similar agreements entered into in the ordinary course of business (provided that such restrictions are limited to the property or assets secured by such liens or the property or assets subject to such leases, licenses or similar agreements, as the case may be);

4. liens permitted to be incurred under lien and debt covenants in the Term Loan Agreement and restrictions in the agreements relating thereto that limit the right of any Borrower or any Guarantor to dispose of or transfer the assets subject to such liens;

5. provisions limiting the disposition or distribution of assets or property under

sale-leaseback agreements, stock sale agreements and other similar agreements, which limitation is applicable only to the assets that are the subject of such agreements;

6. any encumbrance or restriction in connection with an acquisition of property, so long as such encumbrance or restriction relates solely to the property so acquired and was not created in connection with or in anticipation of such acquisition; and

7. restrictions imposed by customary provisions in partnership agreements, limited liability company organizational governance documents, joint venture agreements and other similar agreements that restrict the transfer of ownership interest in such partnership, limited liability company, joint venture or similar person.

(e) No restricted junior payments (e.g., dividends and payments of subordinated debt) except distributions from a subsidiary to its shareholders, provided that such payments are made to all its shareholders proportionately, and so long as no default exists, the Company can repurchase or redeem common stock up to US$7 million per year for the purpose of repurchases of common stock from departing executives or satisfying the purchase price of equity awards under, or paying withholding taxes with respect to vested equity compensation programs.

(f) Limited restrictions on subsidiary ability to make distributions.

(g) No investments in any person (including joint ventures) by any Borrower, any Guarantor or their subsidiaries, other than:

1. investments in cash and cash equivalents;

2. equity investments and loans as of the Closing Date in or to any subsidiary and equity investments and loans made after the Closing Date in or to any subsidiary of any Borrower;

3. investments (i) in any securities received in satisfaction or partial satisfaction of obligations of financially troubled account debtors and (ii) deposits, prepayments and other credits to suppliers made in the Company's and its subsidiaries' ordinary course of business;

4. intercompany loans and guaranties to the extent permitted by the provisions of the indebtedness covenant above;

5. capital expenditures permitted under the financial covenants below;

6. loans and advances to employees of the Company and its subsidiaries made in the ordinary course of business in an aggregate principal amount not to exceed US$1 million in the aggregate;

7. investments made in connection with certain permitted acquisitions, provided that equity of the Company may be used as consideration in connection with permitted acquisitions so long as the Company is in compliance, on a pro forma basis, with the financial covenants;

8. investments received in lieu of cash in connection with certain permitted asset sales;

9. existing disclosed investments; and

10. other investments in an aggregate amount not to exceed at any time US$20 million.

(h) No mergers, consolidations, acquisitions, sales, leases of all or part of Company's or any of its subsidiaries' assets or property other than:

1. purchases or acquisitions of inventory, materials and equipment and cap-ex in the ordinary course of business;

2. any subsidiary of the Company may be merged with or into a Borrower or any other subsidiary, or be liquidated, wound up or dissolved, or all or any part of its business, property or assets may be conveyed, sold, leased, transferred or otherwise disposed of, to a Borrower or any other subsidiary, provided that in the case of a merger involving a Borrower or a Guarantor merging with a non-Guarantor, such Borrower or Guarantor shall be the surviving entity;

3. sales or dispositions of inventory in the ordinary course of business and sales of other assets for gross consideration of less than US$250,000 with respect to any transaction or series of related transactions;

4. asset sales, the proceeds of which when aggregated with proceeds of all other asset sales in the same fiscal year are less than US$25 million; provided that (x) such amount shall exclude proceeds of the sale of assets of Huyck Wangner Australia Pty Limited and Huyck Wangner Vietnam Co Ltd (the "Australian and Vietnam Assets") and (y) 75% of the consideration is in cash and the net proceeds are applied to prepay the Term Loans; provided further that up to US$3 million of such proceeds may be reinvested within 360 days of receipt;

5. disposals of obsolete, worn out or surplus property;

6. permitted acquisitions so long as the amount does not exceed US$10 million;

7. investments permitted under the Term

Loan Agreement.

(i) No sales by any Borrower, any Guarantor or their subsidiaries of interests in the capital stock of any of the subsidiaries, unless permitted by the Term Loan Agreement.

(j) No sales and lease backs by any Borrower, any Guarantor or their subsidiaries, unless permitted by the Term Loan Agreement.

(k) No transactions by any Borrower, any Guarantor or their subsidiaries with shareholders owning more than 5% of any class of stock of the Company or any of its subsidiaries and affiliates on terms less favorable to such Borrower or Guarantor, other than (a) any transaction between the Company or any of its subsidiaries and the Company and its subsidiaries; (b) compensation arrangements for directors, officers and other employees of Company and its subsidiaries entered into in the ordinary course of business, including indemnification arrangements, equity compensation and stock ownership plans; and (c) certain other permitted transactions agreed upon.

(l) No engaging by any Borrower, any Guarantor or their subsidiaries in business other than businesses engaged in by such Borrower and the Guarantors on the Closing Date or other similar or related businesses.

(m) No amendments or modifications by any Borrower, any Guarantor or their subsidiaries of any organizational documents that would be materially adverse to the New Term Loan Lenders.

(n) No amendments or waivers by any Borrower, any Guarantor or their subsidiaries with respect to certain terms of subordinated debt or amendments that would be adverse to the New Term Loan Lenders.

(o) No change by any Borrower, any Guarantor or

their subsidiaries in its fiscal year end from December 31.

21. ***Financial Covenants:***

(a) Interest Coverage Ratio measured quarterly for a rolling 12 month period at levels to be agreed upon.

(b) Leverage Ratio measured quarterly for a rolling 12 month period at levels to be agreed upon.

(c) Maximum Capital Expenditures each year in amounts to be agreed upon.

22. ***Events of Default:***

The Term Loan Agreement will contain Events of Default that are customary for a transaction of this type and shall be based on the events of default in the Prepetition Credit Agreement, including:

(a) Failure by any Borrower to pay principal when due and failure to pay interest, fees and other amounts within 3 business days of when due.

(b) Cross-default to payment defaults beyond applicable grace periods by any Borrower, any Guarantor or any of their subsidiaries on principal aggregating US$5 million, or to other events if the effect is to accelerate or permit acceleration of such debt.

(c) Failure by any Borrower or any Guarantor to comply with any negative covenant, any financial covenant or the use of proceeds covenant.

(d) Any representations or warranty made by any Borrower or any Guarantor shall be false in any material respect as of the date made or deemed made.

(e) Failure by any Borrower or any Guarantor to comply with other covenants in Term Loan Agreement or other loan or collateral documents and such failure continues unremedied for a period of 20 business days following receipt of notice by an officer of the Company or actual knowledge of such failure

by any such Borrower or Guarantor.

(f) Involuntary bankruptcy, liquidation, or the appointment of a receiver or similar official or institution of any such proceeding in respect of the Company or any of its subsidiaries if not dismissed within 60 days.

(g) Voluntary bankruptcy, liquidation, or the appointment of a receiver or similar official or institution of any such proceeding in respect of the Company or any of its subsidiaries, other than any Case(s) not closed as of the Closing Date.

(h) Failure to pay by the Company or any of its subsidiaries of a final judgment or court order if not stayed within 60 days in excess of US$5 million.

(i) Any order, judgment or decree shall be entered against any Borrower or any Guarantor decreeing the dissolution or split up of such Borrower or Guarantor and such order shall remain undischarged or unstayed for a period in excess of 30 days.

(j) Occurrence of an ERISA event which would reasonably be expected to result in liability of the Company or any of its subsidiaries in excess of US$5 million.

(k) Occurrence of a change of control of the Company, other than pursuant to the Plan of Reorganization.

(l) Any collateral document ceases to be in full force and effect other than in accordance with its terms or shall be declared null and void or the New Term Loan Agent shall not have or shall cease to have a valid and perfected lien in any Collateral purported to be covered by such collateral document with the priority required by such collateral document.

(m) Occurrence of any Material Adverse Effect.

23.	***Remedies Upon Event of Default:***	Upon the occurrence of an Event of Default under paragraphs (f), (g) or (k) above, automatically, and upon the occurrence of any other Event of Default, at the request of the Requisite Lenders, the principal of and all accrued interest and fees and all other amounts owed to the New Term Loan Agent and the New Term Loan Lenders under the Term Loan Agreement shall be immediately due and payable, and the New Term Loan Agent and the New Term Loan Lenders shall have the rights and remedies provided in the Term Loan Agreement and the collateral documents, subject to the terms of the Intercreditor Agreement.
24.	***CAM Exchange:***	On the date on which an Event of Default under paragraphs (f) and (g) above (bankruptcy) occurs, the New Term Loan Lenders shall automatically be deemed to have exchanged interest in all obligations of the Borrowers under the Term Loan Agreement such that each New Term Loan Lender shall own a pro rata interest in all of the Term Loans.
25.	***Assignments and Participations:***	Each New Term Loan Lender may sell or assign all or any portion of its Term Loans with notice to the New Term Loan Agent and to the Company. Each New Term Loan Lender may grant participations in all or any of its Term Loans without the prior consent of any Borrower.
26.	***Voting:***	Amendments, modifications, terminations and waivers of any provision of the Term Loan Agreement or any related document will require the approval of Requisite Lenders (as defined below), except that in certain circumstances the consent of a greater percentage of the outstanding Term Loans may be required.
27.	***Requisite Lenders:***	New Term Loan Lenders holding at least a majority of the outstanding Term Loans.
28.	***Intercreditor Agreement:***	The New Term Loan Agent and the collateral agent for the First Lien Facility shall enter into an intercreditor agreement setting forth the lien and payment priorities with respect to the obligations under the Term Loan Agreement and the First Lien Facility.

29.	***Term Loan Agreement and Other Terms:***	The Term Loan Agreement shall be an amendment and restatement of the Prepetition Credit Agreement effectuated through the Plan of Reorganization and will provide additional terms that are usual and customary for a transaction of this type.
30.	***Expenses:***	The Borrowers shall reimburse the New Term Loan Agent for all fees, expenses and disbursements, including reasonable fees, expenses and disbursements of counsel to the New Term Loan Agent, incurred in connection with the transaction, including, without limitation, related preparation, negotiation, execution and administration of the definitive documentation and ongoing expenses related to the Term Loan Facility. After the occurrence of a Default or and Event of Default, Borrowers shall reimburse the New Term Loan Agent and the New Term Loan Lenders for all costs and expenses and costs of settlement incurred in enforcing any Obligation or in collecting any payments due or in connection with any refinancing and restructuring of the credit arrangements.
31.	***Indemnification:***	The Borrowers and the Guarantors shall indemnify the New Term Loan Agent and New Term Loan Lenders and their respective affiliates, officers, partners, directors trustees, investment advisors, employees and agents for any liability, obligation, loss, damage, claim, costs, expense and disbursement (including reasonable fees and disbursements of counsel to the indemnitees) arising out of (i) the Term Loan Agreement and the related loan documents and the transactions contemplated under the Term Loan Facility, the use or proposed use of proceeds of the term loans or any enforcement of the Term Loan Agreement or any related loan documents or (ii) any environmental claims or hazardous materials activity arising from activity of the Company and its subsidiaries, provided that such indemnification obligation does not extend to any damages or liabilities arising from gross negligence or willful misconduct.
32.	***Yield Protection and Taxes:***	The Term Loan Agreement and the related documents will contain yield protection provisions and tax gross-up provisions that are customary and based on the yield protection and tax gross-up

provisions set forth in the Prepetition Credit Agreement.

33. ***Governing Law:*** The Term Loan Facility and all documentation in connection with the Term Loan Facility (other than the applicable security documents) shall be governed by the laws of the State of New York.

EXHIBIT B

COMMITMENT LETTER

EXECUTION VERSION

CITIGROUP GLOBAL MARKETS INC.
390 GREENWICH STREET
NEW YORK, NEW YORK 10013

February 26, 2010

Xerium Technologies, Inc.
8537 Six Forks Road, Suite 300
Raleigh, NC 27615
Attention: Mr. Stephen Light
Chief Executive Officer

US$80,000,000 Senior Secured Superpriority Priming DIP Financing Facility and
US$80,000,000 First Lien Exit Facility
or
US$80,000,000 First Lien Out of Court Restructuring Facility
COMMITMENT LETTER

Ladies and Gentlemen:

You have advised us that Xerium Technologies, Inc. (the "**Company**"), which may become a debtor-in-possession in cases (the "**Cases**") under Chapter 11 of Title 11 of the United States Code (the "**Bankruptcy Code**") in the United States Bankruptcy Court for the District of Delaware (the "**Court**"), desires to establish (i) a US$80 million senior secured superpriority priming debtor-in-possession facility (the "**DIP Facility**") comprised of (A) a US$20 million senior secured superpriority priming debtor-in-possession revolving loan facility and (B) a US$60 million senior secured superpriority priming debtor-in-possession term loan facility, which will convert, upon confirmation of the Prepackaged Plan of Reorganization (the "**Plan of Reorganization**") in the Cases into (ii) a US$80 million first lien secured exit facility (the "**Exit Facility**", and together with the DIP Facility, the "**Facilities**") comprised of (A) a US$20 million first lien secured exit revolving loan facility, and (B) a US$60 million first lien secured exit term loan facility. The proceeds of the DIP Facility will be used by the Company solely to (i) pay related transaction costs, fees and expenses associated with the DIP Facility, (ii) fund working capital and general corporate purposes of the DIP Borrower and its subsidiaries during the pendency of the Cases, (iii) make adequate protection payments and (iv) fund costs, fees and expenses incurred in connection with the administration and prosecution of the Cases. The proceeds of the Exit Facility will be used by the Company and certain of its subsidiaries solely to (i) pay fees and expenses associated with the Exit Facility, (ii) fund working capital and general corporate purposes of the Company and certain of its subsidiaries, (iii) refinance the DIP Facility in accordance with the terms set forth in Annex I and (iv) fund costs, fees and expenses incurred in connection with the consummation of the Plan of Reorganization in accordance with the attached Annex I.

Subject to the terms and conditions of this commitment letter and the attached Annex I (collectively, and together with the Fee Letter referred to below, this "**Commitment Letter**", as amended and modified from time to time), Citigroup Global Markets Inc. ("**CGMI**"), on behalf of Citi (as defined below), is pleased to inform the Company of Citi's commitment to provide the Company the entire amount of the Facilities and to act as administrative agent and collateral agent for the Facilities. However, if the Company obtains unanimous approval by April 12, 2010 from (i) the lenders under the Prepetition Credit Agreement (as defined in Annex I), (ii) Deutsche Bank AG and Merrill Lynch Capital Services, Inc. as swap counterparties in the interest rate swap agreements with the Company or certain of

its subsidiaries, which agreements were terminated in December 2009 and January 2010, respectively, and (iii) Apax WW Nominees Ltd. and Apax-Xerium APIA LP for an out of court restructuring of its debt and equity (the "**Out of Court Restructuring Approval**"), Citi (as defined below) agrees that it will instead provide (A) a US$20 million first lien secured revolving loan facility and (B) a US$60 million first lien secured term loan facility (the "**Out of Court Restructuring Facility**") on terms set forth in Part II of Annex I, with adjustments to such terms to take into account that the Out of Court Restructuring Facility is not a debtor-in-possession facility and not an exit facility and references to "Facilities" in this Commitment Letter shall mean the Out of Court Restructuring Facility. If the Out of Court Restructuring Facility is provided, the aggregate amount of the upfront fees listed in the attached Annex I that would have been due on the DIP Closing Date and the Exit Closing Date will instead be due and payable on the closing date of the Out of Court Restructuring Facility. The proceeds of the Out of Court Restructuring Facility will be used by the Company and certain of its subsidiaries solely to (i) pay fees and expenses associated with the Out of Court Restructuring Facility, (ii) fund working capital and general corporate purposes of the Company and certain of its subsidiaries and (iii) fund costs, fees and expenses incurred in connection with the consummation of the Company's out of court restructuring. For purposes of this Commitment Letter, "**Citi**" means CGMI, Citibank, N.A., Citicorp USA, Inc., Citicorp North America, Inc. and/or any of their affiliates as may be appropriate to consummate the transactions contemplated hereby.

Section 1. Conditions Precedent. Citi's commitment and other obligations hereunder are subject to: (i) the preparation, execution and delivery of mutually acceptable loan documentation, including without limitation, a credit agreement, security agreements, guaranties and other agreements, incorporating substantially the terms and conditions outlined in this Commitment Letter and otherwise satisfactory to Citi (the "**Operative Documents**"); (ii) in the judgment of CGMI, the absence of any material adverse change in the business, condition (financial or otherwise), operations or prospects of the Company and its subsidiaries, taken as a whole, since September 30, 2009 other than (x) the matters described in the Company's quarterly report on Form 10-Q for the quarterly period ended September 30,2009 filed with the Securities and Exchange Commission and any Form 8-K filed with the Securities and Exchange Commission prior to the date hereof, (y) commencement of the Cases and (z) the occurrence or continuation of circumstances that give rise or would reasonably be expected to give rise to the filing of the Cases, so long as Citi has been made aware as of the date hereof of all such circumstances, (iii) the accuracy and completeness of all representations that the Company makes to Citi and all information that the Company furnishes to Citi; (iv) the Company's compliance with the terms of this Commitment Letter, including without limitation, the payment in full of all fees, expenses and other amounts payable under this Commitment Letter; (v) the satisfaction of the other conditions precedent to the closing of the Facilities contained in Annex I, (vi) Citi not discovering or otherwise becoming aware of any information not previously disclosed to it that it believes to be materially inconsistent with its understanding, based on the information provided to it prior to the date hereof, of the business, condition (financial or otherwise), operations or prospects of the Company and its subsidiaries taken as a whole and (vii) Citi shall have been afforded an opportunity to syndicate the Facilities for a period of a minimum of four weeks, commencing from the date of execution of this Commitment Letter by the Company.

Section 2. Commitment Termination. Citi's commitment and other obligations set forth in this Commitment Letter will terminate on the earlier of (I) the date the Operative Documents become effective, and (II) April 12, 2010 for the DIP Facility and the Exit Facility commitment, or if the Company obtains the Out of Court Approval, April 30, 2010 for the Out of Court Restructuring Facility commitment (the "**Citi Commitment Termination Date**"). Before such date, Citi may terminate its commitment and other obligations hereunder if any event occurs or information becomes available that, in its judgment, results in, or is likely to result in, the failure to satisfy any condition set forth in Section 1. Notwithstanding the

foregoing, the termination of Citi's commitment and other obligations hereunder will not affect Sections 4 through 12, which provisions will survive any such termination.

Section 3. Syndication. Citi reserves the right, before the execution of the Operative Documents, to syndicate all or a portion of the Facilities (including all or part of Citi's commitment) to one or more other financial institutions that will become parties to the Operative Documents pursuant to a syndication to be managed by CGMI (the financial institutions becoming parties to the Operative Documents being collectively referred to herein as the "**Lenders**"). Citi intends to commence syndication promptly upon execution of this Commitment Letter by the Company. CGMI will manage all aspects of the syndication in consultation with the Company, including the timing of all offers to potential Lenders, the determination of the amounts offered to potential Lenders, the acceptance of commitments of the Lenders and the compensation to be provided to the Lenders.

The Company will use its commercially reasonable efforts to assist CGMI, as CGMI may reasonably request, in forming a syndicate acceptable to CGMI. The Company's assistance in forming such a syndicate will include, without limitation, commercially reasonable efforts to (i) make senior management, advisors and representatives of the Company available to participate in information meetings with potential Lenders and rating agencies at such times and places as CGMI may reasonably request; (ii) ensure that the syndication efforts benefit from the Company's existing lending relationships; (iii) assist and cause its affiliates and advisors to assist in the preparation of a confidential information memorandum for the Facilities and other marketing and rating agency materials to be used in connection with syndication of the Facilities; (iv) promptly provide CGMI with all information reasonably necessary to successfully complete the syndication of the Facilities and (v) obtain corporate/ corporate family ratings for the Borrower and ratings for the Exit Facility or the Out of Court Restructuring Facility, as applicable, from Standard & Poor's Rating Group ("**S&P**") and Moody's Investors Service, Inc. ("**Moody's**") prior to the DIP Closing Date, or the closing date of the Out of Court Restructuring Facility, as applicable.

The Company acknowledges that (i) Citi may make available any Information and Projections (each as defined in Section 8) (collectively, the "**Company Materials**") to potential Lenders by posting the Company Materials on IntraLinks, the Internet or another similar electronic system (the "**Platform**") and (ii) certain of the potential Lenders may be public side Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Company or its securities) (each, a "**Public Lender**"). The Company agrees that (A) at the request of Citi, it will prepare a version of the information package and presentation to be provided to potential Lenders that does not contain material non-public information concerning the Company or its securities for purposes of United States federal and state securities laws; (B) all Company Materials that are to be made available to Public Lenders will be clearly and conspicuously marked "PUBLIC" which, at a minimum, will mean that the word "PUBLIC" will appear prominently on the first page thereof; (C) by marking Company Materials "PUBLIC," the Company will be deemed to have authorized Citi and the proposed Lenders to treat such Company Materials as not containing any material non-public information (although they may be confidential or proprietary) with respect to the Company or its securities for purposes of United States federal and state securities laws; (D) all Company Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Lender," and (E) Citi will be entitled to treat any Company Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Lender."

To ensure an effective syndication of the Facilities, the Company agrees that, other than in connection with amendments and waivers to the Company's and certain of its subsidiaries' Amended and Restated Credit and Guaranty Agreement, dated as of May 30, 2008 (as amended, supplemented or otherwise modified), the Plan of Reorganization and the transactions contemplated thereby, until the termination of the syndication (as determined by CGMI), the Company will not, and will not permit any of

its affiliates to, syndicate or issue, attempt to syndicate or issue, announce or authorize the announcement of the syndication or issuance of, or engage in discussions concerning the syndication or issuance of, any debt facility or debt security (including any renewals thereof), without the prior written consent of CGMI.

Citi will act as the sole administrative agent and collateral agent for the Facilities and CGMI will act as sole lead arranger and bookrunner. No additional agents, co-agents or arrangers will be appointed, no other titles awarded and no compensation (except as set forth in this Commitment Letter) will be paid, without the consent of Citi.

Section 4. Fees. In addition to the fees described in Annex I, the Company will pay the non-refundable fees set forth in the letter agreement dated the date hereof (the "**Fee Letter**") between the Company and Citi. The terms of the Fee Letter are an integral part of Citi's commitment and other obligations hereunder and constitute part of this Commitment Letter for all purposes hereof.

Section 5. Indemnification. The Company will indemnify and hold harmless Citi, each Lender and each of their respective affiliates and each of their respective officers, directors, employees, agents, advisors and representatives (each, an "**Indemnified Party**") from and against any and all claims, damages, losses, liabilities and expenses (including without limitation, fees and disbursements of counsel), that may be incurred by or asserted or awarded against any Indemnified Party (including, without limitation, in connection with any investigation, litigation or proceeding or the preparation of a defense in connection therewith), in each case, arising out of or in connection with or by reason of this Commitment Letter or the Operative Documents or the transactions contemplated hereby or thereby or any actual or proposed use of the proceeds of the Facilities, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted primarily from such Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this paragraph applies, such indemnity will be effective whether or not such investigation, litigation or proceeding is brought by the Company, any of its directors, security holders or creditors, an Indemnified Party or any other person or an Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated.

No Indemnified Party will have any liability (whether in contract, tort or otherwise) to the Company or any of its affiliates or any of their respective security holders or creditors for or in connection with the transactions contemplated hereby, except to the extent such liability is determined in a final non-appealable judgment by a court of competent jurisdiction to have resulted primarily from such Indemnified Party's gross negligence or willful misconduct. In no event, however, will any Indemnified Party be liable on any theory of liability for any special, indirect, consequential or punitive damages (including without limitation, any loss of profits, business or anticipated savings).

The Company acknowledges that information and other materials relative to the Facilities and the transactions contemplated hereby may be transmitted through the Platform. No Indemnified Person will be liable to the Company or any of its affiliates or any of their respective security holders or creditors for any damages arising from the use by unauthorized persons of information or other materials sent through the Platform that are intercepted by such persons.

Section 6. Costs and Expenses. The Company will pay, or reimburse Citi on demand for, all reasonable transaction related costs and expenses incurred by Citi (whether incurred before or after the date hereof) in connection with the Facilities and the preparation, negotiation, execution and delivery of this Commitment Letter, including without limitation, the reasonable fees and expenses of counsel, regardless of whether any of the transactions contemplated hereby are consummated. The Company will also pay all

reasonable transaction related costs and expenses of Citi (including without limitation, the reasonable fees and disbursements of counsel) incurred in connection with the enforcement of any of its rights and remedies under this Commitment Letter.

Section 7. **Confidentiality**. By accepting delivery of this Commitment Letter, the Company agrees that this Commitment Letter, the Fee Letter and any written communications provided by Citi in connection with the transactions contemplated hereby are for the Company's confidential use only and that neither the existence of this Commitment Letter and the Fee Letter nor their terms will be disclosed by the Company to any person other than the Company's affiliates and its and their respective officers, directors, employees, advisors, agents and representatives (the "**Company Representatives**"), and then only on a confidential and "need to know" basis in connection with the transactions contemplated hereby; provided, however, that the Company may (i) make such public disclosures of the terms and conditions of this Commitment Letter and the Fee Letter as the Company is required by law or compulsory legal process (in which case you agree to inform us promptly thereof), (ii) disclose the contents of this Commitment Letter (but not the Fee Letter) in connection with the filing of the Cases and the solicitation of the Plan of Reorganization, provided, further, however, that notwithstanding the foregoing, unless otherwise directed by the Court, the Company shall (x) file the Fee Letter with the Court under seal, and (y) provide, on a confidential basis, a copy of the Fee Letter to the Office of the United States Trustee for the District of Delaware prior to the commencement of the Cases, (iii) the information contained in Annex I to Moody's, S&P and Fitch, Inc.; provided that such information is supplied only on a customary basis after consultation with Citi; and (iv) in enforcing the Company's rights with respect to this Commitment Letter or the Fee Letter. For the avoidance of doubt, in connection with the Company's preparation of any financial statements, cash flow statements, projections and other financial reports (collectively, "**Financial Information**"), the Company will not disclose the fees payable pursuant to the Fee Letter as a separate line item in any such Financial Information, but the amount of such fees may be included with other fees or amounts paid by the Company during the applicable period covered by such Financial Information.

Section 8. **Representations and Warranties of the Company**. The Company represents and warrants that (i) all information, other than Projections (as defined below), that has been or will hereafter be made available to Citi, any Lender or any potential Lender by the Company or any Company Representatives in connection with the transactions contemplated hereby (the "**Information**") is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading in light of the circumstances under which such statements were or are made and (ii) all financial projections, if any, that have been or will be prepared by the Company or any Company Representatives and made available to Citi, any Lender or any potential Lender (the "**Projections**") have been or will be prepared in good faith based upon assumptions that are or were reasonable as of the date of the preparation of such Projections (it being understood that the Projections are subject to significant uncertainties and contingencies, many of which are beyond the Company's control, and that no assurance can be given that the Projections will be realized). If, at any time from the date hereof until the termination of this Commitment Letter, any of the representations and warranties in the preceding sentence would not be accurate and complete in any material respect if the Information or Projections were being furnished, and such representations and warranties were being made, at such time, then the Company agrees to its commercially reasonable efforts to promptly supplement the Information and/or Projections from time to time so that the representations and warranties contained in the preceding sentence would be remain accurate and complete in all material respects if the Information or Projections were being were being furnished, and such representations and warranties were being made, at such time.

In providing this Commitment Letter and in arranging the Facilities, Citi is relying on the accuracy of the Information furnished to it by or on behalf of the Company or any Company Representatives without independent verification thereof.

Section 9. No Third Party Reliance, Not a Fiduciary, Etc. The agreements of Citi hereunder and of any Lender that issues a commitment to provide financing under the Facilities are made solely for the benefit of the Company and may not be relied upon or enforced by any other person. Please note that those matters that are not covered or made clear herein are subject to mutual agreement of the parties. The Company may not assign or delegate any of its rights or obligations hereunder without Citi's prior written consent. This Commitment Letter may not be amended or modified, or any provision hereof waived, except by a written agreement signed by all parties hereto.

The Company hereby acknowledges that Citi is acting pursuant to a contractual relationship on an arm's length basis, and the parties hereto do not intend that Citi act or be responsible as a fiduciary to the Company, its management, stockholders, creditors or any other person. Each of the Company and Citi hereby expressly disclaims any fiduciary relationship and agrees they are each responsible for making their own independent judgments with respect to any transactions entered into between them. The Company also hereby acknowledges that Citi has not advised and is not advising the Company as to any legal, accounting, regulatory or tax matters, and that the Company is consulting its own advisors concerning such matters to the extent it deems appropriate.

The Company understands that Citi and its affiliates (collectively, the "**Group**") are engaged in a wide range of financial services and businesses (including investment management, financing, securities trading, corporate and investment banking and research). Members of the Group and businesses within the Group generally act independently of each other, both for their own account and for the account of clients. Accordingly, there may be situations where parts of the Group and/or their clients either now have or may in the future have interests, or take actions, that may conflict with the Company's interests. For example, the Group may, in the ordinary course of business, engage in trading in financial products or undertake other investment businesses for their own account or on behalf of other clients, including without limitation, trading in or holding long, short or derivative positions in securities, loans or other financial products of the Company or its affiliates or other entities connected with the Facilities or the transactions contemplated hereby.

In recognition of the foregoing, the Company agrees that the Group is not required to restrict its activities as a result of this Commitment Letter and that the Group may undertake any business activity without further consultation with or notification to the Company. Neither this Commitment Letter nor the receipt by Citi of confidential information nor any other matter will give rise to any fiduciary, equitable or contractual duties (including without limitation, any duty of trust or confidence) that would prevent or restrict the Group from acting on behalf of other customers or for its own account. Furthermore, the Company agrees that neither the Group nor any member or business of the Group is under a duty to disclose to the Company or use on behalf of the Company any information whatsoever about or derived from those activities or to account for any revenue or profits obtained in connection with such activities. However, consistent with the Group's long-standing policy to hold in confidence the affairs of its customers, the Group will not use confidential information obtained from the Company except in connection with its services to, and its relationship with, the Company, provided however, that the Group will be free to disclose information in any manner as required by law, regulation, regulatory authority or other applicable judicial or government order.

Section 10. Governing Law, Etc. This Commitment Letter will be governed by, and construed in accordance with, the law of the State of New York. This Commitment Letter sets forth the entire agreement

between the parties with respect to the matters addressed herein and supersedes all prior communications, written or oral, with respect hereto. This Commitment Letter may be executed in any number of counterparts, each of which, when so executed, will be deemed to be an original and all of which, taken together, will constitute one and the same Commitment Letter. Delivery of an executed counterpart of a signature page to this Commitment Letter by telecopier or electronic mail in portable document format (.pdf) will be as effective as delivery of an original executed counterpart of this Commitment Letter.

Section 11. Waiver of Jury Trial. Each party hereto irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Commitment Letter or the transactions contemplated hereby or the actions of the parties hereto in the negotiation, performance or enforcement hereof.

Section 12. Consent to Jurisdiction, Etc. The Company irrevocably and unconditionally (i) submits to the exclusive jurisdiction of any New York State or Federal court located in the City of New York over any suit, action or proceeding arising out of or relating to this Commitment Letter, (ii) accepts for itself and in respect of its property the jurisdiction of such courts, (iii) waives any objection to the laying of venue of any such suit, action or proceeding brought in any such courts and any claim that any such suit, action or proceeding has been brought in an inconvenient forum and (iv) consents to the service of any process, summons, notice or document in any such suit, action or proceeding by registered mail addressed to the Company at its address specified on the first page of this Commitment Letter. A final judgment in any such suit, action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing herein will affect the right of Citi to serve legal process in any other manner permitted by law or affect Citi's right to bring any suit, action or proceeding against the Company or its property in the courts of other jurisdictions. To the extent that the Company has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Company irrevocably waives such immunity in respect of its obligations under this Commitment Letter.

Section 13. Patriot Act Compliance. CGMI hereby notifies the Company that pursuant to the requirements of the USA PATRIOT ACT (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "**Patriot Act**"), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow CGMI to identify the Company in accordance with the Patriot Act. In that connection, CGMI may also request corporate formation documents, or other forms of identification, to verify information provided.

Please indicate the Company's acceptance of the provisions hereof by signing the enclosed copy of this Commitment Letter and the Fee Letter and returning them to Caesar W. Wyszomirski, Authorized Signatory, Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013 (fax: (646) 328-3765) at or before 5 p.m. (New York City time) on February 27 , 2010, the time at which Citi's commitment and other obligations hereunder (if not so accepted prior thereto) will terminate.

[signature page follows]

If the Company elects to deliver this Commitment Letter by telecopier or electronic mail in portable document format (.pdf), please arrange for the executed original to follow by next-day courier.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC.

By Caesar W Wyszomirski
Name: Caesar W. Wyszomirski
Title: Authorized Signatory

ACCEPTED AND AGREED
on _____________, 2010:

XERIUM TECHNOLOGIES, INC.

By__________________________
Name:
Title:

[Signature Page to Commitment Letter (Xerium)]

If the Company elects to deliver this Commitment Letter by telecopier or electronic mail in portable document format (.pdf), please arrange for the executed original to follow by next-day courier.

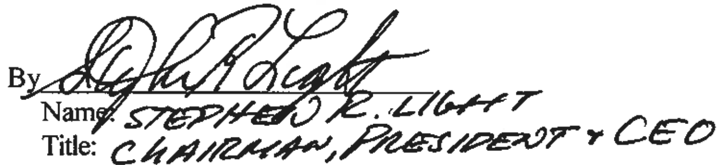
Very truly yours,

CITIGROUP GLOBAL MARKETS INC.

By____________________________
Name: Caesar W. Wyszomirski
Title: Authorized Signatory

ACCEPTED AND AGREED
on February 26 2010:

XERIUM TECHNOLOGIES, INC.



By____________________________
Name: STEPHEN R. LIGHT
Title: CHAIRMAN, PRESIDENT + CEO

[Signature Page to Commitment Letter (Xerium)]

Annex I

Term Sheet

XERIUM TECHNOLOGIES, INC.

Summary of Terms and Conditions

US$80,000,000 Senior Secured Superpriority Priming DIP Financing Facility and US$80,000,000 First Lien Exit Facility
or
US$80,000,000 First Lien Out of Court Restructuring Facility

The following is a summary (the "Term Sheet") of certain material terms of (i) a proposed US$80 million senior secured superpriority priming debtor-in-possession facility (the "DIP Facility") comprised of (A) a US$20 million senior secured superpriority priming debtor-in-possession revolving loan facility and (B) a US$60 million senior secured superpriority priming debtor-in-possession term loan facility to be made available to Xerium Technologies, Inc. ("Xerium") and (ii) a proposed US$80 million first lien secured exit facility (the "Exit Facility") comprised of (A) a US$20 million first lien secured exit revolving loan facility, and (B) a US$60 million first lien secured exit term loan facility to be made available to Xerium and certain subsidiaries of Xerium. This Term Sheet is for discussion purposes only and remains subject to further review and comment. This Term Sheet does not contain all the terms, conditions and other provisions of the DIP Facility or the Exit Facility and does not constitute a commitment on behalf of any lender or any of its affiliates to arrange or provide financing for or to Xerium, except upon mutually satisfactory documentation and court orders.

However, if Xerium obtains unanimous approval by April 12, 2010 from (i) the lenders under the Prepetition Credit Agreement (as defined below), (ii) Deutsche Bank AG and Merrill Lynch Capital Services, Inc. as swap counterparties in the interest rate swap agreements with the Company or certain of its subsidiaries, which agreements were terminated in December 2009 and January 2010, respectively, and (iii) Apax WW Nominees Ltd. and Apax-Xerium APIA LP for an out of court restructuring of its debt and equity (the "Out of Court Restructuring Approval"), the proposed facility will instead be (A) a US$20 million first lien secured revolving loan facility and (B) a US$60 million first lien secured term loan facility (the "Out of Court Restructuring Facility") on terms set forth in Part II of this Term Sheet, with adjustments to such terms to take into account that the Out of Court Restructuring Facility is not a debtor-in-possession facility and not an exit facility. If the Out of Court Restructuring Facility is provided, the aggregate amount of the upfront fees payable on the DIP Closing Date and the Exit Closing Date will instead be due and payable on the closing date of the Out of Court Restructuring Facility and the closing date therefore shall occur no later than April 30, 2010.

I. TERMS OF DIP FACILITY

1.	***Administrative and Collateral Agent:***	An affiliate of Citigroup Global Markets, Inc. (in such capacity, the "DIP Facility Agent").
2.	***Sole Lead Arranger and Sole Bookrunner:***	Citigroup Global Markets, Inc. ("CGMI").
3.	***DIP Issuing Bank***	Citicorp North America, Inc.

4.	***Lenders:***	A syndicate of banks, financial institutions and other entities (the "DIP Facility Lenders").
5.	***Borrower***:	Xerium Technologies, Inc., a Delaware corporation (the "Company" or the "DIP Borrower") and debtor-in-possession in the cases (the "Cases") that may be commenced under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court").
6.	***Guarantors:***	All U.S. subsidiaries of the DIP Borrower (the "DIP Guarantors"), each of the DIP Guarantors being a debtor-in-possession in the Cases. The liability of the DIP Borrower and DIP Guarantors (collectively, the "Debtors") with respect to the DIP Facility shall be joint and several.
7.	***DIP Facility:***	*DIP Term Loan Facility* The DIP Facility Lenders shall provide the DIP Borrower with a term loan credit facility (the "DIP Term Loan Facility") providing for extensions of term loans (the "DIP Term Loans") not to exceed US$60,000,000 (the "DIP TL Commitment Amount"). The DIP Term Loans shall be funded in full on the funding date under the terms of the DIP Loan Agreement. The DIP Term Loans will be made by the DIP Facility Lenders ratably in proportion to their respective DIP TL Commitment Amount. DIP Term Loans that are repaid shall not be reborrowed. The DIP Facility shall have a letter of credit sublimit in the amount of US$20,000,000 as described in paragraph 8 below (the "DIP Term Loan L/C Facility"). Upon the entry of an order (the "Interim Order") by the Court substantially in the form agreed to by and among the DIP Borrower, the DIP Guarantors, the DIP Facility Agent and the DIP Facility Lenders, and subject to the terms of a debtor-in-possession credit agreement acceptable to the DIP Facility Lenders, the DIP Borrower and the DIP Guarantors (the "DIP Loan Agreement"), the DIP TL Commitment Amount shall be available to the DIP

Borrower.

All DIP Term Loans shall be made in U.S. dollars.

On the DIP Closing Date (as defined below), (i) a portion of the proceeds from the DIP Term Loans shall be deposited into the Term Loan LC Collateral Account in accordance with paragraph 8 below, (ii) a portion of the proceeds from the DIP Term Loans shall be utilized to pay transaction costs payable on the DIP Closing Date and (iii) the balance of the proceeds from the DIP Term Loans shall deposited into the Term Loan Deposit Account in accordance with paragraph 8 below.

DIP Revolving Loan Facility

The DIP Facility Lenders shall provide the DIP Borrower with a revolving loan facility (the "DIP Revolving Loan Facility") providing for extensions of revolving loans (the "DIP Revolving Loans", and together with the DIP Term Loans, the "DIP Loans") with the principal amount of the DIP Revolving Loans not to exceed US$20,000,000 in the aggregate (the "DIP RL Commitment Amount").

From the DIP Closing Date and prior to the DIP Revolving Commitment Termination Date (as defined below), the DIP Borrower may, subject to the terms of the DIP Loan Agreement, borrow, repay and reborrow DIP Revolving Loans, subject to satisfaction of applicable conditions to borrowing. DIP Revolving Loans will be in minimum principal amounts to be agreed to. All DIP Revolving Loans will be made by the DIP Facility Lenders ratably in proportion to their respective DIP RL Commitment Amounts. DIP Revolving Loans will be available on 3 business days' notice in the case of DIP Revolving Loans that are Eurodollar Loans and same business day notice in the case of DIP Revolving Loans that are Base Rate Loans. The DIP Borrower will repay each DIP Revolving Loan no later than on the DIP Revolving Commitment Termination Date.

Upon the entry of the Interim Order by the Court,

and subject to the terms of the DIP Loan Agreement, the DIP RL Commitment Amount shall be available to the DIP Borrower.

All DIP Revolving Loans shall be made in U.S. dollars.

8. ***DIP Letters of Credit:***

On the DIP Closing Date (i) the outstanding letters of credit (the "Prepetition Letters of Credit") under the DIP Borrower's Amended and Restated Credit and Guaranty Agreement dated as of May 30, 2008, as amended, (the "Prepetition Credit Agreement") shall be outstanding letters of credit under the DIP Term Loan L/C Facility (the "DIP Term Loan Letters of Credit") and (ii) a portion of the proceeds from the DIP Term Loans equal to the lesser of (x) 103% of the amount available to be drawn under the DIP Term Loan Letters of Credit and (y) US$20,000,000, shall be deposited into an account maintained by the DIP Facility Agent (the "Term Loan LC Collateral Account"). Amounts on deposit in the Term Loan LC Collateral Account shall secure the DIP Borrower's reimbursement obligation to the DIP Issuing Bank with respect to the DIP Term Loan Letters of Credit. If the DIP Borrower fails to reimburse the DIP Issuing Bank for drawings under the DIP Term Loan Letters of Credit then the DIP Facility Agent shall withdraw funds from the Term Loan LC Collateral Account equal to such drawings and remit such funds to the DIP Issuing Bank.

Funds on deposit in the Term Loan LC Collateral Account shall be invested in acceptable cash equivalents. The DIP Facility Agent, for the benefit of the DIP Issuing Bank, shall have a lien on the Term Loan LC Collateral Account and all funds and amounts held therein. If on the last business day of any month the amount on deposit in the Term Loan LC Collateral Account exceeds 103% of the amount available to be drawn under the DIP Term Loan Letters of Credit, then no later than the second succeeding business day the DIP Facility Agent shall remit such excess amount to the Term Loan Deposit Account (as defined below).

If on the last business day of any month (or such

other date as determined by the DIP Facility Agent in its sole discretion) at any time the amount on deposit in the Term Loan LC Collateral Account is less than 103% of the amount available to be drawn under the DIP Term Loan Letters of Credit, then the DIP Borrower shall cause additional amounts to be deposited within one business day after notice from the DIP Facility Agent into the Term Loan LC Collateral Account equal to such deficiency. If the DIP Borrower shall fail to make such deposit, the DIP Facility Agent shall withdraw funds from the Term Loan Deposit Account equal to such deficiency and deposit such funds into the Term Loan LC Collateral Account. If sufficient funds are not available in the Term Loan Deposit Account then the DIP Facility Lenders shall make a DIP Revolving Loan under the DIP Revolving Facility in an amount of such deficiency and the proceeds of which shall be deposited into the Term Loan LC Collateral Account. The conditions precedent to making DIP Revolving Loans and the minimum amounts of DIP Revolving Loans shall not apply to DIP Revolving Loans made pursuant to this paragraph. If there is not sufficient availability under the DIP Revolving Facility to make such DIP Revolving Loans provided for in this paragraph, such event shall constitute an Event of Default.

9. ***Term Loan Deposit Account:***

On the DIP Closing Date, proceeds from the DIP Term Loans (less the amounts deposited into the Term Loan LC Collateral Account and amounts applied to pay transaction costs on the DIP Closing Date) shall be deposited into an account maintained by the DIP Facility Agent (the "Term Loan Deposit Account"). Funds on deposit in the Term Loan Deposit Account shall be invested in acceptable cash equivalents. The DIP Facility Agent shall have a lien on the Term Loan Deposit Account and all funds and amounts held therein. The DIP Borrower shall have the right to withdraw funds from the Term Loan Deposit Account in amounts consistent with its cash needs based on the 13-week cash flow statement and pro forma financial statements, in form and substance satisfactory to the DIP Facility Lenders and demonstrating satisfactory liquidity (the "DIP Budget"). It shall be a condition to any such withdrawal that the DIP Borrower shall have

delivered to the DIP Facility Agent a withdrawal request and no default or event of default shall have occurred and be continuing.

10.	***DIP Closing Date:***	No later than 3 business days after the entry of the Interim Order, but in any event no later than April 12, 2010.
11.	***DIP Maturity Date and DIP Revolving Commitment Termination Date:***	Unless accelerated as a result of an Event of Default (as defined herein), the DIP Loans outstanding under the DIP Facility will be immediately due and payable upon the earlier of (i) 120 days after the DIP Closing Date, (ii) 35 days after the entry of the Interim Order if the Final Order (as defined below) has not been entered by the Court on or before such date, (iii) the closing date of any sale of the Debtors of all or substantially all of the assets of the Debtors pursuant to section 363 of the Bankruptcy Code in the Cases that has been approved by an order of the Court, and (iv) the effective date of a Plan of Reorganization in the Cases that has been confirmed by an order of the Court (such date being the "DIP Maturity Date" and the "DIP Revolving Commitment Termination Date").
12.	***Purpose and Use of Proceeds:***	The proceeds of the DIP Facility will be used by the DIP Borrower (including by way of withdrawals from the Term Loan Deposit Account as described above) solely to (i) pay related transaction costs, fees and expenses associated with the DIP Facility, (ii) fund working capital and general corporate purposes of the DIP Borrower and its subsidiaries during the pendency of the Cases, (iii) make adequate protection payments, and (iv) fund costs, fees and expenses incurred in connection with the administration and prosecution of the Cases.
13.	***Amortization:***	None.
14.	***Interest:***	At the DIP Borrower's election, DIP Loans shall be Eurodollar Loans or Base Rate Loans. Eurodollar Loans shall bear interest at the annual rate equal to LIBOR plus the Applicable Margin, with a LIBOR floor of 2.00% per annum. Base Rate Loans shall bear interest at the annual rate equal to the Base Rate plus the Applicable Margin.

Base Rate: a fluctuating rate equal to the highest of (a) the Prime Rate of the DIP Facility Agent, (b) the Federal Funds Effective Rate plus 1/2 of 1% and (c) LIBOR plus 1%, with a LIBOR floor of 2.00%.

Applicable Margin: 4.50% per annum with respect to Eurodollar Loans and 3.50% per annum with respect to Base Rate Loans.

If any Event of Default occurs and is continuing under the DIP Facility, then the DIP Borrower will pay interest on the unpaid balance of the DIP Loans at a per annum rate of two percent (2%) greater than the rate of interest specified above.

If any Event of Default occurs and is continuing under the DIP Facility, each Eurodollar Loan will convert to a Base Rate Loan at the end of the Interest Period then in effect for such Eurodollar Loan.

15. ***Interest Period:*** Each interest period will be for one (1) month, or shorter periods if available to all DIP Facility Lenders.

16. ***Interest Payments:*** Interest shall be payable monthly in arrears and on the last day of each interest period.

17. ***Mandatory Prepayment:*** Mandatory prepayment of the DIP Loans shall be made from 100% of the net cash proceeds from asset sales made outside the ordinary course of business and 100% of insurance and condemnation award payments, subject to restrictions, exceptions, baskets and reinvestment rights to be agreed upon.

18. ***DIP Upfront Fee:*** To be determined in connection with the syndication.

19. ***DIP Commitment Fee:*** 1.00% per annum on the daily average amount of the unused DIP RL Commitment Amount of each DIP Facility Lender, payable to each DIP Facility Lender monthly in arrears from the DIP Closing Date until the DIP Revolving Commitment Termination Date.

20. ***DIP Letter of Credit Fee:*** A fronting fee equal to 0.25% per annum will accrue on the outstanding undrawn amount of any DIP Letters of Credit, payable to the DIP Issuing

Bank monthly in arrears.

21. ***Security:***

The agent for the DIP Facility Lenders (the "DIP Facility Agent") for and on behalf of the DIP Facility Lenders shall be entitled to the following security, subject to exceptions to be agreed upon:

(a) Priming Liens. Pursuant to section 364(d)(1) of the Bankruptcy Code, fully perfected first priority, valid, binding, enforceable, non-avoidable and automatically perfected, priming security interests in and liens upon (the "Priming Liens"): all existing and after acquired real and personal, tangible and intangible, property of the DIP Borrower and the DIP Guarantors that constitutes collateral of the DIP Borrower and the DIP Guarantors under the Prepetition Credit Agreement (the "Priming Lien Collateral"), which shall be senior in all respects to the interests in and liens upon such property of, without limitation, the lenders under the Prepetition Credit Agreement (the "Prepetition First Lien Lenders") but which shall be subject to (i) non-avoidable, valid, enforceable and perfected Permitted Liens (as defined in the Prepetition Credit Agreement) in existence on the date the Cases are commenced (the "Petition Date"), (ii) non-avoidable, valid, enforceable and perfected liens that are capitalized leases, purchase money security interests or mechanics' or other statutory liens in existence on the Petition Date, and (iii) non-avoidable, valid, enforceable liens that are capitalized leases, purchase money security interests or mechanics' or other statutory liens in existence on the Petition Date that are perfected subsequent to the Petition Date as permitted by section 546(b) of the Bankruptcy Code and (iv) mechanics, warehousemen's or other statutory liens arising after the Petition Date (clauses (ii) - (iv), collectively, "Additional Permitted Liens").

(b) First Liens. Pursuant to section 364(c)(2) of the Bankruptcy Code, fully perfected first priority, valid, binding, enforceable, non-avoidable and automatically perfected, security interests in and

liens upon (the "First Liens" and collectively, with the Priming Liens, the "Financing Liens"), all existing and after acquired real and personal, tangible and intangible, property of the DIP Borrower and the DIP Guarantors that is not collateral of the DIP Borrower and the DIP Guarantors under the Prepetition Credit Agreement, existing, or acquired prior or subsequent to the commencement of the Cases, including, but not limited to, upon entry of the Final Order, all causes of action arising under Chapter 5 of the Bankruptcy Code, and any and all proceeds thereof, (the "First Lien Collateral" and together with the Priming Lien Collateral, the "DIP Collateral"), which liens are subject only to Permitted Liens and Additional Permitted Liens.

22. ***Priority:***	Pursuant to section 364(c)(1) of the Bankruptcy Code, all amounts owing by the Debtors under the DIP Facility in respect thereof at all times will constitute allowed superpriority administrative expense claims in the Debtors' respective Cases, having priority over all administrative expenses of the kind specified in sections 503(b) and 507(b) of the Bankruptcy Code ("Superpriority"), subject to indebtedness secured by Permitted Liens and Additional Permitted Liens and the Carve-out (as defined herein).
23. ***Adequate Protection:***	The Prepetition First Lien Lenders and Merrill Lynch Capital Services, Inc., as secured swap counterparty (the "Secured Swap Counterparty") are entitled, pursuant to sections 361, 363(e) and 364(d)(1) of the Bankruptcy Code, to adequate protection of their respective interests in the Priming Lien Collateral equal in amount to the aggregate diminution in value (each such diminution, a "Diminution in Value"), calculated in accordance with Section 506(a) of the Bankruptcy Code, of their respective interests in the Priming Lien Collateral, including without limitation, any such diminution resulting from (i) the sale, lease or use by the Debtors of any Priming Lien Collateral, and (ii) the imposition of the automatic stay pursuant to section 362 of the Bankruptcy Code

(respectively, the "Adequate Protection Claim").

As adequate protection, the administrative agent under the Prepetition Credit Agreement (the "Prepetition First Lien Agent"), the Prepetition First Lien Lenders and the Secured Swap Counterparty shall be granted the following:

(a) Adequate Protection Liens. As security for and solely to the extent of any Diminution in Value of the pre-petition security interest, the Prepetition First Lien Agent (for the benefit of the Prepetition First Lien Lenders) and the Secured Swap Counterparty shall be granted (effective and perfected upon the date of the Interim Order and without the necessity of the execution by the Debtors of mortgages, security agreements, pledge agreements, financing statements or other agreements) replacement security interests in and liens upon all the DIP Collateral, subject and subordinate only to (i) the security interests and liens granted to the DIP Facility Agent for the benefit of the DIP Facility Lenders in the Interim Order and pursuant to the DIP Loan Agreement and (ii) Permitted Liens, (iii) Additional Permitted Liens and (iv) the Carve-out.

(b) Adequate Protection Claim. The Adequate Protection Claim of the Prepetition First Lien Lenders and the Secured Swap Counterparty shall have Superpriority status, subject only to the Superpriority status of the obligations under the DIP Facility, claims secured by Permitted Liens, and the Carve-out.

(c) Payment of Debt Service. Payment of accrued but unpaid interest (whether prepetition or postpetition) to the Prepetition First Lien Lenders and the Secured Swap Counterparty at the rate of 1.00% per annum in excess of the non-default interest rate payable on the LIBOR Loans under the Prepetition Credit Agreement.

(d) Fees and Expenses. The Debtors shall pay all reasonable fees, out-of-pocket costs and expenses of (i) the Prepetition First Lien Agent

and the Prepetition First Lien Lenders under the Prepetition Credit Agreement (including fees and expenses of legal advisors, financial advisors and investment banks) promptly upon receipt of invoices therefor and (ii) the Secured Swap Counterparty under the secured swap agreement.

(e) Other Adequate Protection. The Prepetition First Lien Lenders and the Secured Swap Counterparty shall be entitled to such other adequate protection as (i) reasonably agreed upon by the DIP Facility Agent, the DIP Facility Lenders, Prepetition First Lien Lenders and the Secured Swap Counterparty, as applicable, and the Debtors and approved by the Court, or (ii) as otherwise granted by the Court.

24. ***Carve-out:***

As used in this Term Sheet, the term "Carve-out" shall mean the following amounts: (i) all fees required to be paid to the Clerk of the Court, all statutory fees payable to the U.S. Trustee pursuant to 28 U.S.C. § 1930(a)(6) and 28 U.S.C. § 156(c), and all fees, expenses, and disbursements payable to any professionals retained by the Debtors pursuant to 28 U.S.C. § 156(c); and (ii) in the event of an occurrence and during the continuance of an Event of Default, the "Case Professionals Carve-out", comprising the sum of (a) all allowed unpaid fees, expenses and disbursements (regardless of when such fees, expenses, and disbursements become allowed by order of the Court) for any professionals retained by the Debtors or any statutory committee appointed in the Cases pursuant to sections 327, 328, 363, or 1103, as applicable, of the Bankruptcy Code (the "Case Professionals") incurred subsequent to receipt of notice delivered by the DIP Facility Agent to counsel for the Debtors following the occurrence of an Event of Default expressly stating that the Carve-out has been invoked (a "Carve-out Trigger Notice") in an aggregate amount not in excess of US$3,000,000 (the "Carve-out Cap"), plus (b) all unpaid professional fees, expenses, and disbursements of such Case Professionals incurred prior to receipt of the Carve-out Trigger Notice to the extent previously or subsequently allowed pursuant to an order of the

Court (collectively, "Allowed Professional Fees") under sections 328, 330 and/or 331 of the Bankruptcy Code. So long as a Carve-out Trigger Notice has not been delivered, the Carve-out Cap shall not be reduced by the payment of fees or expenses allowed by the Court (whether allowed before or after delivery of the Carve-out Trigger Notice) and payable under sections 328, 330, or 331 of the Bankruptcy Code, or 28 U.S.C. §156(c).

25. ***Conditions to Closing***

The closing of the DIP Facility shall be subject to the satisfaction of the conditions customary for a transaction of this type, including:

(a) The Interim Order shall have been entered by the Court;

(b) Any "first day" order authorizing the use of cash collateral, and any other orders affecting or concerning the DIP Collateral shall be in form and substance reasonably satisfactory to the DIP Facility Agent and the DIP Facility Lenders, the DIP Borrower and the DIP Guarantors;

(c) All fees and other payments required to be made to the DIP Facility Lenders, the DIP Facility Agent and the Sole Lead Arranger and their respective advisors and counsel under the DIP Loan Agreement or any other written agreement shall have been paid;

(d) Delivery of the DIP Budget;

(e) Delivery of the business plan in form and substance reasonably satisfactory to the DIP Facility Lenders.

(f) The Interim Order shall be in full force and effect and shall not have been reversed, modified, amended or stayed (or application therefor made);

(g) No Event of Default and no condition which would constitute an Event of Default with the giving of notice or lapse of time or both shall exist;

(h) Representations and warranties in the DIP Loan

Agreement shall be true and correct in all material respects;

(i) No administrative claim that is senior to or pari passu with the Superpriority claims of the DIP Facility Agent and the DIP Facility Lenders shall exist, except the Permitted Liens, Additional Permitted Liens and the Carve-out;

(j) All documentation relating to the DIP Facility shall be in form and substance consistent with this Term Sheet and otherwise reasonably satisfactory to the Debtors and their counsel and the DIP Facility Agent and its counsel;

(k) The DIP Facility Agent shall have received satisfactory opinions of independent counsel to the DIP Borrower and the DIP Guarantors, addressing such customary matters as the DIP Facility Agent shall reasonably request;

(l) The absence of a DIP Material Adverse Effect, or any event or occurrence which could reasonably be expected to result in a material adverse change, in (i) the business, assets, financial condition or prospects of the DIP Borrower, the DIP Guarantors and their respective subsidiaries, taken as a whole, since September 30, 2009 (other than events leading up to and resulting from the anticipated filing of the Cases), (ii) ability of the DIP Borrower or any DIP Guarantor to perform any of its obligations in accordance with the terms under the DIP Loan Agreement or any loan document, or (iii) the ability of the DIP Facility Agent and the DIP Facility Lenders to enforce the DIP Loan Agreement or any DIP Facility loan document, provided that the filing of the Cases will not be deemed to constitute an impediment to enforcement hereunder;

(m) There shall exist no action, suit, investigation, litigation or proceeding pending or threatened in writing, in each case, based on actual knowledge, in any court or before any arbitrator or governmental instrumentality (other than the Cases) that could reasonably be expected to

result in a DIP Material Adverse Effect.

(n) All material necessary governmental and third party consents and approvals necessary in connection with the DIP Facility and the transactions contemplated thereby shall have been obtained (without the imposition of any conditions that are not reasonably acceptable to the DIP Facility Lenders) and shall remain in effect, and all applicable governmental filings have been made and all applicable waiting periods shall have expired without in either case any action being taken by any competent authority; and no law or regulation shall be applicable in the judgment of the DIP Facility Lenders that restrains, prevents or imposes materially adverse conditions upon the DIP Facility or the transactions contemplated thereby;

(o) The DIP Facility Lenders shall have a valid and perfected lien on and security interest in the DIP Collateral having the priority described herein; searches necessary or desirable in connection with such liens and security interests that have been requested by the DIP Facility Agent shall have been duly made;

(p) The DIP Facility Agent shall have received endorsements naming the DIP Facility Agent, on behalf of the DIP Facility Lenders, as an additional insured and loss payee under all insurance policies to be maintained with respect to the properties of the DIP Borrower, the DIP Guarantors and their respective subsidiaries forming part of the DIP Collateral;

(q) The filing of the Cases shall have occurred; and

(r) The DIP Borrower shall have received the requisite votes needed to confirm the DIP Borrower's Prepackaged Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code.

26. ***Conditions to All***

Each extension of credit under the DIP Facility shall be subject to the satisfaction of the conditions

Extensions of Credit

customary for a transaction of this type, including:

(a) If the proceeds from the requested extension of credit are to be used in a manner or for a purpose which requires the prior approval of the Court, such approval shall have been obtained;

(b) The Interim Order or the Final Order, as the case may be, shall be in full force and effect and shall not have been reversed, modified, amended or stayed (or application therefor made), except for modifications and amendments that are reasonably acceptable to the DIP Facility Agent and the Debtors;

(c) Absence of any administrative claim that is senior to, or pari passu with, the Superpriority Claim of the DIP Facility Agent and the DIP Facility Lenders, other than claims secured by Permitted Liens, Additional Permitted Liens and the Carve-out;

(d) With respect to any DIP Revolving Loan, the receipt of a notice of borrowing or with respect to the issuance of a DIP Letter of Credit, a letter of credit application from the DIP Borrower. The request for and the acceptance of each extension of credit by the DIP Borrower shall constitute a representation and warranty that the conditions to each extension of credit shall have been satisfied;

(e) The extension of credit shall be consistent with the DIP Budget;

(f) No Event of Default and no condition which would constitute an Event of Default with the giving of notice or lapse of time or both shall exist; and

(g) Representations and warranties shall be true and correct in all material respects, except where such representation or warranty relates to an earlier date, in which case it shall be true and correct in all material respects as of such earlier date; provided that any representation or warranty that is by its terms qualified by

materiality shall be true and correct in all respects.

27. ***Representations and Warranties***:

The DIP Loan Agreement will contain representations and warranties that are customary for a transaction of this type, subject to materiality qualifiers and exceptions to be agreed upon, as well as matters disclosed in SEC filings and Disclosure Statement, including:

(a) Confirmation of corporate status and authority of the DIP Borrower and its subsidiaries.

(b) Due authorization, execution and delivery of the DIP Loan Agreement and the related documents;

(c) Execution, delivery, and performance by the DIP Borrower and the DIP Guarantors of the DIP Loan Agreement and the related documents do not conflict with law, existing agreements or organization documents except where such conflict would not reasonably be expected to result in a DIP Material Adverse Effect;

(d) No governmental or regulatory approvals required other than the Interim Order or the Final Order, as the case may be;

(e) Subject to the Interim Order or the Final Order, as the case may be, legality, validity, binding effect and enforceability of the DIP Loan Agreement and the related documents;

(f) Accuracy of information and financial statements in all material respects;

(g) Projections based on good faith estimates;

(h) No occurrence of any event, matter or circumstance since the Petition Date: (a) which is materially adverse to: (i) the business, assets or financial condition or prospects of the DIP Borrower and its subsidiaries taken as a whole; or (ii) the ability of any DIP Borrower or any DIP Guarantor to perform any of its obligations in accordance with their terms

under the DIP Loan Agreement and the related documents; or (b) which results in (i) the DIP Loan Agreement or any related loan document not being legal, valid and binding on, and enforceable against, any party thereto, from and after the date the Interim Order becomes effective, and/or (ii) any collateral document not being a valid and effective security interest, from and after the date the Interim Order becomes effective, and in the case of (b), in each case in a manner or to an extent materially prejudicial to the interest of any DIP Facility Lender under the DIP Loan Agreement or any related document ("DIP Material Adverse Effect");

(i) Payment of taxes by the Company and its subsidiaries, except those taxes being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP;

(j) Good, sufficient and legal title to properties owned by the Company or its subsidiaries;

(k) Environmental compliance by the Company and its subsidiaries, except where non-compliance would not reasonably be expected to result in a DIP Material Adverse Effect;

(l) No defaults by the Company or its subsidiaries in any contractual obligations except where such conflict would not reasonably be expected to result in a DIP Material Adverse Effect;

(m) List of material contracts in effect on the DIP Closing Date is true, correct and complete;

(n) Neither the Company nor any of its subsidiaries is an investment company;

(o) Neither the Company nor any of its subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying any margin stock and no part of the proceeds of the DIP Loans made will be used

to purchase or carry any such margin stock;

(p) No unfair labor practices by the Company or its subsidiaries and other employee matters, employment law non-compliance matters that could reasonably be expected to result in a DIP Material Adverse Effect;

(q) Compliance by the Company and its subsidiaries with employee benefit plans, except where non-compliance would not reasonably be expected to result in a DIP Material Adverse Effect;

(r) No broker's or finder's fee or commission will be payable in connection with the transactions contemplated by the DIP Loan Agreement and the related documents;

(s) Full and accurate disclosure by Borrowers and Guarantors;

(t) Compliance with applicable laws, except where non-compliance would not reasonably be expected to result in a DIP Material Adverse Effect;

(u) Continued effectiveness of the Interim Order or the Final Order, as applicable;

(v) Use of proceeds in accordance with the DIP Loan Agreement, the Interim Order and the Final Order (as applicable);

(w) No action, suit, investigation, litigation or proceeding pending or threatened that could have a DIP Material Adverse Effect, other than proceedings attendant to confirmation of the Plan of Reorganization;

(x) Insurance matters;

(y) Validity, priority and perfection of security interests in the DIP Collateral; and

(z) Status of the DIP Facility as senior debt entitled to superpriority administrative claim

status in the Cases.

28. ***Reporting Covenants:*** The DIP Loan Agreement will contain reporting covenants that are customary for a transaction of this type, including:

(a) Delivery of independently audited annual consolidated financial statements and unaudited quarterly and monthly consolidated financial statements, together with a comparison to the DIP Borrower's prior corresponding financial statements and annual financial plan and, with respect to quarterly and annual financial statements, a detailed explanation of material variances, provided that the annual consolidated financial statements for fiscal year 2009 may include a going concern qualification;

(b) Delivery each week of a rolling 13-week forecast of receipts and disbursements, and a report setting forth in reasonable detail any material variances from the weekly cash flows and disbursements on the basis of the actual prior week as well as on a cumulative basis (the "Cash Flow Forecast"); and

(c) Other reporting requirements and notices, including notices of default and litigation and ERISA notices.

29. ***Affirmative Covenants:*** The DIP Loan Agreement will contain affirmative covenants that are customary for a transaction of this type, including;

(a) The DIP Borrower, each DIP Guarantor and their respective subsidiaries to preserve and maintain in full force and effect its corporate existence and all rights and franchises, licenses and permits material to its business, except where its board of directors determines that such preservation is no longer desirable in the conduct of its business and the loss is not disadvantageous in any material respect to it or the DIP Facility Lenders;

(b) The DIP Borrower, each DIP Guarantor and

their respective subsidiaries to pay all material taxes, except those taxes being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP;

(c) The DIP Borrower, each DIP Guarantor and their respective subsidiaries to maintain in good repair, working order and condition, ordinary wear and tear excepted, all material properties used or useful in the business of the DIP Borrower and its subsidiaries and make all appropriate repairs, renewals and replacements thereof, except where failure to do so would not reasonably be expected to have a DIP Material Adverse Effect;

(d) The DIP Borrower will maintain or cause to be maintained, with financially sound and reputable insurers, such public liability insurance, third party property damage insurance, business interruption insurance and casualty insurance with respect to liabilities, losses or damage in respect of the assets, properties and businesses of the DIP Borrower and its subsidiaries as may customarily be carried or maintained under similar circumstances by persons of established reputation engaged in similar businesses, in each case in such amounts, with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for such persons;

(e) The DIP Borrower, each DIP Guarantor and their respective subsidiaries to maintain accurate books and records and, as reasonably requested and with reasonable advance notice, permit visitation and inspection by the DIP Facility Agent representatives;

(f) The DIP Borrower, each DIP Guarantor and their respective subsidiaries to comply in all material respects, with the requirements of all applicable laws, rules, regulations and orders of any governmental authority (including all

environmental laws);

(g) The DIP Borrower and each DIP Guarantors to take all actions the DIP Facility Agent may reasonably request in order to effect fully the purposes of the DIP Loan Agreement and the related documents;

(h) The DIP Borrower and each of its subsidiaries will continue to own or possess the right to use, free from any restrictions, all patents, trademarks, copyrights, and domain names that are used in the operation of their respective businesses as presently conducted and as proposed to be conducted, except where such failure to do so will not result in a DIP Material Adverse Effect;

(i) The DIP Borrower and each DIP Guarantor to supply to the DIP Facility Agent or any DIP Facility Lender documents and evidence necessary to comply with "know your customer" or other similar checks; and

(j) Not later than thirty-five (35) days after the entry of the Interim Order, the Court shall have entered an order (in form and substance acceptable to the DIP Facility Lenders and the DIP Facility Agent) (the "Final Order") on an application or motion by the DIP Borrower and the DIP Guarantors, that motion to be in form and substance satisfactory to the DIP Facility Lenders and the DIP Facility Agent, approving, on a final basis (but which Final Order need not have become final and non-appealable), the financing transactions contemplated herein and granting the superpriority claim status and liens referred to above, and which Final Order, among other things, shall (i) approve the DIP Facility and authorize extensions of credit under the DIP Facility, (ii) approve the payment by the DIP Borrower and DIP Guarantors of all the fees provided for herein, (iii) provide for the automatic termination of the automatic stay (but solely with respect to the DIP Facility) to permit the DIP Facility Agent and the DIP

Facility Lenders to exercise their remedies, with respect to the DIP Facility, after five (5) business days' written notice (the "Notice Period") of an Event of Default, which notice shall be provided by the DIP Facility Agent to the Debtors, counsel to the Debtors, counsel to any statutory committee(s) appointed in the Cases, and the Office of the United States Trustee for the District of Delaware, and which notice shall be filed with the Court, with a full waiver by the DIP Borrower and the DIP Guarantors of all rights to contest such termination except with respect to the existence of an Event of Default, (iv) not have been reversed, modified, amended or stayed, and (v) have such other findings, orders and relief typical for financings of the type contemplated herein. The Final Order shall have been entered on such notice to such parties as may be reasonably satisfactory to the DIP Facility Lenders and as required by the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, orders of the Court, and any applicable local bankruptcy rules.

30. ***Negative Covenants:*** The DIP Loan Agreement will contain negative covenants that are customary for a transaction of this type, including:

(a) Limitation on debt;

(b) Limitation on liens;

(c) Limitation on negative pledges;

(d) Limitation on dividends, redemptions and repurchases with respect to capital stock;

(e) Limitations on investments and loans, provided that the DIP Borrower shall be permitted to make investments in foreign subsidiaries of no more than US$7,500,000 from the DIP Closing Date through May 31, 2010 and US$5,000,000 thereafter, and provided further that proceeds under the DIP Facility, subject to the limitations set forth herein, can be used to finance foreign operations and ensure foreign

companies maintain adequate liquidity to avoid the commencement of insolvency proceedings outside the U.S.;

(f) Limitations on mergers, consolidations; acquisitions, sales, leases and sale/leaseback transactions;

(g) Limitations on transactions with affiliates;

(h) Limitations on changes in business and organizational documents;

(i) No change in fiscal year; and

(j) Limitations on voluntary and optional prepayments and redemptions of debt (other than DIP Loans).

31. ***Financial Covenants:*** The DIP Loan Agreement will contain the following financial covenants:

(a) Minimum of US$40,000,000 from the DIP Closing Date through May 31, 2010 and US$35,000,000 thereafter of (x) unrestricted cash and cash equivalents of the DIP Borrower and the DIP Guarantors on hand and (y) undrawn and available commitments under the DIP Revolving Loan Facility at all times; and

(b) Actual average cash receipts for any period of four weeks shall not be less than 80% of average cash receipts for such period projected in the initial Cash Flow Forecast, and actual average cash disbursements (calculated without giving effect to debt service, professional fees and other restructuring expenses) for any period of four weeks shall not be more than 120% of average cash disbursements for such period projected in the initial Cash Flow Forecast, in each case tested on a rolling weekly basis.

32. ***Events of Default:*** The DIP Loan Agreement will contain Events of Default that are customary for a transaction of this type, including:

(a) Failure by the DIP Borrower to pay principal

when due and failure to pay interest, fees and other amounts within 3 business days of when due;

(b) Cross-default to payment defaults by the DIP Borrower, any DIP Guarantor or any of their subsidiaries on principal aggregating US$5 million, or to other events (other than the commencement of the Cases by the DIP Borrowers and the DIP Guarantors) if the effect is to accelerate or permit acceleration of such debt;

(c) Failure by the DIP Borrower or any DIP Guarantor to comply with any negative covenant, any financial covenant or the use of proceeds covenant;

(d) Any representations or warranty made by the DIP Borrower or any DIP Guarantor shall be false in any material respect as of the date made or deemed made;

(e) Failure by any DIP Borrower or any DIP Guarantor to comply with other covenants in the DIP Facility Loan Agreement or other related loan or collateral documents and such failure continues unremedied for a period of 20 business days following receipt of notice by an officer of the Company or actual knowledge by such officer;

(f) Involuntary bankruptcy, liquidation, or the appointment of a receiver or similar official or institution of any such proceeding in respect of any subsidiary of the DIP Borrower (other than those subject to the Cases) if not dismissed within 60 days;

(g) Voluntary bankruptcy, liquidation, or the appointment of a receiver or similar official or institution of any such proceeding in respect of any subsidiary of the DIP Borrower (other than those subject to the Cases);

(h) Failure to pay by the DIP Borrower or any of its subsidiaries of a final judgment or court

order if not stayed within 60 days in excess of US$5 million;

(i) Occurrence of an ERISA event (which shall exclude the filing of the Cases) which would reasonably be expected to result in a DIP Material Adverse Effect;

(j) Occurrence of a change of control of the DIP Borrower, other than as a result of the transactions contemplated by the Plan of Reorganization;

(k) Any collateral document ceases to be in full force and effect other than in accordance with its terms or shall be declared null and void or the DIP Facility Agent shall not have or shall cease to have a valid and perfected lien in any Collateral purported to be covered by such collateral document with the priority required by such collateral document;

(l) Actual invalidity, or any assertion by any the DIP Borrower, any DIP Guarantor or any of their affiliates of invalidity, of the DIP Loan Agreement or any related document;

(m) Entry of an order granting relief from the automatic stay with respect to any claim in excess of specified amounts to be mutually agreed upon;

(n) Entry of or application for order appointing a trustee under Section 1104 of the Bankruptcy Code or examiner with enlarged powers under Section 1106(b) of the Bankruptcy Code;

(o) Entry of an order converting any of the Cases into a chapter 7 case;

(p) Submission by the Debtors of, or entry of an order confirming, a plan of reorganization that does not (i) provide for termination of the DIP Facility and payment in full in cash of all obligations payable under the DIP Loan Agreement and the related documents on or before the effective date of such plan or (ii) provide for (A) a conversion of the DIP

Facility to the Exit Facility as described in this Term Sheet, pursuant to such Plan of Reorganization and (B) the continuation of the liens and security interests of the DIP Facility Agent and continued priority thereof until such plan effective date;

(q) Entry of an order dismissing any of the Cases that does not provide for termination of the DIP Facility and payment in full in cash of all obligations under the DIP Loan Agreement and the related documents;

(r) Entry of an order to (i) revoke, reverse, stay, modify, supplement or amend the Interim Order or the Final Order, (ii) permit any administrative expense or claim to have administrative priority as to the DIP Borrower or any DIP Guarantor equal or superior to the priority of the DIP Facility Agent and the DIP Facility Lenders in respect of the DIP Facility, other than claims secured by Permitted Liens, Additional Permitted Liens and the Carve-out, or (iii) grant or permit the grant of the liens on the DIP Collateral other than as permitted by the DIP Loan Agreement and the related documents, including, but not limited to, the Interim Order and the Final Order (as applicable);

(s) Failure by the Court to enter a Final Order within 35 days of the Petition Date;

(t) There shall be filed by the DIP Borrower or any DIP Guarantor any motion to sell all or a substantial part of the Collateral on terms that are not acceptable to the Requisite Lenders;

(u) The DIP Borrower or any DIP Guarantor shall file any action, suit or other proceeding or contested matter challenging the validity, perfection or priority of any liens securing the Prepetition Credit Agreement, or the validity or enforceability of any of the Credit Documents (as defined therein), or asserting any avoidance claim against, or seeking to recover any monetary damages from, any

agent or lender under any of the Prepetition Credit Agreement or the DIP Facility; and

(v) Without Requisite Lenders consent, the DIP Borrower or any DIP Guarantor shall discontinue or suspend all or any material part of its business operations or commence an orderly wind-down or liquidation of any material part of the DIP Collateral.

33. ***Remedies Upon Event of Default:*** If an Event of Default shall have occurred and is continuing, upon receipt by the Debtors of the written notice referred to in section 29(j)(iii) above (which written notice shall be served by the DIP Facility Agent upon the parties identified therein and filed with the Court), and upon expiration of the Notice Period, the principal of and all accrued interest and fees and all other amounts owed to the DIP Facility Agent and the DIP Facility Lenders under the Interim Order, the Final Order or the DIP Loan Agreement shall be immediately due and payable, and the DIP Facility Agent and the DIP Facility Lenders shall have the rights and remedies provided in the Interim Order, the Final Order or the DIP Loan Agreement, as applicable.

34. ***Voting:*** Amendments, modifications, terminations and waivers of any provision of the DIP Loan Agreement or any related document will require the approval of Requisite Lenders, except that in certain circumstances the consent of a greater percentage of the aggregate amount of the loans and commitments of the DIP Facility Lenders may be required.

35. ***Requisite Lenders:*** "Requisite Lenders" shall mean (i) the DIP Facility Lenders holding DIP Revolving Loans and commitments in the aggregate representing more than 50% of (a) the unfunded commitments and the outstanding DIP Revolving Loans or (b) if the commitments have been terminated, the outstanding DIP Revolving Loans (the "DIP RL Facility Exposure") and (ii) the DIP Facility Lenders holding DIP Term Loans in the aggregate representing more than 50% of the outstanding DIP Term Loans (the "DIP TL Facility Exposure"); provided that with respect to any amendment or waiver that would adversely affect the holders of the

DIP RL Facility Exposure or the DIP TL Facility Exposure, as the case may be, differently from the rights of any other DIP Facility Lender, then the consent of only the holders of more than 50% of the DIP RL Facility Exposure or the DIP TL Facility Exposure, as the case may be, shall be required. The unfunded commitments of, and the outstanding DIP Loans held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Requisite Lenders.

36.	***Assignments and Participations***	Each DIP Facility Lender may sell or assign all or any portion of its DIP Loans with the prior consent of the DIP Facility Agent. Each DIP Facility Lender may sell, assign or grant participations in all or any of its DIP Loans without the prior consent of the DIP Borrower. Minimum aggregate assignment level (which shall not be applicable to assignments to affiliates of the assigning DIP Facility Lenders and other DIP Lenders and their affiliates) of US$2,500,000 and increments of US$1,000,000 in excess thereof. The parties to the assignment shall pay to the DIP Facility Agent an administrative fee of US$3,500.
37.	***Defaulting Lenders:***	The DIP Loan Agreement shall contain defaulting lender provisions, including that (i) no defaulting lender (to be defined in the DIP Loan Agreement) will earn a DIP Commitment Fee so long that it remains a defaulting lender, (ii) no defaulting lender will be entitled to be counted in any matter requiring the consent of only the Requisite Lenders, and (iii) subject to receipt by a defaulting lender of all amounts due and owing to it, the DIP Borrower will have the right to replace such defaulting lender.
38.	***Other Terms:***	The DIP Loan Agreement will provide additional terms that are usual and customary for a transaction of this type and will be based on the Prepetition Credit Agreement.
39.	***Expenses:***	The DIP Borrower shall reimburse the DIP Facility Agent for all reasonable fees, expenses and disbursements, including reasonable fees, expenses and disbursements of counsel to the DIP Facility Agent, incurred in connection with the transaction, including, without limitation, related preparation,

negotiation, execution and administration of the definitive documentation and ongoing expenses related to the DIP Facility. After the occurrence of a default or an Event of Default, the DIP Borrower shall reimburse the DIP Facility Agent and the DIP Facility Lenders for all costs and expenses and costs of settlement incurred in enforcing any obligation under the DIP Loan Agreement and the related loan documents or in collecting any payments due or in connection with any refinancing and restructuring of the credit arrangements.

40. ***Indemnification:*** The DIP Borrower and the DIP Guarantors shall indemnify the DIP Facility Agent, the DIP Issuing Bank and DIP Facility Lenders and their respective affiliates, officers, partners, directors trustees, investment advisors, employees and agents for any liability, obligation, loss, damage, claim, costs, expense and disbursement (including reasonable fees and disbursements of counsel to the indemnitees) arising out of (i) the DIP Loan Agreement and the related loan documents and the transactions contemplated under the DIP Facility, the use or proposed use of proceeds of the loans or any enforcement of the DIP Loan Agreement or any related loan documents or (ii) any environmental claims or hazardous materials activity arising from activity of the DIP Borrower and its subsidiaries, provided that such indemnification obligation does not extend to any damages, liabilities, or other costs arising from gross negligence or willful misconduct.

41. ***Yield Protection and Taxes:*** The DIP Loan Agreement and the related documents will contain yield protection provisions and tax gross-up provisions that are customary and based on the yield protection and tax gross-up provisions set forth in the Prepetition Credit Agreement.

42. ***Governing Law:*** The DIP Facility and all documentation in connection with the DIP Facility shall be governed by the laws of the State of New York applicable to agreements made and performed in such state, except as governed by the Bankruptcy Code.

43. ***Counsel to the DIP Facility*** Chadbourne & Parke LLP.

	Agent:	
44.	***Counsel to the DIP Borrower and DIP Guarantors:***	Cadwalader, Wickersham & Taft LLP.
45.	***Conflicts:***	In the event of any conflict between any of the terms of the DIP Loan Agreement and the Interim Order, the terms of the Interim Order shall govern. In the event of any conflict between or among any of the terms of the DIP Loan Agreement, the Interim Order and the Final Order, the Final Order shall govern.

II. TERMS OF EXIT FACILITY

On the Exit Closing Date pursuant to the Plan of Reorganization and the order of the Court confirming same (the "Confirmation Order"), the obligations of the DIP Borrower and the DIP Guarantors under the DIP Facility shall be assumed by the reorganized Company and certain of its affiliates, provided that, pursuant to the Plan of Reorganization and the Confirmation Order, and effective as of the Exit Closing Date, the terms of the DIP Facility shall be modified consistent with the terms set forth below (and such modified facility, which remains subject to definitive documentation in all respects, shall be referred to as the "Exit Facility"):

On the Exit Closing Date (a) the DIP Term Loans outstanding under the DIP Facility will continue as term loans under the Exit Facility, (b) the DIP Revolving Loans outstanding under the DIP Facility will continue as revolving loans under the Exit Facility, (c) the DIP Term Loan Letters of Credit outstanding under the DIP Term Loan L/C Facility shall be deemed to be outstanding letters of credit under the Exit Term Loan L/C Facility and (d) the commitment of the DIP Facility Lenders to make the DIP Revolving Loans shall be converted into their commitment to make Exit Revolving Loans under the Exit Facility.

1.	***Administrative and Collateral Agent:***	An affiliate of Citigroup Global Markets, Inc. (in such capacity, the "Exit Facility Agent").
2.	***Sole Lead Arranger and Sole Bookrunner:***	Citigroup Global Markets, Inc. ("CGMI")
3.	***Exit Issuing Bank:***	Citicorp North America, Inc.
4.	***Lenders:***	The lenders under the DIP Facility (the "Exit Facility Lenders").
5.	***Borrowers:***	Xerium Technologies, Inc. (the "Company"), XTI LLC ("XTI", and together with the Company, the "U.S. Borrowers"), Xerium Canada, Inc. ("Xerium

Canada"), Huyck Wangner Austria GmbH ("Huyck Austria"), Xerium Italia S.p.A. ("Xerium Italia") and Xerium Germany Holding GmbH ("Xerium Germany", and together with Xerium Canada, Huyck Austria and Xerium Italia, the "Non U.S. Borrowers").

6.	***Guarantors:***	The guarantors under Prepetition Credit Agreement and Robec Brazil LLC (the "Guarantors"). The Guarantors organized under the laws of the United States or any state thereof are referred to as the "U.S. Guarantors", and the Guarantors organized outside the United States are referred to as the "Non U.S. Guarantors."
7.	***Joint and Several Obligations; Limitation on Obligations:***	The obligations of the Borrowers under the Exit Facility and the related loan documents shall be joint and several, provided that none of the Non U.S. Borrowers shall be liable for any of the obligations of any U.S. Borrower. The obligations of the Guarantors under the loan documents shall be joint and several, provided that none of the Non U.S. Guarantors shall be liable for any of the obligations of any U.S. Guarantor. Notwithstanding the foregoing, any payments received by the Exit Facility Agent with respect to the Exit Loans or the Exit Collateral shall be applied to the payment of the obligations under the loan documents for the ratable benefit of the Exit Facility Lenders.
8.	***Exit Facility:***	*Exit Term Loan Facility* The Exit Facility Lenders shall provide the Borrowers with a term loan credit facility (the "Exit Term Loan Facility") providing for extensions of term loans (the "Exit Term Loans") not to exceed US$60,000,000 (the "Exit TL Commitment Amount"). Exit Term Loans that are repaid shall not be reborrowed. All Exit Term Loans shall be made in U.S. dollars. The Exit Term Loan Facility shall have a letter of credit sublimit in the amount of US$20,000,000 as

described in paragraph 9 below (the "Exit Term Loan L/C Facility") and the DIP Term Loan Letters of Credit shall be deemed to be outstanding letters of credit under the Exit Term Loan L/C Facility (the "Exit Term Loan Letters of Credit").

Outstanding DIP Term Loans under the DIP Facility shall be deemed to be outstanding Exit Term Loans under the Exit Facility as of the Exit Closing Date.

Exit Revolving Facility

The Exit Facility Lenders shall provide the Borrowers with a revolving credit facility (the "Exit Revolving Facility") providing for extensions of revolving loans (the "Exit Revolving Loans", and together with the Exit Term Loans, the "Exit Loans") and letters of credit (the "Exit Revolving Letters of Credit"), with the principal amount of Exit Revolving Loans and the face amount of Exit Letters of Credit not to exceed US$20,000,000 in the aggregate (the "Exit RL Commitment Amount").

From the Exit Closing Date and prior to the Exit Revolving Commitment Termination Date, the Borrowers may, subject to the terms of the Exit Loan Agreement, borrow, repay and reborrow Exit Revolving Loans, subject to satisfaction of applicable conditions to borrowing. Exit Revolving Loans will be in minimum principal amounts to be agreed to. All Exit Revolving Loans will be made by the Exit Facility Lenders ratably in proportion to their respective Exit RL Commitment Amounts. Exit Revolving Loans will be available on 3 business days' notice in the case of Exit Revolving Loans that are Eurodollar Loans and same business day notice in the case of Exit Revolving Loans that are Base Rate Loans. The Borrowers will repay each Exit Revolving Loan no later than on the Exit Revolving Commitment Termination Date.

Outstanding DIP Revolving Loans under the DIP Facility shall be deemed to be outstanding Exit Revolving Loans under the Exit Facility as of the

Exit Closing Date.

Exit Revolving Loans shall be made in U.S. dollars.

9. ***Exit Letters of Credit:***

Exit Revolving Facility Sublimit

A portion of the Exit Revolving Facility not in excess of (a) US$3,000,000 for the period from the Exit Closing Date through the one year anniversary of the Exit Closing Date and (b) US$7,500,000 after the one year anniversary of the Exit Closing Date shall be available for the issuance of Exit Revolving Letters of Credit by the Exit Issuing Bank.

Drawings under any Exit Revolving Letter of Credit shall be reimbursed by the Borrowers on the next business day. To the extent the Borrowers do not so reimburse the Exit Issuing Bank, the Exit Facility Lenders under the Exit Facility shall be irrevocably and unconditionally obligated to reimburse the Exit Issuing Bank on a pro rata basis.

No Exit Revolving Letter of Credit shall have an expiration date after the earlier of (a) one year after the date of issuance and (b) five business days prior to the Exit Maturity Date.

Exit Term Loan Deposit Letter of Credit Subfacility

On the Exit Closing Date the amounts on deposit in the Term Loan LC Collateral Account will serve as collateral support for the Borrowers' reimbursement obligation with respect to the Exit Term Loan Letters of Credit. Amounts on deposit in the Term Loan LC Collateral Account shall secure the Borrowers' reimbursement obligation to the Exit Issuing Bank with respect to the Exit Term Loan Letters of Credit. If the Borrowers fail to reimburse the Exit Issuing Bank for drawings under the Exit Term Loan Letters of Credit then the Exit Facility Agent shall withdraw funds from the Term Loan LC Collateral Account equal to such drawings and remit such funds to the Exit Issuing Bank.

Funds on deposit in the Term Loan LC Collateral Account shall be invested in acceptable cash equivalents. The Exit Facility Agent, for the benefit of the Exit Issuing Bank, shall have a lien on the

Term Loan LC Collateral Account and all funds and amounts held therein. If on the last business day of any month the amount on deposit in the Term Loan LC Collateral Account exceeds 103% of the amount available to be drawn under the Exit Term Loan Letters of Credit, then no later than the second succeeding business day the Exit Facility Agent shall remit such excess amount to the Borrowers so long as no default or event of default shall have occurred and be continuing.

If on the last business day of any month (or such other date as determined by the Exit Facility Agent in its sole discretion) the amount on deposit in the Term Loan LC Collateral Account is less than 103% of the amount available to be drawn under the Exit Term Loan Letters of Credit, then the Borrowers shall cause additional amounts to be deposited within one business day after notice from the Exit Facility Agent into the Term Loan LC Collateral Account equal to such deficiency. If the Borrowers shall fail to make such deposit, the Exit Facility Lenders shall make an Exit Revolving Loan under the Exit Revolving Facility in an amount of such deficiency and the proceeds of which shall be deposited into the Term Loan LC Collateral Account. The conditions precedent to making Exit Revolving Loans and the minimum amounts of Exit Revolving Loans shall not apply to Exit Revolving Loans made pursuant to this paragraph. If there is not sufficient availability under the Exit Revolving Facility to make such Exit Revolving Loans provided for in this paragraph, such event shall constitute an Event of Default.

No Exit Term Loan Letter of Credit shall have an expiration date after the earlier of (a) one year after the date of issuance or the date of its continuance or extension and (b) five business days prior to the Exit Maturity Date.

10. ***Withdrawal from Term Loan Deposit Account:***

On the Exit Closing Date, all funds on deposit in the Term Loan Deposit Account established under the DIP Facility shall be withdrawn and remitted to the Company to be used in accordance with the terms of this Term Sheet.

11.	***Exit Closing Date:***	The date on which the conditions precedent to the closing of the Exit Facility shall have been satisfied or waived.
12.	***Exit Revolving Commitment Termination Date***	Three (3) years following the Exit Closing Date.
13.	***Exit Maturity Date:***	Four and a half (4.5) years following the Exit Closing Date.
14.	***Purpose and Use of Proceeds:***	The proceeds of the Exit Facility will be used by the Borrowers to solely (i) pay fees and expenses associated with the Exit Facility, (ii) fund working capital and general corporate purposes of the Borrowers and (iii) refinance the DIP Facility.
15.	***Amortization***	1.00% annual amortization on the Exit Term Loans, payable on the 15th day of the last month of each calendar quarter, beginning in the first full calendar quarter after the Exit Closing Date, with the balance paid on the Exit Maturity Date.
16.	***Interest:***	At the Borrower's election, Exit Loans shall be Eurodollar Loans or Base Rate Loans. Eurodollar Loans shall bear interest at the annual rate equal to LIBOR plus the Applicable Margin, with a LIBOR floor of 2.00% per annum. Base Rate Loans shall bear interest at the annual rate equal to the Base Rate plus the Applicable Margin. <u>Base Rate</u>: a fluctuating rate equal to the highest of (a) the Prime Rate of the Exit Facility Agent, (b) the Federal Funds Effective Rate plus 1/2 of 1% and (c) LIBOR plus 1%, with a LIBOR floor of 2.00%. <u>Applicable Margin</u>: 4.50% per annum with respect to Eurodollar Loans and 3.50% per annum with respect to Base Rate Loans. Interest periods will be 1, 2, 3 or 6 months. If any Event of Default occurs and is continuing, then the Borrowers will pay interest on the unpaid balance of the outstanding Exit Loans at a per annum rate of two percent (2%) greater than the rate of interest specified above.

If any Event of Default occurs and is continuing under the Exit Facility, each Eurodollar Loan will convert to a Base Rate Loan at the end of the Interest Period then in effect for such Eurodollar Loan.

17. ***Interest Payments:*** Interest shall be payable in arrears on the last day of each interest period.

18. ***Exit Upfront Fee:*** To be determined in connection with the syndication.

19. ***Exit Commitment Fee:*** 1.00% per annum on the daily average amount of the unused Exit RL Commitment Amount of each Exit Facility Lender, payable quarterly in arrears to each Exit Facility Lender from the Exit Closing Date until the Exit Revolving Commitment Termination Date.

20. ***Exit Letter of Credit Fee:*** A fronting fee equal to 0.25% per annum of the amounts available to be drawn under all Exit Letters of Credit, payable to the Exit Issuing Bank quarterly in arrears.

    A letter of credit fee equal to the Applicable Margin with respect to LIBOR Rate Loans on the amounts available to be drawn under all Exit Letters of Credit, payable to the Exit Facility Lenders quarterly in arrears.

21. ***Mandatory Prepayment:*** Mandatory prepayment of the Exit Loans shall be made from (i) 100% of the net cash proceeds from asset sales in excess of US$100,000 (with the obligation to mandatorily prepay commencing when such asset sales are greater than US$250,000) made outside the ordinary course of business, less any taxes payable by the Borrowers with respect to such asset sales, provided that with respect to the net cash proceeds from the Australia and Vietnam Assets (as defined in Section 29(h)), only 50% of the net cash proceeds shall be subject to mandatory prepayment, (ii) 100% of insurance and condemnation award payments, less any taxes payable by the Borrowers with respect to such award payments, (iii) cash proceeds from debt issuances, other than permitted debt and permitted refinancing debt and (iv) 50% of excess cash flow, which shall exclude non-cash

items and shall include certain working capital adjustments, after the end of each fiscal year, beginning at the end of fiscal year 2011 (payable in 2012), with (in the case of clauses (i), (ii) and (iii)) exceptions, baskets and reinvestment rights to be agreed upon. Mandatory prepayments pursuant to clauses (i), (ii) and (iv) will be shared ratably with the lenders under the Second Lien Term Loan Facility pursuant to the terms of the Intercreditor Agreement. Mandatory prepayments pursuant to clause (iii) will be applied first to obligations under the Exit Term Loan Facility and thereafter to obligations under the Exit Revolving Facility. Borrowers will bear all costs related to any mandatory prepayment of Exit Loans on a day that is not the last day of an interest period, provided that such mandatory prepayments shall be applied to base rate Loans and then to Eurodollar Loans.

22. ***Voluntary Prepayment:*** The Exit Loans may be prepaid without penalty, on 3 business days' notice, in minimum amounts of and increments to be agreed upon. Borrowers will bear all costs related to the voluntary prepayment of Exit Loans prior to the last day of the interest period thereof.

23. ***Reduction of Commitments*** Borrowers may permanently terminate or reduce the unused commitments, on 3 business days' notice, in minimum amounts and increments of to be agreed upon.

24. ***Security and First Priority:*** The Exit Facility Agent, for and on behalf of the Exit Facility Lenders and each Secured Hedge Counterparty (as defined below) shall have perfected first priority security interests in and liens upon (i) all existing and after acquired real and personal, tangible and intangible, property of the U.S. Borrowers and U.S. Guarantors and (ii) the real and personal, tangible and intangible, property of the Non U.S. Borrowers and Non U.S. Guarantors securing the obligations under the Prepetition Credit Agreement (together, the "Exit Collateral"). The term "Secured Hedge Counterparty" means each Exit Facility Lender, or any affiliate of a Exit Facility Lender, counterparty to the applicable documentation creating any currency exchange, interest rate or commodity swap

agreement, or other similar agreements with the Company or any of its subsidiaries, entered into in the ordinary course of business and not for speculative purposes.

All amounts owing under the Exit Facility and the related loan documents in respect thereof at all times will be senior to the liens granted under the Company's US$410,000,000 term loan facility to become effective concurrently with the Exit Facility (the "Second Lien Term Loan Facility"), and any indebtedness which replaces or refinances the Second Lien Term Loan Facility, subject to the terms of the Intercreditor Agreement.

25. ***Conditions to Closing:***

The closing of the Exit Facility shall be subject to the satisfaction of the conditions customary for a transaction of this type, including:

(a) All documentation relating to the Exit Facility (including the Intercreditor Agreement) shall be in form and substance consistent with this Term Sheet and otherwise satisfactory to the Borrowers and their counsel and the Exit Facility Agent and its counsel, it being understood that the Intercreditor Agreement to be included in the Plan Supplement (as defined in the Plan of Reorganization) shall be deemed to be in form and substance consistent with this Term Sheet and otherwise satisfactory to the Borrowers and their counsel and the Exit Facility Agent and its counsel, thus satisfying this condition to closing as it relates to the Intercreditor Agreement;

(b) The terms of the Plan of Reorganization shall have been confirmed by an order entered by the Court in form and substance acceptable to the Requisite Lenders; the Requisite Lenders shall be satisfied with, to the extent not specifically described in the Plan of Reorganization, the Disclosure Statement of the Plan Supplement, the terms of the restructuring of the Borrowers and its subsidiaries (including, without limitation, changes to the current composition of the Boards of Directors and of senior management

and the capital and tax structure of the Borrowers and their subsidiaries), it being understood that the documents to be included in the Plan Supplement identifying the current composition of the Boards of Directors and of senior management and the capital and tax structure of the Borrowers and their subsidiaries shall be deemed to be in form and substance consistent with this Term Sheet and otherwise satisfactory to the Borrowers and their counsel and the Exit Facility Agent and its counsel, thus satisfying this condition to closing as it relates to the such aforementioned documents;

(c) The Exit Facility Lenders shall have received, and the Requisite Lenders shall be satisfied with, (i) a pro forma estimated balance sheet of the Company and its subsidiaries at the Exit Closing Date after giving effect to the Plan of Reorganization and the transactions contemplated thereby, (ii) audited financial statements of the Borrower and its subsidiaries for the fiscal period ending December 31, 2009, (iii) interim unaudited monthly and quarterly financial statements of the Borrower and its subsidiaries through the fiscal month ending at least 30 days prior to the Exit Closing Date and the fiscal quarter ending at least 45 days prior to the Exit Closing Date, and (iv) the detailed business plan of the Company and its subsidiaries which shall include a projected consolidated balance sheet and related statements of projected operations and cash flow on a monthly basis for the fiscal year ending December 31, 2010, and on an annual basis through the fifth fiscal year after the Exit Closing Date, prepared by the Company's management;

(d) The Exit Facility Agent shall be satisfied that (i) the Borrowers', the Guarantors', and their respective subsidiaries' existing debts and liens do not exceed an amount agreed upon prior to the Exit Closing Date, and (ii) there shall not occur as a result of, and after giving effect to, the consummation of the Plan of

Reorganization or the funding of the Exit Facility, a default (or any event which with the giving of notice or lapse of time or both would be a default) under any of the Borrowers', the Guarantors' or their respective subsidiaries' debt instruments and other agreements that could reasonably be expected to result in an Exit Material Adverse Effect;

(e) The Company shall have delivered certificates, in form and substance satisfactory to the Exit Facility Agent, attesting to the solvency of each of the Borrowers and each of the Guarantors after giving effect to the transactions contemplated hereby, from its chief financial officer;

(f) The absence of an Exit Material Adverse Effect or event or occurrence which could reasonably be expected to result in a material adverse change, in (i) the business, assets, financial condition or prospects of the Borrowers, the Guarantors and their respective subsidiaries, taken as a whole, since the confirmation off the Plan of Reorganization, (ii) the ability of any Borrower or any Guarantor to perform any of its obligations in accordance with the terms under the Exit Loan Agreement or any loan document, or (iii) the ability of the Exit Facility Agent and the Exit Facility Lenders to enforce the Exit Loan Agreement or any loan document provided that the filing of the Cases will not be deemed to constitute an impediment to enforcement hereunder;

(g) There shall exist no action, suit, investigation, litigation or proceeding pending or threatened in any court or before any arbitrator or governmental instrumentality that (i) could reasonably be expected to result in an Exit Material Adverse Effect or (ii) restrains, prevents or imposes or can reasonably be expected to impose materially adverse conditions upon the Exit Facility or the transactions contemplated thereby, other than

the Cases;

(h) The Exit Facility Agent shall have received endorsements naming the Exit Facility Agent as an additional insured and loss payee under all insurance policies to be maintained with respect to the properties of the Borrowers, the Guarantors and their respective subsidiaries forming part of the Exit Collateral;

(i) The Borrowers and the Guarantors shall have at least US$35 million of unrestricted cash and cash equivalents on hand and undrawn and available commitments under the Exit Revolving Facility;

(j) All fees and other payments required to be made to the Exit Facility Lenders, the Exit Facility Agent and the Sole Lead Arranger and their respective advisors and counsel under the Exit Loan Agreement or any other written agreement shall have been paid;

(k) No Event of Default and no condition which would constitute an Event of Default with the giving of notice or lapse of time or both shall exist;

(l) Representations and warranties shall be true and correct in all material respects, except where such representation or warranty relates to an earlier date, in which case it shall be true and correct in all material respects as of such earlier date; provided that any representation or warranty that is by its terms qualified by materiality shall be true and correct in all respects;

(m) Execution and delivery of all collateral documents for the Exit Facility, including but not limited to mortgages, ALTA mortgage title insurance policies and evidence of flood insurance with respect to any property located in any flood hazard zone;

(n) The Exit Facility Agent shall have a perfected first priority security interest in the Exit

Collateral, and all filings and recordings and searches necessary or desirable in connection with such liens and security interest shall have been duly made;

(o) Delivery of legal opinion by counsel to the Borrowers and the Guarantors;

(p) Delivery of customary officers' and secretaries' certificates, incumbency/specimen signature certificates, resolutions and good standing certificates;

(q) All required consents shall have been obtained;

(r) The Exit Facility Agent shall have received the certificates representing the shares of capital stock pledged pursuant to the security documents, together with undated stock powers (or the equivalent) for each such certificate executed by the applicable Borrower or Guarantor; and

(s) The Company shall have received a rating on the Exit Facility from Moody's Investors Service, Inc. and shall have used commercially reasonable efforts to obtain a rating on the Exit Facility from Standard & Poor's Rating Group.

26. ***Conditions to All Extensions of Credit***

Each extension of credit shall be subject to the satisfaction of the conditions customary for a transaction of this type, including:

(a) No Event of Default and no condition which would constitute an Event of Default with the giving of notice or lapse of time or both shall exist; and

(b) Representations and warranties shall be true and correct in all material respects, except where such representation or warranty relates to an earlier date, in which case it shall be true and correct in all material respects as of such earlier date; provided that any representation or warranty that is by its terms qualified by materiality shall be true and correct in all respects.

27.	***Representations and Warranties:***	The Exit Loan Agreement will contain representations and warranties that are customary for a transaction of this type and shall be based on the representations and warranties set forth in the Prepetition Credit Agreement (subject to materiality qualifiers and exceptions to be agreed upon, as well as matters disclosed in SEC filings and the Disclosure Statement), including: (a) Confirmation of corporate status and authority of the Company and its subsidiaries; (b) Capital stock of each of the Company and its subsidiaries has been duly authorized and validly issued and is fully paid and non-assessable; (c) Due authorization, execution and delivery of the loan documents; (d) Execution, delivery, and performance by the Borrowers and Guarantors of the loan documents do not conflict with law, existing agreements or organization documents except where such conflict would not reasonably be expected to result in an Exit Material Adverse Effect; (e) No governmental or regulatory approvals required; (f) Legality, validity, binding effect and enforceability of the loan documents; (g) Accuracy of information and financial statements; (h) Projections based on good faith estimates; (i) No occurrence of any event, matter or circumstance since the Petition Date, other than the transactions consummated under the Plan of Reorganization: (a) which is materially adverse to the: (i) business, assets financial condition or prospects of Company and its subsidiaries taken as a whole; or (ii) ability of any Borrower or any Guarantor to perform any of its obligations in accordance with their terms

under any of the loan documents; or (b) which in the reasonable opinion of the Requisite Lenders results in any (i) loan document not being legal, valid and binding on and, subject to reservations contained in the legal opinions provided as conditions precedent thereto, enforceable against any party thereto, from and after the Effective Date of the Plan of Reorganization, and/or (ii) collateral document not being a valid and effective security interest, from and after the Effective Date of the Plan of Reorganization, and in the case of (b), in each case in a manner or to an extent materially prejudicial to the interest of any Exit Facility Lender under the loan documents ("Exit Material Adverse Effect");

(j) Payment of taxes by the Company and its subsidiaries, except those taxes being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP;

(k) Good, sufficient and legal title to properties owned by the Company or its subsidiaries;

(l) Environmental compliance by the Company and its subsidiaries, except where non-compliance would not reasonably be expected to result in an Exit Material Adverse Effect;

(m) No defaults by the Company or its subsidiaries in any contractual obligations, except where such default would not reasonably be expected to result in an Exit Material Adverse Effect and except as contemplated by the Plan of Reorganization;

(n) List of material contracts in effect on the Exit Closing Date is true, correct and complete;

(o) Neither the Company nor any of its subsidiaries is an investment company;

(p) Neither the Company nor any of its subsidiaries is engaged in the business of extending credit

for the purpose of purchasing or carrying any margin stock and no part of the proceeds of the Exit Loans made will be used to purchase or carry any such margin stock;

(q) No unfair labor practices by the Company or its subsidiaries and other employment law non-compliance matters that could reasonably be expected to result in an Exit Material Adverse Effect;

(r) Compliance by the Company and its subsidiaries with employee benefit plans, except where non-compliance would not reasonably be expected to result in an Exit Material Adverse Effect;

(s) No broker's or finder's fee or commission will be payable in connection with the transactions contemplated by the loan documents;

(t) Borrowers and Guarantors are solvent;

(u) Full and accurate disclosure by Borrowers and Guarantors;

(v) Compliance with laws, except where non-compliance would not reasonably be expected to result in an Exit Material Adverse Effect;

(w) Use of proceeds in accordance with the terms hereof and the Exit Loan Agreement;

(x) No action, suit, investigation, litigation or proceeding pending or threatened that could have an Exit Material Adverse Effect;

(y) Insurance matters;

(z) Validity, priority and perfection of security interests in the Exit Collateral; and

(aa) Status of the Exit Facility as senior debt.

28. ***Affirmative Covenants:*** The Exit Loan Agreement will contain affirmative covenants that are customary for a transaction of this type and shall be based on the affirmative covenants set forth in the Prepetition Credit

Agreement, including:

(a) The Company to deliver to the Exit Facility Agent the following: (i) audited annual financial statements within 90 days after the end of each fiscal year; (ii) unaudited quarterly financial statements within 45 days after the end of each fiscal quarter; (iii) detailed consolidated budget and business plan of the Company and its subsidiaries through the fifth fiscal year after the Exit Closing Date (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of such fiscal year) on or before April 1 of each fiscal year; (iv) compliance certificates; (v) notices of default; (vi) notices of litigation; (vii) notices of ERISA events; (viii) annual collateral verification reports; and (ix) other information.

(b) The Company to file all reports and other documents with the Securities and Exchange Commission required under the Securities Exchange Act.

(c) Each Borrower, each Guarantor and their respective subsidiaries to preserve and maintain in full force and effect its corporate existence and all rights and franchises, licenses and permits material to its business, except where its board of directors determines that such preservation is no longer desirable in the conduct of its business and the loss is not disadvantageous in any material respect to it or the Exit Facility Lenders.

(d) Each Borrower, each Guarantor and their respective subsidiaries to pay all material taxes, except those taxes which are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP.

(e) Each Borrower, each Guarantor and their respective subsidiaries to maintain in good repair, working order and condition, ordinary

wear and tear excepted, all material properties used or useful in the business of the Company and its subsidiaries and make all appropriate repairs, renewals and replacements thereof, except where failure to do so would not reasonably be expected to have an Exit Material Adverse Effect.

(f) The Company will maintain or cause to be maintained, with financially sound and reputable insurers, such public liability insurance, third party property damage insurance, business interruption insurance and casualty insurance with respect to liabilities, losses or damage in respect of the assets, properties and businesses of the Company and its subsidiaries as may customarily be carried or maintained under similar circumstances by persons of established reputation engaged in similar businesses, in each case in such amounts, with such deductibles, covering such risks and otherwise on such terms and conditions as shall be customary for such persons.

(g) Each Borrower, each Guarantor and their respective subsidiaries to maintain accurate books and records and, as reasonably requested and with reasonable notice, permit visitation and inspection by the Exit Facility Agent representatives.

(h) Each Borrower, each Guarantor and their respective subsidiaries to comply in all material respects, with the requirements of all applicable laws, rules, regulations and orders of any governmental authority (including all environmental laws), except where failure to do so would not reasonably be expected to have an Exit Material Adverse Effect.

(i) The Company to deliver to the Exit Facility Agent environmental reports and disclosures.

(j) Each Borrower to cause any person that becomes a material subsidiary to become a Guarantor and a grantor under the applicable

collateral documents.

(k) Each Borrower, each Guarantor and their respective subsidiaries, upon acquisition of a material real estate asset, to take all actions to create in favor of Exit Facility Agent a valid and perfected first priority security interest.

(l) Each Borrower and Guarantors to take all actions the Exit Facility Agent may reasonably request in order to effect fully the purposes of the loan and collateral documents.

(m) Each Borrower and each of its subsidiaries will continue to own or possess the right to use, free from any restrictions, all patents, trademarks, copyrights, and domain names that are used in the operation of their respective businesses as presently conducted and as proposed to be conducted, except to the extent the failure to so own or possess would not reasonably be expected to have an Exit Material Adverse Effect.

(n) Each Borrower and each Guarantor to supply to the Exit Facility Agent or any Exit Facility Lender documents and evidence reasonably requested and necessary to comply with "know your customer" or other similar checks.

(o) Each Borrower, each Guarantor and their respective subsidiaries to ensure that its payment obligations under each of the loan and collateral documents rank and will at all times rank senior to the obligations under the Second Lien Term Loan Facility in accordance with the terms of the Intercreditor Agreement and Permitted Liens and will at all times rank at least pari passu to the obligations of all other present and future secured and unsubordinated indebtedness.

29. ***Negative Covenants:*** The Exit Loan Agreement will contain negative covenants that are customary for a transaction of this type and shall be based on the negative covenants set forth in the Prepetition Credit

Agreement, including:

(a) No incurrence of indebtedness by any Borrower or any Guarantor or any of their subsidiaries, other than:

1. the obligations under the Exit Loan Agreement and the related loan and collateral documents (the "Obligations");

2. indebtedness of any subsidiary to any Borrower or to any other subsidiary, or of any Borrower to any subsidiary; provided, (i) all such indebtedness shall be evidenced by promissory notes and all such notes shall be subject to a lien pursuant to the collateral documents, (ii) all such indebtedness shall be unsecured and subordinated in right of payment to the payment in full of the Obligations pursuant to the terms of the applicable promissory notes or an intercompany subordination agreement that in any such case, is reasonably satisfactory to the Exit Facility Agent, and (iii) any payment by any such subsidiary under any guaranty of the Obligations shall result in a pro tanto reduction of the amount of any indebtedness owed by such subsidiary to the Company or to any of its subsidiaries for whose benefit such payment is made;

3. senior or subordinated unsecured debt; provided, that (i) no default or event of default is continuing under the Exit Loan Agreement or would result from such issuance, (ii) each Borrower is in compliance (and certifies as to such compliance) with the financial covenants on a pro forma basis after giving effect to the such issuance, (iii) the proceeds of such issuance are applied in accordance with the mandatory prepayment provisions of the Second Lien Term Loan Facility, and if the loans thereunder are paid in full, then the proceeds of such issuance shall be used for permitted

acquisitions or to fund permitted capital expenditures, (iv) such debt shall have a maturity of not earlier than six months after the Exit Maturity Date and (v) the documentation relating to such debt shall not contain any covenant or event of default that is either (x) not substantially provided for in the Exit Loan Agreement or (y) more favorable to the holder of such debt than the comparable covenant or event of default set forth in the Exit Loan Agreement, and, in the case of any subordinated debt, shall contain customary subordination provisions pursuant to which such debt is subordinated to the prior payment in full of the obligations under the Exit Loan Agreement;

4. indebtedness incurred by the Company or any of its subsidiaries arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guaranties or letters of credit, surety bonds or performance bonds securing the performance of each Borrower or any such subsidiary pursuant to such agreements, in connection with certain permitted acquisitions or permitted dispositions of any business, assets or subsidiary of the Company or any of its subsidiaries;

5. indebtedness which may be deemed to exist pursuant to any guaranties, performance, surety, statutory, appeal or similar obligations incurred in the ordinary course of business;

6. indebtedness in respect of netting services, overdraft protections and otherwise in connection with deposit accounts;

7. guaranties in the ordinary course of business of obligations to suppliers, customers, franchisees and licensees of

the Company and its subsidiaries;

8. guaranties or the provision of other credit support by a Borrower of indebtedness of a subsidiary or guaranties or the provision of other credit support by a subsidiary of a Borrower of indebtedness of a Borrower or a subsidiary with respect, in each case, to indebtedness otherwise permitted to be incurred pursuant to the lien covenant section below;

9. existing disclosed indebtedness, but not any extensions, renewals or replacements of such indebtedness except (i) renewals and extensions expressly provided for in the agreements evidencing any such indebtedness as the same are in effect on the Exit Closing Date and (ii) refinancings and extensions of any such indebtedness if the terms and conditions thereof are not materially less favorable to the obligor thereon or to the Exit Facility Lenders than the indebtedness being refinanced or extended, and the average life to maturity thereof is greater than or equal to that of the indebtedness being refinanced or extended; provided, such indebtedness permitted under the immediately preceding clause (i) or (ii) above shall not (A) include indebtedness of an obligor that was not an obligor with respect to the indebtedness being extended, renewed or refinanced, (B) exceed in a principal amount the indebtedness being renewed, extended or refinanced or (C) be incurred, created or assumed if any default or event of default under the Exit Loan Agreement has occurred and is continuing or would result therefrom;

10. indebtedness with respect to capital leases or purchase money indebtedness in an amount not to exceed at any time US$25 million in the aggregate (including any indebtedness acquired in connection with certain permitted acquisitions); provided,

any such purchase money indebtedness shall be secured only to the asset(s) acquired in connection with the incurrence of such indebtedness;

11. other indebtedness of the Company and its subsidiaries in an aggregate amount not to exceed at any time US$25 million;

12. indebtedness under certain factoring agreements;

13. unsecured working capital facilities of any subsidiary in respect of which an Exit Letter of Credit in an amount equal to the maximum principal amount of such facilities has been issued under the Exit Facility;

14. hedging obligations entered into for the purpose of hedging risks associated with the operations of the Company and its subsidiaries;

15. the obligations under the Second Lien Term Loan Facility;

16. any replacement, renewal or refinancing of and debt described in 3, 10, 11 and 15 ("Permitted Refinancing Indebtedness") that (i) does not exceed the aggregate principal amount of the debt being replaced, renewed or refinanced, (ii) does not have a maturity date earlier than the debt being replaced renewed or refinanced, (iii) does not rank at the time of such replacement, renewal or refinancing senior to the debt being replaced, renewed or refinanced and (iv) the documentation relating to such debt shall not contain any covenant or event of default that is either (x) not substantially provided for in the Exit Loan Agreement or (y) more favorable to the holder of such debt than the comparable covenant or event of default set forth in the Exit

Loan Agreement; and

17. scheduled indebtedness existing on the Exit Closing Date.

(b) No liens on any property or assets of the Company or its subsidiaries, other than:

1. liens in favor of Exit Facility Agent for the benefit of Exit Facility Lenders granted pursuant to any security document;

2. liens for taxes not then due or if due obligations with respect to such taxes that are not at such time required to be paid pursuant to the payment of taxes covenant or which are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which an adequate reserve has been made in accordance with GAAP;

3. statutory liens of landlords, banks (and rights of set off), of carriers, warehousemen, mechanics, repairmen, workmen and materialmen, and other liens imposed by law, in each case incurred in the ordinary course of business (i) for amounts not yet overdue or (ii) for amounts that are overdue and that (in the case of any such amounts overdue for a period in excess of 15 days) are being contested in good faith by appropriate proceedings, so long as such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made for any such contested amounts;

4. liens incurred in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts,

trade contracts, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money or other indebtedness), so long as no foreclosure, sale or similar proceedings have been commenced with respect to any portion of the Exit Collateral on account thereof;

5. easements, rights of way, restrictions, encroachments, and other minor defects or irregularities in title, in each case which do not and will not interfere in any material respect with the ordinary conduct of the business of the Company or any of its subsidiaries;

6. any (i) interest or title of a lessor or sublessor under any lease of real estate permitted under the Exit Loan Agreement, (ii) restriction or encumbrance that the interest or title of such lessor or sublessor may be subject to, or (iii) subordination of the interest of the lessee or sublessee under such lease to any restriction or encumbrance referred to in the preceding clause (ii), so long as the holder of such restriction or encumbrance agrees to recognize the rights of such lessee or sublessee under such lease;

7. liens solely on any cash earnest money deposits made by the Company or any of its subsidiaries in connection with any letter of intent or purchase agreement permitted under the Exit Loan Agreement;

8. purported liens evidenced by the filing of precautionary UCC financing statements or, for property located in foreign jurisdictions, the preparation and/or filing of functionally similar documents, relating solely to operating leases of personal property entered into in the ordinary course of business;

9. liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

10. any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property;

11. (i) licenses of patents, trademarks and other intellectual property rights granted by the Company or any of its subsidiaries in the ordinary course of business and not interfering in any material respect with the ordinary conduct of the business of the Company or such subsidiary and (ii) leases or subleases granted by Company of any of its subsidiaries to third parties in respect of surplus property which is not fundamental to the operation of the business in the ordinary course of business; provided that such leases and subleases are on arms-length commercial terms and are otherwise satisfactory to the Exit Facility Agent;

12. liens described on a title report delivered in connection with any real property securing the obligations under the Exit Loan Agreement;

13. liens securing indebtedness permitted pursuant to clauses 10. and 11. of the debt covenant above; provided, any such lien shall encumber only the asset acquired with the proceeds of such indebtedness;

14. liens granted by entities acquired pursuant to the asset sale covenant prior to their acquisition and not in contemplation of such acquisition and which are discharged within three months of the date of acquisition and in relation to which the secured amount is not increased in contemplation of or after the date of the

relevant acquisition;

15. liens in favor of the collateral agent under the security documents relating to the Second Lien Term Loan Facility;

16. liens securing Permitted Refinancing Indebtedness, provided that any such lien shall encumber only the assets that secure the debt being replaced, renewed or refinanced by such Permitted Refinancing Indebtedness;

17. scheduled liens outstanding on the Exit Closing Date and replacements thereof so long as the replacement liens encumber only the assets subject to the liens being replaced; and

18. a general lien basket of US$15 million so long as the assets subject to such lien is located outside the United States and are not included in the Exit Collateral, of which US$5 million of such general lien basket may apply to assets subject to such lien that are located in the United States and are not included in the Exit Collateral.

(c) If any Borrower or any of its subsidiaries creates any lien upon any of its properties or assets, other than Permitted Liens, it shall make provisions whereby the obligations under the Exit Loan Agreement will be secured by such lien equally and ratably.

(d) No further negative pledges by any Borrower, any Guarantor or their subsidiaries, other than:

1. specific property encumbered to secure payment of particular indebtedness or to be sold pursuant to an executed agreement with respect to a permitted asset sale;

2. restrictions contained in any documents evidencing subordinated debt; provided, that in respect of subordinated debt such restrictions do not restrict the ability to grant security interests under the Exit

Loan Agreement or any agreement that refinances the obligations under the Exit Loan Agreement;

3. restrictions by reason of customary provisions restricting assignments, subletting or other transfers contained in leases, licenses and similar agreements entered into in the ordinary course of business (provided that such restrictions are limited to the property or assets secured by such liens or the property or assets subject to such leases, licenses or similar agreements, as the case may be);

4. liens permitted to be incurred under lien and debt covenants in the Exit Loan Agreement and restrictions in the agreements relating thereto that limit the right of any Borrower or any Guarantor to dispose of or transfer the assets subject to such liens;

5. provisions limiting the disposition or distribution of assets or property under sale-leaseback agreements, stock sale agreements and other similar agreements, which limitation is applicable only to the assets that are the subject of such agreements;

6. any encumbrance or restriction in connection with an acquisition of property, so long as such encumbrance or restriction relates solely to the property so acquired and was not created in connection with or in anticipation of such acquisition; and

7. restrictions imposed by customary provisions in partnership agreements, limited liability company organizational governance documents, joint venture agreements and other similar agreements that restrict the transfer of ownership interest in such partnership, limited liability company, joint venture or similar

person.

(e) No restricted junior payments (e.g., dividends and payments of subordinated debt) except distributions from a subsidiary to its shareholders, provided that such payments are made to all its shareholders proportionately, and so long as no default exists, the Company can repurchase or redeem common stock up to US$7 million per year for the purpose of repurchases of common stock from departing executives or satisfying the purchase price of equity awards under, or paying withholding taxes with respect to vested equity compensation programs.

(f) Limited restrictions on subsidiary ability to make distributions.

(g) No investments in any person (including joint ventures) by any Borrower, any Guarantor or their subsidiaries, other than:

1. investments in cash and cash equivalents;

2. equity investments and loans as of the Exit Closing Date in or to any subsidiary and equity investments and loans made after the Exit Closing Date in or to any subsidiary of any Borrower;

3. investments (i) in any securities received in satisfaction or partial satisfaction of obligations of financially troubled account debtors and (ii) deposits, prepayments and other credits to suppliers made in the Company's and its subsidiaries' ordinary course of business;

4. intercompany loans and guaranties to the extent permitted by the provisions of the indebtedness covenant above;

5. capital expenditures permitted under the financial covenants below;

6. loans and advances to employees of the Company and its subsidiaries made in the

ordinary course of business in an aggregate principal amount not to exceed US$1 million in the aggregate;

7. investments made in connection with certain permitted acquisitions, provided that equity of the Company may be used as consideration in connection with permitted acquisitions so long as the Company is in compliance, on a pro forma basis, with the financial covenants;

8. investments received in lieu of cash in connection with certain permitted asset sales;

9. existing disclosed investments; and

10. other investments in an aggregate amount not to exceed at any time US$20 million.

(h) No mergers, consolidations, acquisitions, sales, leases of all or part of Company's or any of its subsidiaries' assets or property other than:

1. purchases or acquisitions of inventory, materials and equipment and cap-ex in the ordinary course of business;

2. any subsidiary of the Company may be merged with or into a Borrower or any other subsidiary, or be liquidated, wound up or dissolved, or all or any part of its business, property or assets may be conveyed, sold, leased, transferred or otherwise disposed of, to a Borrower or any other subsidiary, provided that in the case of a merger involving a Borrower or a Guarantor merging with a non-Guarantor, such Borrower or Guarantor shall be the surviving entity;

3. sales or dispositions of inventory in the ordinary course of business and sales of other assets for gross consideration of less than US$250,000 with respect to any transaction or series of related transactions;

4. asset sales, the proceeds of which when aggregated with proceeds of all other asset sales in the same fiscal year are less than US$25 million; provided that (x) such amount shall exclude proceeds of the sale of assets of Huyck Wangner Australia Pty Limited and Huyck Wangner Vietnam Co Ltd (the "Australian and Vietnam Assets") and (y) 75% of the consideration is in cash and the net proceeds are applied to prepay the loans outstanding under the Second Lien Term Loan Facility; provided further that up to US$3 million of such proceeds may be reinvested within 360 days of receipt;

5. disposals of obsolete, worn out or surplus property;

6. permitted acquisitions with no dollar or asset limitation so long as (i) equity of the Company is used as 100% of the consideration in connection therewith or (ii) cash of the Company or any of its subsidiaries is used as all or a portion of the consideration; provided that, in the case of clause (ii), the Company must demonstrate that, on a pro forma basis, the leverage covenant level of the Company is at least 0.5x inside the then applicable Leverage Ratio covenant level; and

7. investments permitted under the Exit Loan Agreement.

(i) No sales by any Borrower, any Guarantor or their subsidiaries of interests in the capital stock of any of the subsidiaries, unless permitted by the Exit Loan Agreement.

(j) No sales and lease backs by any Borrower, any Guarantor or their subsidiaries, unless permitted by the Exit Loan Agreement.

(k) No transactions by any Borrower, any Guarantor or their subsidiaries with shareholders owning more than 5% of any class of stock of the Company or any of its

subsidiaries and affiliates on terms less favorable to such Borrower or Guarantor, other than (a) any transaction between the Company or any of its subsidiaries and the Company and its subsidiaries; (b) compensation arrangements for directors, officers and other employees of Company and its subsidiaries entered into in the ordinary course of business, including indemnification arrangements, equity compensation and stock ownership plans; and (c) certain other permitted transactions agreed upon.

(l) No engaging by any Borrower, any Guarantor or their subsidiaries in business other than businesses engaged in by such Borrower and the Guarantors on the Exit Closing Date or other similar or related businesses.

(m) No amendments or modifications by any Borrower, any Guarantor or their subsidiaries of any organizational documents that would be materially adverse to the Exit Facility Lenders.

(n) No amendments or waivers by any Borrower, any Guarantor or their subsidiaries with respect to certain terms of subordinated debt or amendments that would be adverse to the Exit Facility Lenders.

(o) No change by any Borrower, any Guarantor or their subsidiaries in its fiscal year end from December 31.

30. ***Financial Covenants:***

(a) Interest Coverage Ratio measured quarterly for a rolling 12 month period at levels to be agreed upon.

(b) Leverage Ratio measured quarterly for a rolling 12 month period at levels to be agreed upon.

(c) Maximum Capital Expenditures each year in amounts to be agreed upon.

31. ***Events of Default:***

The Exit Loan Agreement will contain Events of Default that are customary for a transaction of this type and shall be based on the events of default in

the Prepetition Credit Agreement, including:

(a) Failure by any Borrower to pay principal when due and failure to pay interest, fees and other amounts within 3 business days of when due.

(b) Cross-default to payment defaults beyond applicable grace periods by any Borrower, any Guarantor or any of their subsidiaries on principal aggregating US$5 million, or to other events if the effect is to accelerate or permit acceleration of such debt.

(c) Failure by any Borrower or any Guarantor to comply with any negative covenant, any financial covenant or the use of proceeds covenant.

(d) Any representations or warranty made by any Borrower or any Guarantor shall be false in any material respect as of the date made or deemed made.

(e) Failure by any Borrower or any Guarantor to comply with other covenants in Exit Loan Agreement or other loan or collateral documents and such failure continues unremedied for a period of 20 business days following receipt of notice by an officer of the Company or actual knowledge of such failure by any such Borrower or Guarantor.

(f) Involuntary bankruptcy, liquidation, or the appointment of a receiver or similar official or institution of any such proceeding in respect of the Company or any of its subsidiaries if not dismissed within 60 days.

(g) Voluntary bankruptcy, liquidation, or the appointment of a receiver or similar official or institution of any such proceeding in respect of the Company or any of its subsidiaries, other than any Case(s) not closed as of the Exit Closing Date.

(h) Failure to pay by the Company or any of its subsidiaries of a final judgment or court order if not stayed within 60 days in excess of US$5

million.

(i) Any order, judgment or decree shall be entered against any Borrower or any Guarantor decreeing the dissolution or split up of such Borrower or Guarantor and such order shall remain undischarged or unstayed for a period in excess of 30 days.

(j) Occurrence of an ERISA event which would reasonably be expected to result in liability of the Company or any of its subsidiaries in excess of US$5 million.

(k) Occurrence of a change of control of the Company, other than as a result of the transactions contemplated by the Plan of Reorganization.

(l) Any collateral document ceases to be in full force and effect other than in accordance with its terms or shall be declared null and void or the Exit Facility Agent shall not have or shall cease to have a valid and perfected lien in any Collateral purported to be covered by such collateral document with the priority required by such collateral document.

(m) Occurrence of any Exit Material Adverse Effect.

32. ***Remedies Upon Event of Default:***

Upon the occurrence of an Event of Default under paragraphs (f), (g) or (k) above, automatically, and upon the occurrence of any other Event of Default, at the request of the Requisite Lenders, the principal of and all accrued interest and fees and all other amounts owed to the Exit Facility Agent and the Exit Facility Lenders under the Exit Loan Agreement shall be immediately due and payable, and the Exit Facility Agent and the Exit Facility Lenders shall have the rights and remedies provided in the Exit Loan Agreement and the collateral documents, subject to the terms of the Intercreditor Agreement.

33. ***Voting:***

Amendments, modifications, terminations and waivers of any provision of the Exit Loan

Agreement or any related document will require the approval of Requisite Lenders (as defined below), except that in certain circumstances the consent of a greater percentage of the aggregate amount of the loans and commitments of the Exit Facility Lenders may be required.

34. ***Requisite Lenders:***

"Requisite Lenders" shall mean (i) the Exit Facility Lenders holding Exit Revolving Loans and commitments in the aggregate representing more than 50% of (a) the unfunded commitments and the outstanding Exit Loans, letter of credit obligations and participations thereof or (b) if the commitments have been terminated, the outstanding Exit Revolving Loans, letter of credit obligations and participations thereof (the "Exit RL Facility Exposure") and (ii) the Exit Facility Lenders holding Exit Term Loans in the aggregate representing more than 50% of the outstanding Exit Term Loans (the "Exit TL Facility Exposure"); provided that with respect to any amendment or waiver that would adversely affect the holders of the Exit RL Facility Exposure or the Exit TL Facility Exposure, as the case may be, differently from the rights of any other Exit Facility Lender, then the consent of only the holders of more than 50% of the Exit RL Facility Exposure or the Exit TL Facility Exposure, as the case may be, shall be required. The unfunded commitments of, and the outstanding Exit Loans, letter of credit obligations and participations therein held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Requisite Lenders.

35. ***CAM Exchange:***

On the date on which an Event of Default under paragraphs (f) and (g) above (bankruptcy) occurs, the Exit Facility Lenders shall automatically be deemed to have exchanged interest in all obligations of the Borrowers under the Exit Loan Agreement such that each Exit Facility Lender shall own a pro rata interest in all of the Exit Loans.

36. ***Assignments and Participations:***

Each Exit Facility Lender may sell or assign all or any portion of its Exit Loans with the prior consent of the Exit Facility Agent, the Exit Issuing Bank, and except in the case of assignments to another Exit Facility Lender or an affiliate of a Exit Facility

		Lender or while an Event of Default is continuing, the prior consent of the Company (not to be unreasonably withheld). Minimum aggregate assignment level (which shall not be applicable to assignments to affiliates of the assigning Exit Facility Lenders and other Exit Facility Lenders and their affiliates) of US$2,500,000 and increments of US$1,000,000 in excess thereof. The parties to the assignment shall pay to the Exit Facility Agent an administrative fee of US$3,500. Each Exit Facility Lender may grant participations in all or any of its Exit Loans without the prior consent of the Company.
37.	***Intercreditor Agreement:***	The Exit Facility Agent and the collateral agent for the Second Lien Term Loan Facility shall enter into an intercreditor agreement setting forth the lien and payment priorities with respect to the obligations under the Exit Loan Agreement and the Second Lien Term Loan Facility.
38.	***Defaulting Lenders***	The Exit Loan Agreement shall contain defaulting lender provisions, including that (i) no defaulting lender (to be defined in the Exit Loan Agreement) will earn an Exit Commitment Fee or an Exit Letter of Credit Fee for so long that it remains a defaulting lender, (ii) no defaulting lender will be entitled to be counted in any matter requiring the consent of only the Requisite Lenders, (iii) the Borrower will be required to cash collateralize the defaulting lender's Exit Letter of Credit obligations and (iv) subject to receipt by a defaulting lender of all amounts due and owing to it, the Borrower will have the right to replace such defaulting lender.
39.	***Exit Loan Agreement and Other Terms:***	The Exit Loan Agreement shall be based on the Prepetition Credit Agreement and will provide additional terms that are usual and customary for a transaction of this type.
40.	***Expenses:***	The Borrowers shall reimburse the Exit Facility Agent for all fees, expenses and disbursements, including reasonable fees, expenses and disbursements of counsel to the Exit Facility Agent, incurred in connection with the transaction, including, without limitation, related preparation,

negotiation, execution and administration of the definitive documentation and ongoing expenses related to the Exit Facility. After the occurrence of a Default or an Event of Default, Borrowers shall reimburse the Exit Facility Agent, the Exit Issuing Bank and the Exit Facility Lenders for all costs and expenses and costs of settlement incurred in enforcing any Obligation or in collecting any payments due or in connection with any refinancing and restructuring of the credit arrangements.

41.	***Indemnification:***	The Borrowers and the Guarantors shall indemnify the Exit Facility Agent, the Exit Issuing Bank and the Exit Facility Lenders and their respective affiliates, officers, partners, directors trustees, investment advisors, employees and agents for any liability, obligation, loss, damage, claim, costs, expense and disbursement (including reasonable fees and disbursements of counsel to the indemnitees) arising out of (i) the Exit Loan Agreement and the related loan documents and the transactions contemplated under the Exit Facility, the use or proposed use of proceeds of the loans or any enforcement of the Exit Loan Agreement or any related loan documents or (ii) any environmental claims or hazardous materials activity arising from activity of the Company and its subsidiaries, provided that such indemnification obligation does not extend to any damages or liabilities arising from gross negligence or willful misconduct.
42.	***Yield Protection and Taxes:***	The Exit Loan Agreement and the related documents will contain yield protection provisions and tax gross-up provisions that are customary and based on the yield protection and tax gross-up provisions set forth in the Prepetition Credit Agreement.
43.	***Governing Law:***	The Exit Facility and all documentation in connection with the Exit Facility (other than the applicable security documents) shall be governed by the laws of the State of New York.
44.	***Counsel to the Exit Facility Agent:***	Chadbourne & Parke LLP.

45. ***Counsel to the Borrowers and the Guarantors:*** Cadwalader, Wickersham & Taft LLP.

EXHIBIT C

NEW MANAGEMENT INCENTIVE PLAN

XERIUM TECHNOLOGIES, INC.
2010 EQUITY INCENTIVE PLAN

1. **Purpose; Term**.

This Xerium Technologies, Inc. 2010 Equity Incentive Plan (the "Plan") provides for the grant of incentive awards consisting of or based on the Common Stock of the Company. The purpose of the Plan is to attract and retain key employees, directors and consultants of the Company and its Affiliates, to provide an incentive for them to achieve performance goals, and to enable them to participate in the growth of the Company by granting Awards with respect to the Company's Common Stock. No Awards may be granted under the Plan after the tenth anniversary of the Effective Date, but Awards granted prior to that date may continue in accordance with their terms. Certain capitalized terms used herein are defined in Section 3 below.

2. **Administration**.

The Plan shall be administered by the Committee. Except to the extent action by the Committee is required under Section 162(m) of the Code in the case of Awards intended to qualify for exemption thereunder, the Board may in any instance perform any of the functions of the Committee hereunder. The Committee shall select the Participants to receive Awards and shall determine the terms and conditions of the Awards. The Committee shall have authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the operation of the Plan as it shall from time to time consider advisable, and to interpret the provisions of the Plan. The Committee's decisions shall be final and binding. The Committee may delegate (i) to one or more of its members such of its duties, powers and responsibilities as it may determine; (ii) to one or more officers of the Company the power to grant rights or options to the extent permitted by Section 157(c) of the Delaware General Corporation Law; (iii) to one or more officers of the Company the authority to allocate other Awards among such persons (other than officers of the Company) eligible to receive Awards under the Plan as such delegated officer or officers determine consistent with such delegation; provided, that with respect to any delegation described in this clause (iii) the Committee (or a properly delegated member or members of such Committee) shall have authorized the issuance of a specified number of shares of Stock under such Awards and shall have specified the consideration, if any, to be paid therefor; and (iv) to such employees or other persons as it determines such ministerial tasks as it deems appropriate. In the event of any delegation described in the preceding sentence, references herein to the Committee shall include the person or persons so delegated to the extent of such delegation.

3. **Certain Definitions**.

"Affiliate" means any business entity in which the Company owns directly or indirectly 50% or more of the total voting power or has a significant financial interest as determined by the Committee.

"Award" means any Option, SAR, Restricted Stock, Unrestricted Stock or Stock Unit Award granted under the Plan.

“Board” means the Board of Directors of the Company.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, or any successor law.

“Committee” means one or more committees each comprised of not less than two members of the Board appointed by the Board to administer the Plan or a specified portion thereof. Unless otherwise determined by the Board, if a Committee is authorized to grant Awards to a Reporting Person or a Covered Employee, each member shall be a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act or an “outside director” within the meaning of Section 162(m) of the Code, respectively.

“Common Stock” or “Stock” means the Common Stock, $0.001 par value, of the Company.

“Company” means Xerium Technologies, Inc., a Delaware corporation.

“Covered Employee” means a “covered employee” within the meaning of Section 162(m) of the Code.

“Designated Beneficiary” means the beneficiary designated by a Participant, in a manner determined by the Committee, to receive amounts due or exercise rights of the Participant in the event of the Participant’s death. In the absence of an effective designation by a Participant, “Designated Beneficiary” means the Participant’s estate.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor law.

“Fair Market Value” means, with respect to Common Stock or any other property, the fair market value of such property as determined by the Committee in good faith or in the manner established by the Committee from time to time.

“Participant” means a person selected by the Committee to receive an Award under the Plan.

“Reporting Person” means a person subject to Section 16 of the Exchange Act.

“Section 409A” means Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulation or other guidance that may be issued after the Effective Date.

4. **Eligibility**.

All key employees, all directors and all consultants of the Company or of any Affiliate whom the Committee considers to be capable of contributing to the successful performance of the Company are eligible to be Participants in the Plan. Incentive Stock Options may be granted only to employees of the Company or of any parent or subsidiary corporation of the Company, as those terms are used in Section 424 of the Code.

5. **Stock Available for Awards**.

a. **Amount.** Subject to adjustment under subsection (b), no more than 463,525 shares of Common Stock in the aggregate may be delivered under or in satisfaction of Awards, provided, however, that to the extent that equity incentive awards granted prior to the Effective Date pursuant to the Company's 2005 Equity Incentive Plan, as amended, do not vest on or after the Effective Date in accordance with their terms, the number of shares of Common Stock subject to such unvested awards shall be added to the number of shares that may be delivered hereunder. For the avoidance of doubt, the termination, cancellation or expiration of an Award or any portion thereof without the delivery of shares of Common Stock, or the satisfaction of an Award or any portion thereof by the delivery of cash or other property other than shares of Common Stock, shall not be treated as the delivery of shares of Common Stock for purposes of this subsection (a). Common Stock issued under awards granted by another company ("other company awards") and assumed by the Company in connection with a merger, consolidation, stock purchase or similar transaction, or issued by the Company under awards substituted for other company awards in connection with a merger, consolidation, stock purchase or similar transaction, shall not reduce the shares available for Awards under the Plan; provided, that the maximum number of shares that may be issued pursuant to ISOs (as defined below) shall be determined in a manner consistent with Section 422 of the Code and the rules thereunder. Shares issued under the Plan may consist of authorized but unissued shares or treasury shares.

b. **Adjustment**. In the event that the Committee determines that any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares or other transaction affects the Common Stock such that an adjustment is required or appropriate to preserve the benefits intended to be provided by the Plan, then the Committee (subject in the case of ISOs, or in the case of Awards intended to qualify for exemption under Section 162(m) of the Code, to any limitation required under the Code) shall make such adjustment as it determines to be equitable to any or all of (i) the number and kind of shares in respect of which Awards may be made under the Plan, (ii) the number and kind of shares subject to outstanding Awards and (iii) the exercise price with respect to any of the foregoing; provided, that the number of shares subject to any Award shall always be a whole number.

c. **Limit on Individual Grants**. The maximum number of shares of Common Stock subject to Options and Stock Appreciation Rights that may be granted to any Participant in the aggregate in any calendar year shall not exceed, in each case, 150,000, and the maximum number of shares of Common Stock that may be granted as Stock Awards pursuant to Section 8 to any Participant in the aggregate in any calendar year shall not exceed 150,000, subject in each case to adjustment under subsection (b).

6. **Stock Options**.

a. **Grant of Options**. Subject to the provisions of the Plan, the Committee may grant both (i) options ("Options") to purchase shares of Common Stock that are

intended to comply with the requirements of Section 422 of the Code and the rules thereunder ("ISOs") and (ii) Options that are not intended to comply with such requirements ("NSOs"). The Committee shall determine the number of shares subject to each Option and the exercise price therefor, which shall not be less than 100% of the Fair Market Value of the Common Stock on the date of grant.

b. **Terms and Conditions**. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may specify in the applicable grant or thereafter. The Committee may impose such conditions with respect to the exercise of Options, including conditions relating to applicable federal or state securities laws, as it considers necessary or advisable.

c. **Payment**. No shares shall be delivered pursuant to any exercise of an Option until payment in full of the exercise price therefor is received by the Company. Such payment may be made in whole or in part in cash or, to the extent legally permissible and permitted by the Committee at or after the grant of the Option, by delivery of a note or other commitment satisfactory to the Committee; shares of Common Stock that have been owned by the optionee for at least six months (or such other period as the Committee may determine), valued at their Fair Market Value on the date of delivery; such other lawful consideration, including a payment commitment of a financial or brokerage institution, as the Committee may determine; or any combination of the foregoing permitted forms of payment.

7. **Stock Appreciation Rights**.

a. **Grant of SARs**. Subject to the provisions of the Plan, the Committee may grant rights to receive any excess in value of shares of Common Stock over the exercise price ("Stock Appreciation Rights" or "SARs"). The Committee shall determine at the time of grant or thereafter whether SARs are settled in cash, Common Stock or other securities of the Company, Awards or other property, and may define the manner of determining the excess in value of the shares of Common Stock.

b. **Exercise Price**. The Committee shall fix the exercise price of each SAR, which shall not be less than 100% of the Fair Market Value of the Common Stock at the date of grant.

8. **Stock Awards**.

a. **Restricted or Unrestricted Stock Awards**. The Committee may grant shares of Common Stock subject to forfeiture ("Restricted Stock") and determine the duration of the period (the "Restricted Period") during which, and the conditions under which, the shares may be forfeited to the Company and the other terms and conditions of such Awards. Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, except as permitted by the Committee, during the Restricted Period. Shares of Restricted Stock shall be evidenced in such manner as the Committee may determine. Any certificates issued in respect of shares of Restricted Stock shall be registered in the name of the Participant and unless otherwise determined by the

Committee, deposited by the Participant, together with a stock power endorsed in blank, with the Company. At the expiration of the Restricted Period, the Company shall deliver such certificates to the Participant or if the Participant has died, to the Participant's Designated Beneficiary. The Committee also may make Awards of shares of Common Stock that are not subject to restrictions or forfeiture, on such terms and conditions as the Committee may determine from time to time ("Unrestricted Stock"). Shares of Restricted Stock or Unrestricted Stock may be issued for such consideration, if any, as the Committee may determine consistent with applicable law.

b. **Stock Unit Awards**. The Committee may grant Awards ("Stock Unit Awards") consisting of units representing shares of Common Stock. Each Stock Unit Award shall represent the unfunded and unsecured commitment of the Company to deliver to the Participant at a specified future date or dates one or more shares of Common Stock (including, if so provided with respect to the Award, shares of Restricted Stock), subject to the satisfaction of any vesting or other terms and conditions established with respect to the Award as the Committee may determine. No Participant or Designated Beneficiary holding a Stock Unit Award shall be treated as a stockholder with respect to the shares of Common Stock subject to the Award unless and until such shares are actually delivered under the Award. Stock Unit Awards may not be sold, assigned, transferred, pledged or otherwise encumbered except as permitted by the Committee.

c. **Performance Goals**. The Committee may establish performance goals on which the granting of Restricted Stock, Unrestricted Stock, or Stock Unit Awards, or the vesting of Restricted Stock or Stock Unit Awards, will be subject. Such performance goals may be based on such corporate or other business criteria as the Committee may determine. The Committee shall determine whether any performance goals so established have been achieved, and if so to what extent, and its determination shall be binding on all persons. Notwithstanding anything herein to the contrary, the performance criteria terms set forth on Appendix A hereto shall apply to any Award for which performance goals are established pursuant to this Section 8(c) that is intended to satisfy the exception for qualified performance-based compensation under Section 162(m) of the Code.

9. **General Provisions Applicable to Awards**.

a. **Documentation**. Each Award shall be evidenced by a writing delivered to the Participant or agreement executed by the Participant specifying the terms and conditions thereof and containing such other terms and conditions not inconsistent with the provisions of the Plan as the Committee considers necessary or advisable to achieve the purposes of the Plan or to comply with applicable tax and regulatory laws and accounting principles.

b. **Application of Code Section 409A**. Notwithstanding anything in this Plan to the contrary, it is intended that any grant of an Award shall satisfy the requirements for compliance with or exemption from Section 409A of the Code, to the extent applicable. The Plan and any Award shall be interpreted in a manner that is consistent with compliance with or exemption from Section 409A. In the event that any Award is subject to Section 409A and is otherwise payable upon a Change of Control, no

such payment shall be made unless such Change of Control constitutes a "Change in Control Event" as defined in Section 1.409A-3(i)(5)(i) of the Treasury Regulations, and as set forth in Section 1.409A-3(i)(5)(v) through (vii). In the event that any Award is subject to Section 409A and is payable upon termination of employment or service, such Award shall not be payable upon a termination of employment or service unless such termination of employment or service constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Treasury Regulations.

c. **Committee Discretion**. Awards may be made alone or in combination with other Awards, including Awards of other types. The terms of Awards of the same type need not be identical, and the Committee need not treat Participants uniformly (subject to the requirements of applicable law). Except as otherwise provided by the Plan or a particular Award, any determination with respect to an Award may be made by the Committee at the time of grant or at any time thereafter.

d. **Dividends and Cash Awards**. In the discretion of the Committee, any Award under the Plan may provide the Participant with (i) dividends or dividend equivalents payable (in cash or in the form of Awards under the Plan) currently or deferred with or without interest and (ii) cash payments in lieu of or in addition to an Award.

e. **Termination of Service**. Unless the Committee expressly provides otherwise, the following rules shall apply in connection with the cessation of a Participant's employment or other service relationship with the Company and its Affiliates. Immediately upon the cessation of the Participant's employment or other service relationship with the Company and its Affiliates an Award requiring exercise will cease to be exercisable and all Awards to the extent not already fully vested will be forfeited, except that:

(i) All Stock Options and SARs held by a Participant immediately prior to his or her death, to the extent then exercisable, will remain exercisable by such Participant's executor or administrator or the person or persons to whom the Stock Option or SAR is transferred by will or the applicable laws of descent and distribution, in each case for the lesser of (i) the one year period ending with the first anniversary of the Participant's death or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this subsection (e), and shall thereupon terminate; and

(ii) all Stock Options and SARs held by the Participant immediately prior to the cessation of the Participant's employment or other service relationship for reasons other than death and except as provided in (iii) below, to the extent then exercisable, will remain exercisable for the lesser of (1) a period of three months or (2) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this subsection (e), and shall thereupon terminate.

(iii) Unless the Committee expressly provides otherwise, a Participant's "employment or other service relationship with the Company and its Affiliates" will be deemed to have ceased, in the case of an employee Participant, upon termination of the Participant's employment with the Company and its Affiliates (whether or not the Participant continues in the service of the Company or its Affiliates in some capacity other than that of an employee of the Company or its Affiliates), and in the case of any other Participant, when the service relationship in respect of which the Award was granted terminates (whether or not the Participant continues in the service of the Company or its Affiliates in some other capacity).

f. **Change in Control**. If (i) any Person or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, other than the Company or any of its subsidiaries or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or one of its subsidiaries, becomes a beneficial owner, directly or indirectly, in one or a series of transactions, of securities representing fifty percent (50%) or more of the total number of votes that may be cast for the election of directors of the Company, (ii) the Company merges into or combines with any other entity and, immediately following such merger or combination, any Person or group of Persons acting in concert holds 50% or more of the voting power of the entity surviving such merger or combination (other than any Person or group of Persons which held 50% or more of the Company's voting power immediately prior to such merger or combination or any Affiliated Person of any such Person or member of such group), (iii) the Company sells all or substantially all of its assets or business for cash or for securities of another Person or group of Persons (other than to any Person or group of Persons which held 50% or more of the Company's total voting power immediately prior to such sale or to any Affiliated Person of any such Person or any member of such group), or (iv) a dissolution or liquidation of the Company (any of (i), (ii), (iii) or (iv) being herein referred to as a "Covered Transaction"), then, without further action by the Committee, (A) all outstanding Options and SARs shall immediately become fully vested and exercisable, and (B) all outstanding Restricted Stock Awards and Stock Unit Awards shall immediately become fully earned and vested and, in the case of Restricted Stock, the Restricted Period with respect thereto shall immediately lapse; provided, however, that: (1) any such Restricted Stock Awards and Stock Unit Awards that are conditioned upon the attainment of specified price targets with respect to the Common Stock shall only become earned and vested to the extent that the transaction price per share in the Covered Transaction or, if not discernable due to the nature of the Covered Transaction, the Fair Market Value of a share of Common Stock, in each case as determined by the Committee, exceeds the applicable price targets under such Awards, and (2) any such Restricted Stock Awards and Stock Unit Awards that are conditioned upon the attainment of performance-based conditions (other than performance-based Awards covered by subsection (1) above) shall only become earned and vested in respect of that portion of the Award that would become earned and vested upon target-level achievement of the performance goals applicable thereto, as determined by the Committee. Without limiting the foregoing (but solely after giving full effect to the provisions of the preceding sentence), in the event of a Covered Transaction, the Committee in its discretion may, with respect to any Award, at the time the Award is made or at any time thereafter, take

one or more of the following actions: (A) provide for the acceleration of any time period relating to the exercise or payment of the Award (provided that the payment of any Award that constitutes a deferral of compensation subject to Section 409A may not be accelerated except to the extent permitted by Section 409A of the Code), (B) provide for the cancellation of the Award (without the consent of the Participant) in exchange for the payment to the Participant of cash or other property with a Fair Market Value equal to the amount that would have been received (net of any exercise price) upon the exercise or payment of the Award had the Award been exercised or paid immediately prior to the Covered Transaction, (C) adjust the terms of the Award in a manner determined by the Committee to reflect the covered transaction, (D) cause the Award to be assumed, or new rights substituted therefor, by another entity, or (E) make such other provision as the Committee may consider equitable to Participants and in the best interests of the Company.

g. **Transferability**. No Award may be transferred other than by will or the laws of descent and distribution and may be exercised, during the life of the Participant, only by the Participant, except that, as to Awards other than ISOs, the Committee may permit certain transfers to the Participant's family members or to certain entities controlled by the Participant or his or her family members.

h. **Withholding Taxes**. The Participant shall pay to the Company, or make provision satisfactory to the Committee for payment of, any taxes or social insurance contributions required by law to be withheld in respect of Awards under the Plan no later than the date of the event creating the tax liability. The Company and its Affiliates may, to the extent permitted by law, deduct any such tax (or social insurance) obligations from any payment of any kind due to the Participant hereunder or otherwise. In the Committee's discretion, the minimum tax (or social insurance) obligations required by law to be withheld in respect of Awards may be paid in whole or in part in shares of Common Stock, including shares retained from the Award creating the obligation, valued at their Fair Market Value on the date of retention or delivery.

i. **Amendment of Award**. The Committee may amend, modify, or terminate any outstanding Award, including substituting therefor another Award of the same or a different type, changing the date of exercise or realization and converting an Incentive Stock Option to a Nonstatutory Stock Option. Any such action shall require the Participant's consent unless the Committee determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

j. **Foreign Nationals**. The Committee may take any action consistent with the terms of the Plan, either before or after an Award has been granted, which the Committee deems necessary or advisable to comply with government laws or regulatory requirements of any foreign jurisdiction, including but not limited to modifying or amending the terms and conditions governing any Awards, establishing sub-plans under the Plan, or adopting such procedures as the Committee may determine to be appropriate in response to differences in laws, rules, regulations or customs of such foreign jurisdictions with respect to tax, securities, currency, employment, accounting or other matters.

10. **Miscellaneous**.

a. **No Right To Employment**. No person shall have any claim or right to be granted an Award. Neither the adoption, maintenance, nor operation of the Plan nor any Award hereunder shall constitute a contract of employment or confer upon any employee, director or consultant of the Company or of any Affiliate any right with respect to the continuance of his/her employment by or other service with the Company or any such Affiliate nor shall it or they be construed as affecting the rights of the Company (or Affiliate) to terminate the service of any person at any time or otherwise change the terms of such service, including, without limitation, the right to promote, demote or otherwise re-assign any employee or other service provider from one position to another within the Company or any Affiliate.

b. **No Rights As Stockholder**. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be issued under the Plan until he or she becomes the holder thereof. A Participant to whom Restricted Stock or Unrestricted Stock is awarded shall be considered a stockholder of the Company at the time of the Award except as otherwise provided in the applicable Award.

c. **Effective Date**. The date on which the Joint Prepackaged Plan of Reorganization Plan of the Company (and the other Debtors listed therein) becomes effective.

d. **Amendment of Plan**. The Board may amend, suspend, or terminate the Plan or any portion thereof at any time, subject to such stockholder approval as the Board determines to be necessary or advisable. Further, under all circumstances, the Committee may make non-substantive administrative changes to the Plan as to conform with or take advantage of governmental requirements, statutes or regulations.

e. **Repricing**. Without the approval of stockholders, the Committee will not amend or replace previously granted Options or SARs in a transaction that constitutes a "repricing," which for this purpose means any of the following or any other action that has the same effect: (i) lowering the exercise price of an Option or SAR after it is granted; (ii) any other action that is treated as a repricing under generally accepted accounting principles; or (iii) canceling an Option or SAR at a time when its exercise price exceeds the Fair Market Value of the underlying Common Stock, in exchange for another Option or SAR or other equity, cash or other property; provided, however, that the foregoing transactions shall not be deemed a repricing if pursuant to an adjustment authorized under Section 5(b).

f. **Governing Law**. The provisions of the Plan shall be governed by and interpreted in accordance with the laws of the State of Delaware.

APPENDIX A

PERFORMANCE CRITERIA TERMS

A Performance Criterion must be an objectively determinable measure of performance relating to any or any combination of the following (measured either absolutely or by reference to an index or indices and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis, including, without limitation, EBITDA or adjusted EBITDA as determined for purposes of any credit agreement or other agreement to which the Company is a party; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; net cash from operations plus or minus such expenditures, expenses, cash proceeds from dispositions (whether or not of operating assets) and other objectively determinable adjustments, if any, as the Committee may determine; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or re-financings. A Performance Criterion and any targets with respect thereto determined by the Committee need not be based upon an increase, a positive or improved result or avoidance of loss. The Committee may provide that any or any combination, or all, of the Performance Criteria applicable to an award will be adjusted in an objectively determinable manner to reflect events (for example, but without limitation, acquisitions or dispositions) occurring during the performance period that affect the applicable Performance Criterion or Criteria, to the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m) of the Code.

EXHIBIT D

NEW WARRANTS

The summary below describes the principal terms of the New Warrants.

Number of Warrants	Holders of Allowed Equity Interests in Class 8 will receive their Pro Rata Shares of the New Warrants to purchase up to 10% of the fully diluted shares of New Common Stock as of the Effective Date, calculated after giving effect to (a) the issuance of the New Common Stock and (b) the full exercise of the New Warrants, in each case, prior to the issuance of any New Common Stock reserved for the New Management Incentive Plan.
Exercise Price	An exercise price equal to the value per share of all New Common Stock issued or outstanding at the time of exercise of the New Warrant equal to (a) 1.1 multiplied by (i) an amount equal to the sum of the final amount of the Allowed Credit Facility Claims, the final amount of the Allowed Secured Swap Termination Claims, and the final amount of the Allowed Unsecured Swap Termination Claims minus (ii) the aggregate principal amount of the Term Notes at the time of issuance minus (iii) $10 million in Cash divided by (b) the number of shares of New Common Stock distributed pursuant to Sections 4.2 and 4.5 of the Plan, which number may be adjusted from time to time for stock splits and reverse stock splits.
Issue Date	Effective Date.
Term	The New Warrants will be exercisable for a term of four years from the Issue Date.
Exercise Date	The date that the Exercise Price is received by Reorganized Xerium.
Form of Delivery	Upon exercise of any of the New Warrants, each holder shall provide Reorganized Xerium with (a) payment of the aggregate Exercise Price for all New Warrants exercised (unless the consideration being distributed is cash and a cashless exercise is elected by such holder), (b) all certificates evidencing the New Warrants and (c) any other documentation reasonably requested by Reorganized Xerium. In the event that any of the New Warrants are exercised, Reorganized Xerium shall deliver shares of New Common Stock to the holder of such New Warrants or shall deliver proceeds from a sale of Reorganized Xerium on an "as exercised" basis.

Anti-dilution	The New Warrant certificates shall provide for adjustment of the Exercise Price and the number of shares of New Common Stock purchasable upon the exercise of each New Warrant in the case of (a) the distribution of any stock dividends in New Common Stock after the Issue Date or (b) a stock split or a reverse stock split of the New Common Stock after the Issue Date.
Transferability	The New Warrants will be transferable, subject to federal and state securities laws.
Compliance With Securities Laws	To the maximum extent provided by section 1145 of the Bankruptcy Code and applicable nonbankruptcy law, the issuance of New Warrants and New Common Stock issuable upon exercise of the New Warrants will be exempt from registration under the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

EXHIBIT E

EXECUTORY CONTRACTS AND UNEXPIRED LEASES TO BE REJECTED

Contracting Parties	Contact Information	Effective Date	Description of Agreement
One Tech Westborough, LLC, as **Landlord** and successor in interest to Westborough Office Center, Inc., who was a successor in interest to NE Aspen Westborough LLC. Xerium Technologies, Inc., as **Tenant** and successor in interest to Xerium, Inc.	One Tech Westborough, LLC c/o Conroy Development Corporation 800 Technology Center Drive Stoughton, Massachusetts 02072 Attention: Terence W. Conroy, Jr.	Rejection effective as of July 31, 2010.	**Lease, dated December 23, 1999,** as amended by that certain Amendment to Lease dated August 21, 2000, a Second Amendment to Lease dated March 22, 2005, and a Third Amendment to Lease dated August 24, 2006. Real estate lease for certain premises located at One Technology Drive, Westborough, Massachusetts, with a lease term expiring February 28, 2014.

EXHIBIT B

XERIUM'S FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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, 2008

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) 556-7235
Registrant's telephone number (including area code)

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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 ☒

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

Indicate by check mark 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ 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 ☒

The aggregate market value of the voting common stock held by non-affiliates of the registrant on June 30, 2008 was approximately $82,996,357. There were 46,312,071 shares of the registrant's common stock, $0.01 par value, outstanding as of March 6, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2009 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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CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K contains forward-looking statements. 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 these terms or other comparable terminology. Undue reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties, and other factors that are, in some cases, beyond our control and that could materially affect actual results, levels of activity, performance, or achievements. Factors that could materially affect our actual results, levels of activity, performance or achievements include the following items:

- our revenues and profitability could be adversely affected by fluctuations in currency exchange rates;
- our profitability would be reduced by a decline in the prices of our products;
- our profitability could be adversely affected by fluctuations in interest rates;
- we may not be able to develop and market new products successfully or we may not be successful in competing against new technologies developed by competitors;
- our credit facility contains restrictive covenants, such as the covenants requiring compliance with minimum interest coverage and fixed charge coverage ratios and maximum leverage ratios, that will require us to improve our performance over time in order to be in compliance therewith;
- we may have insufficient cash to fund growth and unexpected cash needs after satisfying our debt service obligations due to our high degree of leverage and significant debt service obligations;
- we are subject to the risk of weaker economic conditions, including current turmoil in the credit markets, including without limitation those affecting the paper industry, in the locations around the world where we conduct business;
- we may be required to incur significant costs to reorganize our operations in response to market changes in the paper industry;
- changes in demand for our products, including our new products, could negatively affect our profitability;
- we are subject to the risk of terrorist attacks or an outbreak or escalation of any insurrection or armed conflict involving the United States or any other country in which we conduct business, or any other national or international calamity;
- we are subject to any future changes in government regulation;
- we are subject to any changes in U.S. or foreign government policies, laws and practices regarding the repatriation of funds or taxes; and
- the New York Stock Exchange ("NYSE") may delist our common stock if we are unable to meet the NYSE continued listing criteria.

Other factors that could materially affect our actual results, levels of activity, performance or achievements can be found in our "Risk Factors" section in this Annual Report on Form 10-K. 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.

All references in this Annual Report to “Xerium”, “we”, “our” and “us” means Xerium Technologies, Inc.

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PART I

ITEM 1. BUSINESS

Overview

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

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

Our products are installed on 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 wear down with use in the paper production process and must be regularly replaced. As of December 31, 2008, we have an extensive global footprint of 34 manufacturing facilities in 14 countries, strategically located in the major paper-producing regions of North America, Europe, South America and Asia-Pacific, and have 3,648 employees worldwide. We market our products, primarily using our direct sales force, to the paper industry's leading producers. In 2008, we generated net sales of $638.1 million. The consumable nature of our products positions us to make recurring sales to our customers, and accordingly the number of paper machines in operation throughout the world and the volume of paper, pulp and board produced globally each year are primary drivers of the demand for our product.

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 reduce the costs of their operations.

Our clothing products are highly engineered synthetic textile belts that transport paper as it is processed in a paper-making machine. Clothing plays a significant role in the forming, pressing and drying stages of paper production. Our clothing segment represented 65% of our 2008 net sales.

Roll cover products cover the rolls on a paper-making machine, which are the large steel cylinders over which 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 over 500 compounds in our roll cover manufacturing process. Our roll cover segment represented 35% of our 2008 net sales.

Our products are in constant contact with the paper stock during the manufacturing process through which the stock is processed into finished paper. 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 which are increasingly important to paper producers. In addition, while clothing and roll covers represent only approximately 3%, on average, of a paper producer's production costs, they can help a paper producer improve productivity and reduce overall costs. Our clothing and roll covers facilitate the paper producer's use of less expensive raw materials (including recycled fiber), ability to run paper-making machines faster and with fewer interruptions, and 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 more than 7,000 paper-making machines worldwide, all of which require a regular supply of clothing and roll covers. 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 must typically replace clothing several 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 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 the greatest potential for differentiating their products through quality improvements and for increasing their operating efficiency. We pioneered a number of technologies that have become industry standards. These include, in our 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 shoe press belts which utilize our expertise in polyurethane material and manufacturing technologies, composite calender 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.

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. We currently have approximately 230 domestic and foreign patents and approximately 150 pending patent applications. Our patents and patent applications cover approximately 85 different inventions. We currently license certain of our patents or 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 our products and the capital-intensive nature of our business present significant challenges to any potential new competitors in our field.

Our business was organized in 1999 in connection with the acquisition of the paper technology group of Invensys plc. We completed our initial public offering and a reorganization on May 19, 2005. In connection with the offering, we entered into a $750 million credit facility agreement and repaid $752.5 million of principal and interest on our previously existing senior bank debt, mezzanine bank debt and certain non-interest bearing shareholder notes.

Recent Developments

NYSE

As previously disclosed in our press release dated January 5, 2009, we were notified by NYSE Regulation, Inc. on December 29, 2008 that we were not in compliance with the continued listing criteria of the NYSE, under Sections 802.01B and C of the NYSE Listed Company Manual. Specifically, the NYSE considers us to be below these criteria because (i) the average closing price of our common stock was less than $1.00 per share over a consecutive 30 trading day period, and (ii) our average total market capitalization was less than $75 million over the same period and our most recently reported stockholders' equity was less than $75 million.

Under applicable NYSE rules, we have 45 days from the receipt of the notice to submit a plan advising the NYSE of definitive actions we have taken, or propose to take, that we believe will bring us into compliance with the market capitalization listing standards within 18 months of receipt of the letter. We submitted such a plan on February 12, 2009 and we are working closely with the NYSE to finalize the plan. Within 45 days of receiving the plan, the NYSE will inform us in writing as to whether it has accepted or rejected our plan. If our plan is rejected, our common stock will be subject to suspension and delisting by the NYSE. Additionally, since we are below the share price criterion, we must bring our share price and 30-day average share price above $1.00 within

the longer of six months of receipt of the notification or our next annual meeting of stockholders if stockholder action is proposed. During this time, our common shares will continue to be listed on the NYSE, subject to our compliance with other NYSE continued listing standards but will be assigned a ".BC" suffix by the NYSE to signify that we are not currently in compliance with the NYSE continued listing standards. If we are not compliant with the continued listing standards within the applicable timeframe, our common stock will be subject to suspension and delisting by the NYSE.

On February 26, 2009, the NYSE submitted to the Securities & Exchange Commission an immediately effective rule filing which suspends the NYSE's $1.00 minimum price requirement on a temporary basis, initially through June 30, 2009. Further, the filing also extends until the same date the NYSE's current easing of the average global market capitalization standard from $25 million to $15 million. The following describes how the suspension of the $1.00 minimum price requirement will operate in practice:

- Companies currently below the $1.00 minimum price criteria that do not regain compliance during the suspension period will recommence their compliance period upon reinstitution of the stock price continued listing standard and receive the remaining balance of their compliance period.
- Companies currently below the $1.00 minimum price criteria will be deemed to have regained compliance during the rule suspension period if:
  1. at the end of their respective six-month cure period, as established prior to this rule's suspension, they have a $1.00 closing share price on both the last trading day of the period and based on the preceding 30 trading days, and/or
  2. at the end of any calendar month during the suspension they have a $1.00 closing share price on both the last trading day of such month and based on the 30 trading days preceding the end of such month.

Global Economic Environment

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 the economic crisis causes additional mill closures.

During 2008, especially the latter part of the year, the global paper industry experienced a sharp reduction in production levels, caused by the general slowdown in economic activity and related paper consumption during the same period. The slowdown of production was across all grades of paper production, but most notably in the packaging grades and newsprint. For packaging grades, demand is directly related to broad manufacturing and transportation activity reduction, while newsprint demand has been increasingly declining over a number of years due to the greater prevalence of electronic media, exacerbated in recent months by a reduction in print advertising. One of the results of the recent reduction in demand for paper products is that the inventory of paper at the paper-makers has increased significantly and production slowdowns, curtailments and idling of paper-making machines have been occurring at a sharply increasing rate since October 2008 and are continuing into 2009. Regionally, North America and Europe have seen the most significant production declines. Paper production in those regions decreased in 2008 and is expected to decrease further in 2009. South America and Asia, while experiencing slowdowns, are still expected to increase tons of paper produced in 2009 compared to 2008. While we were successful in reducing the rate of price decrease in 2008 for the products we sell to the paper-makers, there continues to be price pressure due to our competitors pursuing market growth with slower overall demand for our products.

In the quarters ended September 30, 2008 and December 31, 2008, due to the global economic crisis and the lack of credit availability that may affect our customers' demand for products and their ability to pay their debts, we assessed the impact of this crisis on our customers and our industry, and changed our estimates of net realizable value of receivables and inventories. For example, two of our major customers, who collectively

represent approximately 5% of 2008 revenues, have had recent financial difficulties. One of them filed for bankruptcy protection in January 2009 and we believe the other may be facing liquidity issues and potential credit refinancing during 2009. We have fully reserved for amounts due from these customers, however, decreases in orders from these customers or future payment problems from these or other customers could have a material adverse effect on our sales and profitability.

During the third quarter of 2008, we also took steps to reduce our expenses and obligations in light of the challenging economic climate. Specifically, we froze benefit pension accruals under our Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "Pension Plan") effective December 31, 2008 so that future service beyond December 31, 2008 will no longer be credited under the Pension Plan. Employees who are vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008. Employees who were not vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008 upon five years of continuous employment from date of hire. We also curtailed sponsoring or funding, as of December 31, 2008, our U.S. retiree health insurance program under which we offered health care benefits to a certain group of retired U.S. employees and their covered dependents and beneficiaries. While we originally announced an increase in our 401(k) plan match in the United States from 4% of eligible compensation to 6% as of January 1, 2009, we announced after January 1, 2009 that we will not implement this increase and instead will eliminate the employer match until further notice.

As a result of the decision to freeze benefits under the Pension Plan and to terminate sponsorship of our U.S. retiree health insurance program, in accordance with the applicable accounting literature, we recorded the following: (i) pre-tax curtailment/settlement gains of $40.0 million in our income statement during the quarter ended September 30, 2008, (ii) a decrease in our pension and postretirement liability of $32.0 million as of September 30, 2008 and (iii) a charge to Other Comprehensive Income (Loss) of $8.0 million. The above amounts also include a loss of $0.2 million as a result of the settlement of one of our Canadian pension plans.

Furthermore, in light of the challenging economic climate, in December 2008, we discontinued the construction of our clothing manufacturing facility in Vietnam and announced the closing of our Australian production facility by the end of the first quarter of 2009. The Vietnam facility was planned to provide a source of products to serve markets in Asia, which we expect to grow faster than more developed markets, and provide products with lower manufacturing costs for certain other markets. While we evaluate the long-term potential of the Vietnam facility, we will serve our Asian markets from certain of our existing manufacturing facilities.

Credit Facility

Our credit facility requires that we meet certain operating requirements and financial ratios in order to avoid a default or event of default under the facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility". Although we expected we would generate cash flow from operations sufficient to service the debt under the credit facility prior to the stated maturity of the debt if there were not otherwise an event of default and acceleration of the maturity of the debt, we did not satisfy the leverage ratio covenant for the period ended March 31, 2008 that was in effect under our then existing credit agreement. Failure to satisfy the covenant would constitute a default under our credit facility absent a waiver from our lenders. Our independent registered public accounting firm included an explanatory paragraph in its report on our 2007 consolidated financial statements related to the uncertainty in our ability to continue as a going concern. The inclusion of that paragraph in its report would also constitute a default under our credit facility absent a waiver. On April 8, 2008, we obtained a temporary waiver from the lenders for these defaults. The waiver was in effect until May 31, 2008. On May 30, 2008, prior to the expiration of the waiver, we entered in to an amendment and restatement of the credit agreement governing our credit facility. As a result of this amendment and restatement, on August 4, 2008, our independent registered public accounting firm reissued its report relating to our financial statements as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 to remove the explanatory paragraph with respect to our ability to continue as a going concern and to insert an emphasis paragraph that the conditions that raised substantial doubt about whether we will continue as a going concern no longer exist.

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Business Strategy

The primary components of our business strategy are:

Debt Reduction. We are committed to debt reduction to improve our capital structure and create sufficient financial flexibility to allow us to continue to invest in our operations where we can expect reasonable returns, expand into markets where our products and services will create value for our customers and support the global growth of the paper-making industry. As part of this strategy, our focus on the reduction of working capital, allocation of capital investments and elimination of loss-making businesses, customers and products will drive our activities. We expect to incur additional restructuring expenses in connection with pursuing cost-savings opportunities. We believe that our potential to improve productivity includes the opportunities to enhance our manufacturing efficiency by improving our process yields and cycle times.

New Product Development. We are committed to maximize our margins and profitability in both our clothing and roll segments covers by focusing our production and marketing efforts on higher value-added, technologically advanced products that will benefit our customers by providing them with the cost savings and quality improvement characteristics they demand from us. We intend to continue to offer a full range of product offerings in order to meet our customers' needs. We believe that the development and introduction of new products in a systematic and customer-focused manner will allow us to meet the demands of global market growth and our own sales growth projections. Simultaneous standardization and simplification will help us achieve significant cost containment and competitiveness.

Workforce Engagement. We are committed to alignment of objectives for our entire workforce. We believe that communication, training and tools and incentives associated with this alignment are essential to meeting our business plans and objectives. Human resource management systems must be in place in support of this strategy including retention of personnel to maintain and enhance the quality of the performance of our workforce, visibility to career opportunities to create job growth, and incentive systems that reward the workforce for achievement of critical objectives. Our approach includes the "high-grading" and "right-sizing" of our workforce to make certain those individuals most necessary for our success are in a position to positively contribute to goal achievement.

Products

We operate through two principal business segments, clothing and roll covers. Our 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 a presentation of financial information about our clothing and roll covers segments, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 16 to the accompanying audited consolidated financial statements.

Clothing Products

Our clothing segment products are large, highly engineered synthetic textile belts that transport paper as it is processed on a paper-making machine from paper stock into finished paper. Clothing products must be tailored to each machine because all paper-making machines have different physical configurations and operating parameters,. Clothing generally ranges in size from approximately 3 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 typically sell clothing products for between $13,000 and $45,000 per unit, although we sell some of our more sophisticated forming fabrics for up to $200,000 per unit.

We manufacture the three general types of 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 machine. Forming fabrics and press felts are typically replaced several 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 no more than 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 porous enough to allow water to drain evenly but 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 2008, forming fabrics accounted for approximately 45% of net sales in our 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 2008, press felts accounted for approximately 38% of net sales in our 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 2008, dryer fabrics accounted for approximately 5% of net sales in our clothing segment.

Industrials and Other. We also manufacture other types of clothing used in other industrial applications, such as steel, plastics, leather and textiles manufacturing. In 2008, sales for such industrial applications accounted for 11% of net sales in our clothing segment. We also manufacture auto-joining equipment used on paper-making machines. Sales of auto-joining equipment accounted for approximately 1% of net sales in our clothing segment in 2008.

New Clothing Products. 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 the greatest potential for differentiating their products through quality improvements and for increasing their operating efficiency. Our research and development efforts have resulted in several innovative new forming fabric and press felt products, including a number of high performance products, such as triple layer forming fabrics, for use on high performance paper-making machines. In addition, we have developed new clothing products aimed at segments of the paper-making process that we have not historically served, such as the growing market for shoe press belts and other clothing products designed for use in the technologically-advanced press section of a paper-making machine.

Roll Covers Products and Services

In our roll covers segment, the majority of our sales are generated through the manufacture of roll covers. We also refurbish previously installed roll covers, provide general mechanical maintenance and repair services for the internal mechanisms of rolls and manufacture spreader rolls.

Roll covers. We manufacture, refurbish and replace covers for three kinds of rolls on paper-making machines: working rolls (including vacuum rolls and press rolls), calendar rolls and coater 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 1,400 pounds per square inch and at speeds up to 7,500 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 in the interim. In general, each roll on a paper-making machine is unique due to its dimensions, specific design and cover material, and therefore 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 a malfunction of the spare roll could render the paper-making machine inoperable.

Due to the large size and weight of a roll, the transportation to and from a supplier’s site can be costly and is often 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.

We typically sell roll covers for between $1,000 per roll (*e.g.*, for a small installed rubber roll cover) and $300,000 per roll (*e.g.*, for a large installed polyurethane cover). Sales of roll covers accounted for approximately 59% of our total sales in our roll covers segment in 2008.

Roll Cover Refurbishment Services and Mechanical 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 believe our extensive network of manufacturing facilities worldwide is a significant competitive advantage. Refurbishment services typically cost between $1,000 for minor roll repairs and $50,000 for a complete overhaul on certain press rolls.

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 began performing such services to meet the demands of our customers and attempt to gain a competitive advantage. As of December 31, 2008, we provide major mechanical services at ten locations around the world and we are expanding to additional locations. Roll cover refurbishment services and mechanical services accounted for approximately 15% of our total sales in our roll covers segment in 2008.

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 clothing. There are approximately five to seven spreader rolls in a typical paper-making machine. We typically sell spreader rolls for between $1,000 and $200,000 per roll. We also rebuild and overhaul existing spreader rolls, typically for between $1,000 and $100,000 per roll. Sales of spreader rolls and related services accounted for approximately 26% of our total sales in our roll covers segment in 2008.

New Roll Products. We have introduced a number of innovations to our roll cover and spreader roll products in recent years, including shoe press belts which utilize our expertise in polyurethane material and manufacturing technologies, 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 evaulating new products, which will use different materials and utilize different sales channels, in addition, to providing enhancements to our existing product line. In late 2008, we introduced SmartRoll™, the first continuous pressure sensing paper machine roll. SmartRoll™ enables the paper maker to maximize performance by knowing the operating pressures of the paper machine while the machine is running. Several SmartRoll™ units are already in use and it has received positive market acceptance.

In 2008, sales to the paper-making industry accounted for approximately 92% of our total sales in our roll covers segment. Paper producers accounted for approximately 78% of net sales, and paper-making machine manufacturers accounted for approximately 14% of net sales. Sales for use in other industrial applications, including steel, plastics, leather and textiles manufacturing, accounted for the remaining 8% of our net sales in our roll covers segment.

Customers

We supply leading paper producers worldwide. Our top ten customers accounted for 24% of net sales in 2008 and individually, no customer accounted for more than 5% of 2008 net sales. In 2008, 36% of our net sales was in North America, 37% was in Europe, 9% was in South America, 16% was in Asia-Pacific and 2% was in the rest of the world. See Note 16 to the accompanying audited consolidated financial statements for geographic information related to net sales and long-lived assets.

Competition

Our largest competitors are Albany International Corporation (a publicly-owned U.S. company), which supplies clothing products, Voith AG (a privately-owned German company), which supplies both clothing and roll products and Metso Corporation (a publicly-owned Finnish company), which supplies roll products. We also face competition from smaller regional suppliers. Voith and Metso are the leading manufacturers of paper-making machines and entered the roll covers market through acquisitions.

We compete primarily based on the value and price of our products. Competition with respect to both 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.

Competition in the 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 ten locations.

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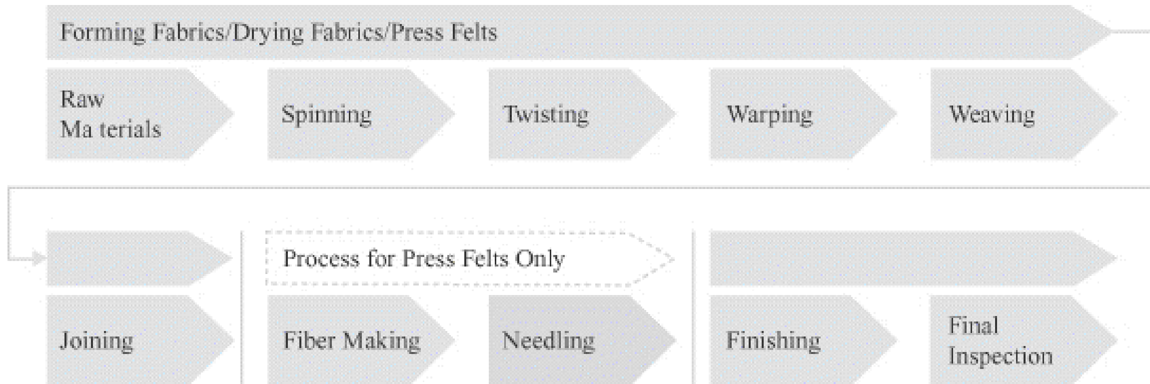
Research and Development

Our continuing ability to deliver value depends on developing product innovations. As we create new and improved products we often 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. We currently have approximately 230 domestic and foreign patents outstanding and approximately 150 pending patent applications. Our patents and patent applications cover approximately 85 different inventions. Some of our competitors license our technology from us in exchange for royalty payments, although such licensing does not represent a material amount of our business.

Production

Clothing Production Process

The following diagram represents the clothing production process.



The clothing production process begins with the spinning of synthetic fiber threads to produce yarn, which is then twisted in preparation for the manufacturing of clothing. Yarn, which is sometimes purchased 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 clothing performs in the paper-making process. The yarn is then woven to the desired length.

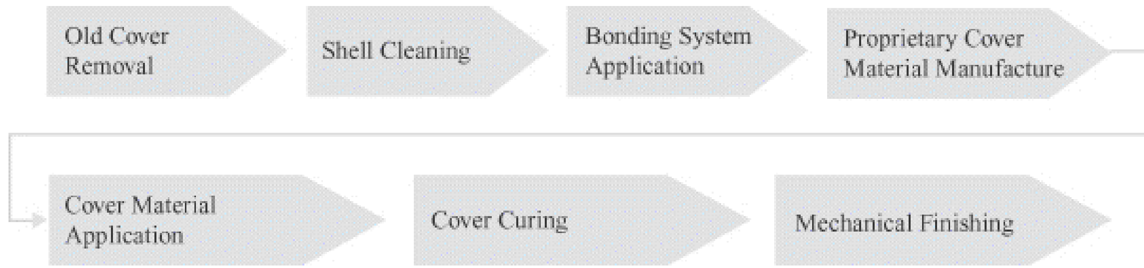
Technological advancements have resulted in weaving becoming an almost entirely automated process. Following weaving, the two ends are permanently joined to form a continuous loop of clothing. Although significant automation has occurred in the joining process, it remains the most labor intensive of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

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

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 taken to an offsite facility for re-covering. During this time, a spare roll is placed in the machine to enable continuous operations.

The first step of the roll covering process is 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. 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.

Employees

As of December 31, 2008 we had 3,648 employees worldwide, of which 2,816 were manufacturing employees, 421 were sales and marketing employees, 91 were in research and development and 320 were administrative and other employees. As of December 31, 2008, 2,611, or 72%, of our employees are subject to protection as members of trade unions or various collective bargaining agreements, primarily outside of the United States. We believe that we have good relations with our employees' trade unions and labor unions and we have not experienced any material labor disputes.

Our Corporate Information

We are subject to the information requirements of the Securities Exchange Act of 1934, or the Exchange Act. Therefore, we file periodic reports, proxy statements, and other information with the Securities and Exchange Commission, or 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 web site 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 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. Copies of these documents may be obtained, free of charge, by writing Investor Relations, Xerium Technologies, Inc., One Technology Drive, Westborough, Massachusetts 01581, or telephoning us at 508-532-1790.

ITEM 1A. RISK FACTORS

We may occasionally make forward-looking statements and estimates such as forecasts and projections of our future performance or statements of our plans and objectives. These forward-looking statements may be contained in, among other things, filings with the Securities and Exchange Commission, including this Annual Report on Form 10-K, press releases made by us and in oral statements made by our officers. Actual results could differ materially from those contained in such forward-looking statements. Important factors that could cause our actual results to differ from those contained in such forward-looking statements include, among other things, the risks described below.

Risks Relating to our Business and the Industry

A sustained downturn in the paper industry, compounded by uncertainty in global economic conditions, could adversely affect our revenues and profitability.

Historically, demand for our products has been driven primarily by the volume of paper produced on a worldwide basis. 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. A sustained downturn in the paper industry, either globally or in a particular region, can cause paper manufacturers to reduce production or cease operations, which could adversely affect our revenues and profitability. Since 2000, paper producers have taken actions that seek to structurally improve the balance between the supply of and demand for paper. As part of these efforts, they have shut down many paper-making machines. Between 2001 and 2004 the bulk of these closures occurred in North America. Announcements by paper producers concerning temporary and permanent shutdowns of paper-making machines in both North America and Western Europe have continued. During 2005 through 2008, the sales and profitability of our North American and European operations were adversely affected by these shutdowns. Papermakers continue to experience low levels of profitability, and we believe that further consolidation among papermakers, reducing the number of paper producers, and shutdowns of paper-making machines will occur 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. Over a number of years, consumption growth of paper is expected to drive an increase in the global production rates required to maintain balance between supply and demand although it is likely that a consumption slow-down and related effect on global paper production will occur in the near term.

Global paper production growth that does occur would be moderated by the level of industry consolidation and paper-machine shutdown activity that is a continuing underlying trend in North America and Western Europe. We also believe that, in addition to industry consolidation and paper machine shutdown activity in North America and Western Europe, the trend towards new paper machine designs which have fewer rolls and market recognition of extended life of our roll cover products has been and will continue to negatively impact demand

for these products and that the volume potential for the roll covers business in North America and Western Europe will slowly diminish. Additionally, we are seeing a trend that paper producers are placing an increasing emphasis on maintenance cost reduction and, as a result, are extending the life of roll covers through additional maintenance cycles before replacing them.

Current uncertainty in global economic conditions could further impact these trends in the paper industry, causing decreased demand for paper products and additional shutdowns of papermaking machines. In addition, the global financial crisis has tightened the availability of credit, which could make it more difficult for our customers to finance their business activities or pay their debts. Thus, the effects of the current global economic environment on the paper industry could negatively impact our business, results of operations and financial condition.

We may be required to reorganize our operations in response to changing conditions in the paper industry, and such actions may require significant expenditures and may not be successful.

In the past few years, we have undertaken various restructuring measures in response to changing market conditions in the paper industry triggered by the decline in paper prices that began in 2001. For example, between January 1, 2003 and December 31, 2008, we incurred costs of approximately $72 million in connection with our cost reduction programs including the closure of twelve manufacturing facilities worldwide. We experienced added operating costs resulting from shifting production from certain of our closed facilities to other facilities which adversely impacted our cost of sales by approximately $6.4 million, $5.0 million and $0.1 million in 2005, 2006 and 2007, respectively. In connection with any future plant closures, delays or failures in the transition of production from a closed facility to our other facilities could also adversely affect our financial operations. We may engage in additional cost reduction programs in the future. 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. We also expect to implement cost reduction programs in 2009, primarily in North America and Europe, to improve our manufacturing footprint to match market conditions and efficiencies in our operations. We are targeting restructuring expenses of approximately $5 to $6 million during 2009, primarily related to headcount reductions resulting from the integration of the regional management structure in North America and similar actions in Europe. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Cost Reduction Programs”.

Fluctuations in currency exchange rates could adversely affect our revenues, 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, expenses and debt 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 sales and profitability. A decrease in the value of the U.S. Dollar relative to the value of the Euro and these other currencies will affect our financial results since 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. We would expect an opposite effect in a period in which the value of the U.S. Dollar increases. In addition, in the case of sales to customers in certain locations, our sales are denominated in U.S. Dollars or Euros but all or a substantial portion of our associated costs are denominated in a different currency. As a result, changes in the relative values of U.S. Dollars, Euros and any such other currency will affect our profitability. Although in certain circumstances we attempt to hedge our exposure to fluctuations in currency exchange rates, our hedging strategies may not be effective.

In addition, our credit facility contains financial covenants that require us to maintain a minimum interest coverage ratio, a maximum leverage ratio and a minimum fixed charge coverage ratio. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility”. Our ability to

comply with these covenants will depend in part upon our reported financial results, which as indicated above are directly affected by currency fluctuations. For example, in the event the value of the U.S. Dollar increases relative to the Euro and other currencies in which we conduct business (and ignoring any other changes affecting our financial performance), the amount of our Adjusted EBITDA will decline. Since each of the financial ratio covenants in our credit facility is calculated by reference to the amount of our Adjusted EBITDA, currency fluctuations alone could lower the amount of our Adjusted EBITDA and therefore affect our ability to remain in compliance with our financial ratio covenants. While we have certain indebtedness denominated in foreign currencies, to reduce the volatility of these measurements to the U.S dollar/euro relationship, Amendment 5 to our credit facility provides that for the purposes of computing debt, which is a part of the calculation of the leverage ratio, indebtedness which is payable in Canadian Dollars or Euros shall be converted into Dollars using the average exchange rate for the period of four consecutive Fiscal Quarters ended March 31, 2008. Accordingly, if the value of the U.S. Dollar increases relative to the Euro or the Canadian Dollar and our Adjusted EBITDA declines as a result of this currency effect, there would not be a corresponding decrease in the amount of our debt for purposes of the maximum leverage ratio covenant calculation.

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".

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

Historically, we and our competitors have been able to sell clothing and roll covers products and services at favorable prices that reflect the value they deliver to customers. This favorable pricing has been particularly available for our more technologically advanced products, such as forming fabrics, press felts and roll covers. In 2007 and 2008, the financial health of our customers and continued pricing pressure from our competitors required us to reduce prices in some cases, and eliminate or decrease the size of proposed price increases in other cases, resulting in price decreases in both of our business segments. Further pricing pressure from our competitors may require further price decreases or make us unable to effect planned price increases and, thereby, adversely affect our profitability.

Our industry is competitive and our future success will depend on our ability to effectively develop and market 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 as suppliers to the markets we serve. In addition, some of our competitors also manufacture paper-making machines and have the ability to initially package sales of their 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 clothing and roll cover products. 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 sales and profitability. We compete primarily based on the value our products deliver 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 competitors could develop new technology or products that lead to a reduced demand for our products. In addition, our business depends on our customers regularly needing to replace the clothing and roll covers used on their paper-making machines. Either we or our competitors could develop new technologies that increase the useful life of clothing or roll covers, which could reduce the frequency with which our customers would need to replace their clothing and refurbish or replace their roll covers, and consequently lead to fewer sales.

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 2008, we sold products in approximately 62 countries other than the United States, which represented approximately 73% of our net sales. We operate in a number of foreign countries and may face challenges unique to those countries 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, such as our decisions with respect to Vietnam, where we began construction of a clothing manufacturing facility in the fourth quarter of 2007 and discontinued such construction as of December 1, 2008, and China, where we acquired a roll covers manufacturing business in November 2007. 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; or
- foreign governments may impose or increase investment barriers or other restrictions affecting our business.

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 revenues and profitability. In addition, as a holding company we will 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.

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

Our ability to retain our customers and increase our business depends on our ability to continually develop new, technologically superior products. 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.

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 covers 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.

Our capital expenditures in 2008 were less than those in 2007 and we expect capital expenditures in 2009 to be lower than in 2008; this planned reduction in capital expenditures could negatively impact our ability to take advantage of growth opportunities.

We began construction of a clothing manufacturing facility in Vietnam in the fourth quarter of 2007. In the first quarter of 2008, we determined to slow the pace of planned capital expenditures for the Vietnam facility and cancelled or rescheduled certain other previously planned capital expenditures. This reduction in capital expenditures could impact our ability to achieve growth. In December 2008, we discontinued the construction of

the clothing manufacturing facility in Vietnam and announced the closing of our Australian production facility by the end of the first quarter of 2009. The Vietnam facility was planned to provide a source of products to serve markets in Asia, which we expect to grow faster than more developed markets, and provide products with lower manufacturing costs for certain other markets. If we are not able to accommodate the production provided or planned to be provided by these facilities through our other facilities, our ability to take advantage of the growth potential of clothing products in Asia or to reduce the cost at which we produce products may be negatively impacted. Due to our assessment of the impact of the global economic crisis on our customers and our industry, we are currently evaluating additional capital expenditure reductions.

The loss of our major customers could have a material adverse effect on our sales and profitability.

Our top ten customers generated 24% of our net sales during 2008. The loss of one or more of our major customers, financial difficulties faced by our customers or a substantial decrease in such customers' purchases from us, could have a material adverse effect on our sales and profitability. For example, two of our major customers, who collectively represent approximately 5% of 2008 revenues, have had recent financial difficulties. One of them filed for bankruptcy protection in January 2009 and we believe the other may be facing liquidity issues and potential credit refinancing during 2009. We have fully reserved for amounts due from these customers, however, decreases in orders from these customers or future payment problems from these or other customers could have a material adverse effect on our 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 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.

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.

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 ("CERCLA") 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. We are currently conducting environmental remediation projects at certain of our sites, and we have been identified as a potentially responsible party under CERCLA or similar state requirements for several off-site locations. In 2005, 2006 and 2007, we paid $2.8 million, $2.5 million and $2.1 million, respectively, in connection with the environmental remediation of certain of our facilities. We believe that this environmental remediation is substantially complete. In the third quarter of 2008, we accrued $4.1 million for environmental remediation costs associated with our facility in Australia. We do not expect any significant further remediation costs to be incurred in connection with these matters and believe 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 our financial condition, liquidity or cash flow.

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

As of December 31, 2008, we had 3,648 employees, approximately 20% of whom were subject to protection of various collective bargaining agreements and approximately 52% of whom were subject to job protection as members of trade unions, employee associations or workers' councils. Approximately 50% of the employees subject to collective bargaining agreements (or approximately 10% of our total employees) were covered by collective bargaining agreements that expire prior to December 31, 2009. We cannot be certain that we will be able to renew such collective bargaining agreements, or enter into new collective bargaining agreements, which do not adversely affect our operating results and that we will be without production interruptions, including labor stoppages. In addition, approximately 57% of the employees are subject to job protection as members of trade unions, employee associations or workers' councils (or approximately 29% of our total employees) for which arrangements expire prior to December 31, 2009. We cannot be certain that the terms of employment applicable to such employees will not change in a manner which adversely affects 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 profitability.

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We may not be able to successfully integrate businesses we have acquired or may acquire in the future into our operations and/or the expected benefits of such acquisitions may not be realized.

In November 2007, we acquired a privately held roll covers business in China, a country in which we have not previously operated manufacturing facilities. Any such acquisition involves numerous risks, which may include:

- difficulty in assimilating the operations, technologies, products and key employees of the acquired businesses;
- our inability to maintain the existing customers of the acquired business or succeed in selling the products or services of the acquired business to our existing customers;
- diversion of management's attention from other business concerns;
- our entry into regions in which we have not operated in the past where better established competitors may have more experience with the market, political, regulatory and economic environment;
- our entry into markets in which competitors have a better established market position than the business we acquire;
- the incurrence of significant expenses in completing the acquisitions; and
- the assumption of significant liabilities, some of which may be unknown at the time of the acquisition.

Our inability to successfully execute any acquisitions or integrate acquired businesses could have an adverse effect on our business, financial condition and operating results.

Risks Relating to our Capital Structure

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 prohibits 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.

Our credit facility requires that we meet certain financial ratios in order to avoid a default or event of default under the facility.

Our credit facility requires that we meet certain operating requirements and financial ratios in order to avoid a default or event of default under the facility. For the period ended March 31, 2008, we did not satisfy our leverage ratio covenant as in effect at that time, and our independent registered public accounting firm included an explanatory paragraph in its report on our 2007 consolidated financial statements related to the uncertainty in our ability to continue as a going concern. Absent a waiver, these matters would constitute defaults under our credit facility. On April 8, 2008, we entered into an amendment and waiver agreement with our lenders relating to our credit facility pursuant to which the lenders agreed to waive through May 31, 2008 any past and then existing defaults. On May 30, 2008, prior to the expiration of the waiver, we entered into an amended credit facility. As a result of the amendment and restatement of our senior credit facility, on August 4, 2008, our independent registered public accounting firm reissued its report relating to our financial statements as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 to remove the explanatory paragraph with respect to our ability to continue as a going concern and to insert an emphasis paragraph that the conditions that raised substantial doubt about whether we will continue as a going concern no longer exist.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility" for a description of the amended financial ratio covenants**.** There can be no assurance that we will be in

compliance with such financial ratios in future periods. For example, if our business declines dramatically as a result of the effect of the global economic crisis on the paper industry, it could cause us to fall out of compliance with the financial ratios in our credit facility.

Our credit facility contains restrictive debt covenants that limit our business flexibility by imposing operating and financial restrictions on our operations.

Our credit facility imposes significant operating and financial restrictions on our operations that may restrict our ability to pursue our business strategies. These restrictions prohibit or limit, among other things:

- the incurrence of additional indebtedness, the payment of cash dividends and the issuance of certain redeemable capital stock;
- investments and acquisitions;
- disposition of assets and subsidiary interests;
- transactions with affiliates;
- the creation of liens on our assets;
- consolidations, mergers and transfers of all or substantially all of our assets; and
- our ability to change the nature of our business.

The terms of our credit facility include other restrictive covenants and prohibit us from prepaying our other indebtedness while indebtedness under the credit facility is outstanding. These restrictions could limit our ability to obtain future financing, make acquisitions or needed capital expenditures, withstand downturns in our business or take advantage of business opportunities.

We will remain highly leveraged for the foreseeable future, which could impact our financing options and liquidity position.

We have a significant amount of debt. As of December 31, 2008, our total amount of outstanding debt, on a consolidated basis, was $617.0 million. The degree to which we are leveraged on a consolidated basis could have important consequences to the holders of our common stock, including:

- we may not be able to refinance our indebtedness on terms acceptable to us or at all;
- our ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions may be limited;
- we may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures; and
- our leverage may limit our flexibility to plan for and react to changes in our business or strategy.

We will continue to require a significant amount of cash, which may not be available to us, to service our debt and to fund our liquidity needs.

Our ability to make payments on, refinance or repay our debt, to fund planned capital expenditures or to expand our business will depend largely upon our future operating performance. Our future operating performance is dependent upon our ability to execute our business strategy successfully. Such performance is also subject to general economic, financial and competitive factors, as well as other factors that are beyond our control. There can be no assurance that our future operating performance will generate sufficient cash to support our cash requirements, or that we will not need to reduce capital expenditures or take other actions designed to conserve our cash in order to make payments required to service our indebtedness.

Required payments with respect to our indebtedness will reduce the amount of funds available for other corporate purposes, which could harm our competitiveness and/or limit opportunities to grow our business. As a result of the May 30, 2008 amendment to our credit facility, we expect that in the foreseeable future a significantly greater portion of the cash generated by our business will be used to make required interest and principal payments under our credit facility. For example, based upon our current level of indebtedness and assuming no decrease in the applicable margin, we expect that both interest expense and scheduled debt principal payments will decrease by approximately $1 million for the year ended December 31, 2009 as compared to 2008 and that interest expense will decrease by approximately $3 million and scheduled debt payments will increase by approximately $5 million, respectively for the year ended December 31, 2010 as compared to 2009.

We may be required to make additional debt repayments based on “excess cash”, as defined in the credit agreement.

As a result of these required payments:

- we will have less funds available to devote to research and development, which could reduce our ability to develop new and innovative technologies and products and ultimately affect our ability to remain competitive;
- we will have less funds available for capital expenditures, which could inhibit our ability to invest in new or upgraded production equipment and other capabilities, thereby restricting efforts to improve our manufacturing processes, reduce our operating costs, expand product offerings and/or conduct business in new markets; and
- we will have reduced flexibility to finance growth or expansion opportunities, which could limit or cause us to forego future opportunities to grow our business.

Fluctuations in interest rates could adversely affect our liquidity, operating expenses and results. In addition, our senior credit facility has, and likely any replacement credit facility will have, a variable interest rate. As of December 31, 2008, the outstanding principal amount of the term loan portion of the credit facility was $606.2 million. On November 16, 2007, we entered into interest rate swaps that effectively fixed, from a cash flow perspective, the interest rate on approximately 85% of the term loan portion of our credit facility through 2010. As of December 31, 2008, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%; the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.55%. As a result of the amendment of our senior credit facility agreement on May 30, 2008, the applicable margin for LIBOR term loans, LIBOR revolving loans, Euribor loans and CDOR loans under our senior credit facility increased from 2.75% to 5.50%. We estimate that a 1% increase in the LIBOR rate would increase our interest expense on the term debt by approximately $0.9 million on an annual basis through December 31, 2010, the period covered by the interest rate swap agreements. Effective June 30, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on 3-month LIBOR-based interest payments on the hedged debt as of June 30, 2008. As a result, a significant portion of the mark to market changes on these interest rate swaps is not expected to be charged or credited, as applicable, to interest expense from the period beginning July 1, 2008 and instead is charged to accumulated other comprehensive income.

To the extent that we do not enter into a hedging arrangement that effectively fixes the interest rate on a portion of our senior debt after these contracts expire, the interest rate on all of the debt covered by our senior credit facility will fluctuate based on LIBOR and other variable interest rates. To the extent these interest rates increase, our interest expense will 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.

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:

- the current situation with our credit facility;
- our quarterly operating results;
- sales of our common stock by principal stockholders;
- issuances of our common stock by us;
- 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, 2008 the closing price of our common stock declined to $0.66 as compared with $5.20 as of December 31, 2007. Some companies that have had volatile market prices for their securities have had securities class action lawsuits filed against them. On June 7, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of a putative class of investors who purchased shares pursuant or traceable to our initial public offering on or about May 16, 2005 through November 15, 2005 against us, our former Chief Executive Officer and our Chief Financial Officer. See "Legal Proceedings" below. While we have entered a settlement agreement with respect to this litigation, other 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.

If we cannot meet the NYSE continued listing criteria, the NYSE may delist our common stock which would have an adverse impact on the liquidity and market price of our common stock.

Our common stock is currently listed on the NYSE. On December 29, 2008, we received notification from the NYSE that we were not in compliance with two NYSE standards for continued listing of our common stock on the exchange. Specifically, we are considered below these criteria by the NYSE because (i) the average closing price of our common stock was less than $1.00 per share over a consecutive 30 trading day period, and (ii) our average total market capitalization has been less than $75 million over the same period and our most recently reported stockholders' equity was less than $75 million.

Under NYSE rules, we had 45 days from the date of the notice to submit a plan to the NYSE to demonstrate our ability to achieve compliance with the market capitalization listing standards within 18 months of receiving the notice. We submitted our plan to the NYSE on February 12, 2009, and it is currently undergoing review by the NYSE. Within 45 days of receiving the plan, the NYSE will inform us in writing as to whether it has accepted or rejected our plan. If our plan is rejected, our common stock will be subject to suspension and delisting by the NYSE. Additionally, since we are below the share price criterion, we must bring our share price and average share price above $1.00 within the longer of six months of receipt of the notification or our next

annual meeting of stockholders if stockholder action to assist compliance is proposed. During this cure period, our shares will continue to be listed and traded on the NYSE, subject to our compliance with other NYSE continued listing standards but will be assigned a ".BC" suffix by the NYSE to signify that we are not currently in compliance with the NYSE continued listing standards. If we fail to become compliant with the continued listing standards within the applicable timeframe, our common stock may be delisted by the NYSE.

On February 26, 2009, the NYSE submitted to the Securities & Exchange Commission an immediately effective rule filing which suspends the NYSE's $1.00 minimum price requirement on a temporary basis, initially through June 30, 2009. Further, the filing also extends until the same date the NYSE's current easing of the average global market capitalization standard from $25 million to $15 million. While the filing is immediately effective, it is subject to a 30-day operative delay. The NYSE has asked the SEC to waive this operative delay and expects the SEC to do so promptly. The following describes how the suspension of the $1.00 minimum price requirement will operate in practice:

- Companies currently below the $1.00 minimum price criteria that do not regain compliance during the suspension period will recommence their compliance period upon reinstitution of the stock price continued listing standard and receive the remaining balance of their compliance period.
- Companies currently below the $1.00 minimum price criteria will be deemed to have regained compliance during the rule suspension period if:
    1. at the end of their respective six-month cure period, as established prior to this rule's suspension, they have a $1.00 closing share price on both the last trading day of the period and based on the preceding 30 trading days, and/or
    2. at the end of any calendar month during the suspension they have a $1.00 closing share price on both the last trading day of such month and based on the 30 trading days preceding the end of such month.

The current financial crisis could negatively affect our business, results of operations, and financial condition.

The current financial crisis affecting the banking system and financial markets and the going concern risks facing various financial institutions have resulted in a tightening in the credit markets, decreased liquidity in many financial markets, and extreme volatility in fixed income, credit and equity markets. There could be a number of follow-on effects from the credit crisis on our business which may be difficult to predict or anticipate, including effects on our customers, suppliers, contractors and financing sources which could impact our collections, treasury functions, ability to obtain financing and our business and operations generally.

As of December 31, 2008, entities associated with Apax Europe IV GP Co. Ltd. ("Apax") own approximately 54% of our common stock and will therefore have significant influence over our business and significant transactions.

As of December 31, 2008 there were 46,257,772 shares of our common stock outstanding, of which 25,043,764 in the aggregate, or approximately 54% were held by Apax WW Nominees Ltd. and Apax-Xerium APIA LP. As a result Apax and its associated entities have a strong ability to influence our business, policies and affairs. To the extent these entities continue to own in excess of 50% of our common stock, they will have the ability to control the outcome of all elections of directors and any stockholder vote regarding a merger or other extraordinary transaction. Although Apax has no contractual rights to nominate any directors, two representatives of Apax serve on our board of directors. Because Apax owns more than 50% of our common stock, we can consider ourselves to be a "Controlled Company" under Section 303A of the New York Stock Exchange Listed Company Manual (the "NYSE Rules"), which means, among other things, that the NYSE Rules do not require us to maintain a majority of independent directors. We cannot be certain that the interests of Apax will be consistent with the interests of other holders of common stock. In addition, this concentration of ownership could have the

effect of delaying or preventing a change in control, merger or tender offer, which would deprive shareholders of an opportunity to receive a premium for their shares of common stock and may negatively affect the market price of our common stock. Moreover, Apax either alone or with other existing equity investors could effectively receive a premium for transferring ownership to third parties that would not inure to the benefit of investors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

As of December 31, 2008, we operate 43 facilities, of which 34 are manufacturing facilities in 14 countries located in Argentina, Australia, Austria, Brazil, Canada, China, Finland, France, Germany, Italy, Japan, Mexico, Spain and the United States. Of the 34 manufacturing facilities that we operate, 11 are clothing manufacturing facilities, 21 are rolls manufacturing facilities and 2 are both clothing and rolls facilities. Almost all of our facilities are owned by us, rather than leased.

We have one former manufacturing facility as a result of the closing of our rolls manufacturing facility in Sweden in 2008. Also in 2008, we announced that we will be closing our rolls manufacturing facility in Sherbrooke, Canada, which as of December 31, 2008 was still performing manufacturing activities which have ceased in early 2009. We began construction of a clothing manufacturing facility in Vietnam in the fourth quarter of 2007 and discontinued such construction in December 2008. Additionally in December 2008, we committed to a plan to cease production at our Australian clothing manufacturing facility by the end of the first quarter of 2009.

We also have license agreements with three licensees that manufacture our roll covers products at their facilities in Japan, South Korea and India. We have license agreements with one licensee that manufactures our clothing products in North America, various European countries and certain Pacific Rim countries.

ITEM 3. LEGAL PROCEEDINGS

On June 7, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of a putative class of investors who purchased shares pursuant or traceable to our initial public offering on or about May 16, 2005 through November 15, 2005 against us, our former Chief Executive Officer and our Chief Financial Officer. An amended complaint was filed on November 3, 2006. The complaint as amended concerns our initial public offering of common stock and alleges violations of Sections 11 and liability under Section 15 of the Securities Act of 1933. The plaintiff seeks rescission rights, attorneys’ fees and other costs and unspecified damages on behalf of a purported class of purchasers of our common stock “pursuant and/or traceable to the our IPO on or about May 16, 2005 through November 15, 2005.” On November 3, 2008, the Company agreed to a settlement with the plaintiffs, without admitting liability of any kind. On February 25, 2009, the Court entered a judgment granting final approval of the settlement. The settlement amount above our deductible is covered by our Directors and Officers insurance and is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flow. Expenses related to this complaint have been deminimus during 2008.

We are from time to time involved in various legal proceedings that arise in the ordinary course of our business. We believe that none of our pending litigation will, individually or in the aggregate, have a material adverse effect on our financial condition, cash flows or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2008.

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PART II

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

Our common stock (the "Common Stock") is quoted on the New York Stock Exchange under the symbol "XRM". On March 6, 2009, there were approximately 35 stockholders of record of our Common Stock and the closing price of our Common Stock as reported by the New York Stock Exchange was $0.57 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
2008		
Fourth quarter	$ 6.92	$0.63
Third quarter	8.41	3.52
Second quarter	5.62	1.25
First quarter	5.78	0.91
2007		
Fourth quarter	$ 6.40	$3.29
Third quarter	7.82	4.30
Second quarter	9.19	6.93
First quarter	11.03	7.61

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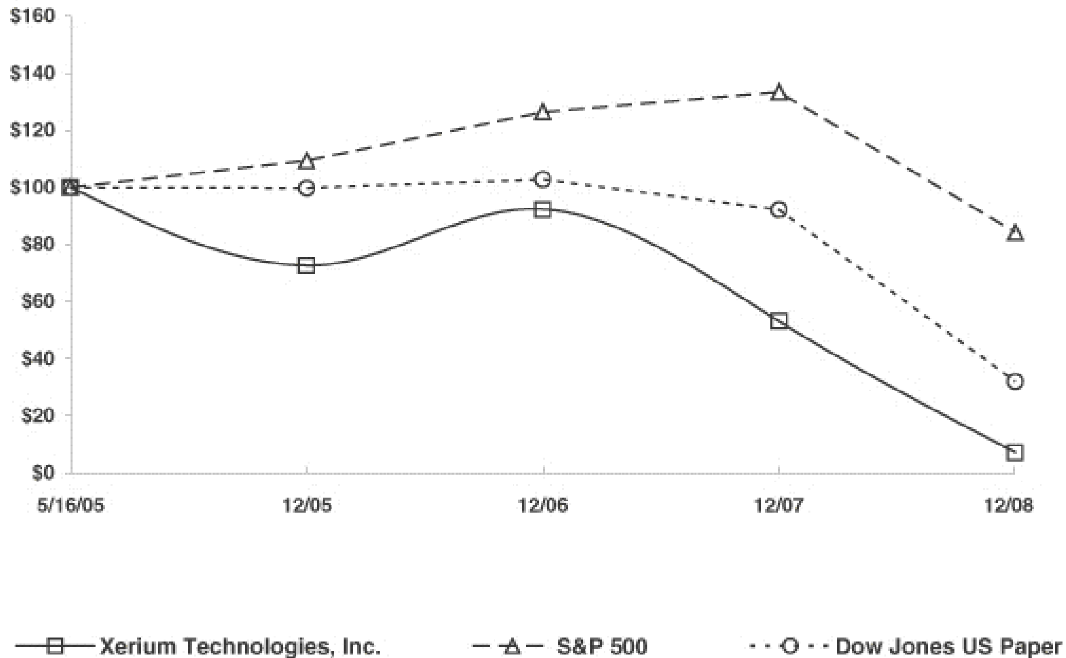
COMPARISON OF 43 MONTH CUMULATIVE TOTAL RETURN*

Among Xerium Technologies, Inc., The S&P 500 Index
And The Dow Jones US Paper Index



*$100 invested on 5/16/05 in stock & 4/30/05 in index-including reinvestment of dividends.
Fiscal year ending December 31.

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Dividend activity related to our common stock for the two most recent fiscal years is as follows:

Our credit facility, as amended on May 30, 2008, prohibits our payment of dividends and accordingly, we made no such payments during the year ended December 31, 2008. We do not expect to pay dividends on our common stock for the foreseeable future.

In 2007 we made dividend payments on our common stock as follows:

- $0.225 per share paid on March 15, 2007 to shareholders of record on March 5, 2007;
- $0.1125 per share paid on June 15, 2007 to shareholders of record on June 5, 2007;
- $0.1125 per share paid on September 14, 2007 to shareholders of record on September 5, 2007; and
- $0.1125 per share paid on December 17, 2007 to shareholders of record on December 5, 2007.

An aggregate of $11.8 million of these dividends in 2007 were paid in cash.

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In February 2007 we established a dividend reinvestment plan ("DRIP") that allowed shareholders of record to elect to receive all or part of the dividends on shares of our common stock that otherwise would be paid in cash in the form of additional shares of common stock. Under the DRIP, the source of such additional shares was from our authorized and unissued shares or from our treasury shares. The number of shares credited to a participant's account with respect to a dividend was determined based upon the cash value of the dividends elected to be received in additional shares of common stock divided by the average of the high and low sales prices for shares of our common stock on the New York Stock Exchange composite transactions tape on the declared payment date. Pursuant to a letter agreement with the Company dated December 22, 2006, as amended on May 2, 2007, Apax WW Nominees Ltd. and Apax-Xerium APIA LP (collectively the "Apax entities") agreed that they will participate in the DRIP at a level such that at a minimum 50% of each dividend otherwise payable in cash on our common stock, including shares not held by Apax entities, was reinvested in our common stock through the DRIP, provided that the Apax entities were not required to reinvest more than 100% of the cash dividends payable to them with respect to such dividend declaration. As of December 31, 2008 there were 46,257,772 shares of our common stock outstanding, of which 25,043,764 were held by the Apax entities.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2008 with respect to shares of our common stock that may be issued under our existing equity compensation plan, the Xerium Technologies, Inc. 2005 Equity Incentive Plan ("the 2005 Plan"). At December 31, 2008 the only awards outstanding in respect of our common stock under our equity compensation plans were restricted stock units. The table includes information with respect to shares subject to outstanding restricted stock units at December 31, 2008.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,358,585(1)	N/A	5,755,101
Equity compensation plans not approved by security holders	—	—	—
Total	1,358,585	N/A	5,755,101

(1) Reflects shares underlying outstanding restricted stock units ("RSUs") at December 31, 2008.

For further information regarding restricted stock unit awards granted under our 2005 Equity Incentive Plan, see Note 13 to our consolidated financial statements included in this Annual Report on Form 10-K.

Certain Material Equity Awards

On March 10, 2009, in accordance with the employment agreement between us and Mr. Stephen Light, our Chairman, President and Chief Executive Officer, the Compensation Committee of our Board of Directors approved RSU grants to Mr. Light as follows: (i) 341,761 time-based RSUs; (ii) 605,209 time-based RSUs that are contingent on shareholder approval of an increase in the maximum number of shares that may be granted as stock awards to any one person in any calendar year under the 2005 Plan; and (iii) 946,969 performance-based RSUs that are contingent on shareholder approval of the same increase. Mr. Light's Employment Agreement provides that he was to have been granted RSUs having a fair market value of $1.25 million on January 1, 2009, or 1,893,939 RSUs, and that half of these are to vest based on his service over time while the other half vest

based on our performance. The 2005 Plan imposes a limit on the maximum number of shares that may be granted as stock awards to any one person in any calendar year. Those of the RSUs being granted to Mr. Light that are in excess of that limit have been granted contingent on shareholder approval of an amendment to the 2005 Plan that will increase the limit to enable these grants.

On March 10, 2009, our Board of Directors approved the issuance of 4,034,819 shares of common stock to eligible participants under our performance award program for 2008. After withholding shares of common stock to satisfy minimum tax withholding requirements, a net number of 2,564,111 shares was issued to the eligible participants on March 11, 2009. Under the terms of our 2005 Plan, the shares withheld by us to satisfy tax withholding requirements will continue to be available for issuance under the 2005 Plan.

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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,				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Statement of operations data:					
Net sales	$638,139	$ 615,426	$601,439	$582,420	$ 582,480
Costs and expenses:					
Cost of products sold	394,467	361,913	355,375	342,329	331,447
Selling	80,175	79,157	76,313	70,682	69,325
General and administrative	92,112	70,218	70,621	84,863	60,675
Restructuring and impairments	16,968	7,733	4,736	11,958	19,533
Research and development	11,740	10,189	9,878	9,835	9,622
Offering costs	—	—	—	—	7,429
Goodwill impairment	—	185,300	—	—	—
Curtailment/settlement gains	(39,968)	—	—	—	—
Total operating costs and expenses	555,494	714,510	516,923	519,667	498,031
Income (loss) from operations	82,645	(99,084)	84,516	62,753	84,449
Other income (expense):					
Interest expense, net	(58,504)	(53,126)	(40,016)	(41,701)	(67,235)
Foreign exchange gain (loss)	6,356	(347)	(105)	3,773	(4,669)
Loss on early extinguishment of debt	—	—	—	(4,886)	—
Income (loss) before provision for income taxes	30,497	(152,557)	44,395	19,939	12,545
Provision (benefit) for income taxes	3,901	(2,345)	13,107	14,342	26,641
Net income (loss)	$ 26,596	$(150,212)	$ 31,288	$ 5,597	$ (14,096)
Net income (loss) per common share—basic	$ 0.58	$ (3.36)	$ 0.71	$ 0.14	$ (0.45)
Net income (loss) per common share—diluted	$ 0.58	$ (3.36)	$ 0.71	$ 0.14	$ (0.45)
Cash dividends per common share	$ —	$ 0.5625	$ 0.90	$ 0.33	$ —

	Year ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Balance sheet data (at end of period):					
Cash and cash equivalents	$ 34,733	$ 24,218	$ 16,816	$ 59,976	$ 24,002
Total assets	811,572	891,441	990,726	983,916	1,019,865
Senior debt	606,200	657,506	628,317	637,433	601,716
Total debt	616,957	666,801	639,060	649,132	827,849
Total stockholders' equity (deficit)	(27,581)	(1,052)	116,580	109,346	(55,096)
Cash flow data:					
Net cash provided by operating activities	$ 77,068	$ 89,020	$ 69,236	$ 54,709	$ 78,701
Net cash used in investing activities	(35,233)	(57,200)	(37,940)	(28,722)	(36,561)
Net cash provided by (used in) financing activities	(32,312)	(27,237)	(78,208)	5,626	(43,125)
Other financial data:					
Depreciation and amortization	$ 45,928	$ 45,540	$ 45,392	$ 45,363	$ 47,677
Capital expenditures	39,028	47,859	32,456	35,829	36,593

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The following table presents our unaudited consolidated statements of operations data for each quarter in the two years ended December 31, 2008. The information for each of these quarters is unaudited, but has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K. Certain prior period balances have been reclassified to conform with the current year presentation. 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, 2008	Sept. 30, 2008	June 30, 2008	Mar 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar 31, 2007
	(in thousands, except per share data)							
Statement of operations data:								
Net sales	$149,452	$159,307	$170,393	$158,987	$ 164,216	$153,592	$153,660	$143,958
Costs and expenses:								
Cost of products sold	90,704	106,513	101,595	95,655	98,979	90,272	89,482	83,180
Selling	17,738	20,125	21,847	20,465	20,019	19,747	19,938	19,453
General and administrative	21,790	28,265	23,367	18,690	19,881	16,291	16,433	17,613
Restructuring and impairments	10,106	3,612	2,718	532	1,575	805	1,220	4,133
Research and development	2,631	2,910	3,196	3,003	2,572	2,356	2,707	2,554
Goodwill impairment	—	—	—	—	185,300	—	—	—
Curtailment/settlement gains	—	(39,968)	—	—	—	—	—	—
Total operating costs and expenses	142,969	121,457	152,723	138,345	328,326	129,471	129,780	126,933
Income (loss) from operations	6,483	37,850	17,670	20,642	(164,110)	24,121	23,880	17,025
Other income (expense):								
Interest expense, net	(16,287)	(16,230)	(766)	(25,221)	(15,789)	(13,995)	(11,155)	(12,187)
Foreign exchange gain (loss)	3,012	710	(875)	3,509	334	158	(443)	(396)
Income (loss) before provision for income taxes	(6,792)	22,330	16,029	(1,070)	(179,565)	10,284	12,282	4,442
Provision (benefit) for income taxes	(2,443)	794	1,911	3,639	(11,558)	3,208	4,604	1,401
Net income (loss)	$ (4,349)	$ 21,536	$ 14,118	$ (4,709)	$(168,007)	$ 7,076	$ 7,678	$ 3,041
Net income (loss) per common share—basic	$ (0.09)	$ 0.47	$ 0.31	$ (0.10)	$ (3.69)	$ 0.16	$ 0.17	$ 0.07
Net income (loss) per common share—diluted	$ (0.09)	$ 0.46	$ 0.31	$ (0.10)	$ (3.69)	$ 0.16	$ 0.17	$ 0.07
Cash dividends per common share	$ —	$ —	$ —	$ —	$ 0.1125	$ 0.1125	$ 0.1125	$ 0.225

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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.

Recent Developments

New York Stock Exchange

As previously disclosed in our press release dated January 5, 2009, we were notified by NYSE Regulation, Inc. on December 29, 2008 that we were not in compliance with the continued listing criteria of the NYSE, under Sections 802.01B and C of the NYSE Listed Company Manual. Specifically, the NYSE considers us to be below these criteria because (i) the average closing price of our common stock was less than $1.00 per share over a consecutive 30 trading day period, and (ii) our average total market capitalization was less than $75 million over the same period and our most recently reported stockholders' equity was less than $75 million.

Under applicable NYSE rules, we have 45 days from the receipt of the notice to submit a plan advising the NYSE of definitive actions we have taken, or propose to take, that we believe will bring us into compliance with the market capitalization listing standards within 18 months of receipt of the letter. We submitted such a plan on February 12, 2009 it is currently undergoing review by the NYSE. Within 45 days of receiving the plan, the NYSE will inform us in writing as to whether it has accepted or rejected our plan. If our plan is rejected, our common stock will be subject to suspension and delisting by the NYSE. Additionally, since we are below the share price criterion, we must bring our share price and 30-day average share price above $1.00 within the longer of six months of receipt of the notification or our next annual meeting of stockholders if stockholder action is proposed. During this time, our common shares will continue to be listed on the NYSE, subject to our compliance with other NYSE continued listing standards but will be assigned a ".BC" suffix by the NYSE to signify that we are not currently in compliance with the NYSE continued listing standards. If we are not compliant with the continued listing standards within the applicable timeframe, our common stock will be subject to suspension and delisting by the NYSE.

On February 26, 2009, the NYSE submitted to the Securities & Exchange Commission an immediately effective rule filing which suspends the NYSE's $1.00 minimum price requirement on a temporary basis, initially through June 30, 2009. Further, the filing also extends until the same date the NYSE's current easing of the average global market capitalization standard from $25 million to $15 million. While the filing is immediately effective, it is subject to a 30-day operative delay. The NYSE has asked the SEC to waive this operative delay and expects the SEC to do so promptly. The following describes how the suspension of the $1.00 minimum price requirement will operate in practice:

- Companies currently below the $1.00 minimum price criteria that do not regain compliance during the suspension period will recommence their compliance period upon reinstitution of the stock price continued listing standard and receive the remaining balance of their compliance period.
- Companies currently below the $1.00 minimum price criteria will be deemed to have regained compliance during the rule suspension period if:
    1. at the end of their respective six-month cure period, as established prior to this rule's suspension, they have a $1.00 closing share price on both the last trading day of the period and based on the preceding 30 trading days, and/or
    2. at the end of any calendar month during the suspension they have a $1.00 closing share price on both the last trading day of such month and based on the 30 trading days preceding the end of such month.

Global Economic Environment

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 the economic crisis causes additional mill closures. For example, in the quarter ended September 30, 2008 and December 31, 2008, due to the global economic crisis and the lack of credit availability which may affect our customers' demand for products and their ability to pay their debts, we assessed the impact of this crisis on our customers and our industry, and changed our estimates of net realizable value of receivables and inventories. Two of our major customers, who collectively represent approximately 5% of 2008 revenues, have had recent financial difficulties. One of them filed for bankruptcy protection in January 2009 and we believe the other may be facing liquidity issues and potential credit refinancing during 2009. We have fully reserved for amounts due from these customers, however, decreases in orders from these customers or future payment problems from these or other customers could have a material adverse effect on our sales and profitability. During 2008, especially the latter part of the year, the global paper industry experienced a sharp reduction in production levels, caused by the general slowdown in economic activity and related paper consumption during the same period. The slowdown of production was across all grades of paper production, but most notably in the packaging grades and newsprint. For packaging grades, the demand for these grades is directly related to broad manufacturing and transportation activity reduction, while newsprint demand has been increasingly declining over a number of years due to the greater prevalence of electronic media, exacerbated in recent months by reduction in print advertising. One of the results of the recent reduction in demand for paper products is that the inventory of paper at the paper-makers has increased significantly and production slowdowns, curtailments and idling of paper-making machines have been occurring at a sharply increasing rate since October 2008 and are continuing into 2009. Regionally, North America and Europe have seen the more significant production declines and paper production decreased in 2008 and is expected to decrease further in 2009, while South America and Asia, while experiencing slowdowns, are still expected to increase tons of paper produced in 2009 compared to 2008. While Xerium was successful in reducing the rate of price decrease in 2008 for the products we sell to the paper-makers, there continues to be price pressure due to our competitors pursuing market growth with slower overall demand for our products.

During the third quarter of 2008, we also took steps to reduce our expenses and obligations in light of the challenging economic climate. Specifically, we froze benefit pension accruals under our Pension Plan for U.S. Salaried and Non-Union Hourly Employees, ("the Pension Plan"), effective December 31, 2008 so that future service beyond December 31, 2008 will no longer be credited under the Pension Plan. Employees who are vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008. Employees who were not vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008 upon five years of continuous employment from date of hire. We also curtailed sponsoring or funding, as of December 31, 2008, our U.S. retiree health insurance program under which we offered health care benefits to a certain group of retired U.S. employees and their covered dependents and beneficiaries. While we originally announced an increase in our 401(k) plan match in the United States from 4% of eligible compensation to 6% as of January 1, 2009, we announced after January 1, 2009 that we will not implement this increase and instead will eliminate the employer match until further notice.

As a result of the decision to freeze benefits under the Pension Plan and to terminate sponsorship of our U.S. retiree health insurance program, in accordance with the applicable accounting literature, we recorded the following: (i) pre-tax curtailment/settlement gains of $40.0 million in our income statement during the quarter ended September 30, 2008, (ii) a decrease in our pension and postretirement liability of $32.0 million as of September 30, 2008 and (iii) a charge to Other Comprehensive Income of $8.0 million. The above amounts also include a loss of $0.2 million as a result of the settlement of one of our Canadian pension plans.

Our credit facility requires that we meet certain operating requirements and financial ratios in order to avoid a default or event of default under the facility. See "Credit Facility" below in this section. Although we expected we would generate cash flow from operations sufficient to service the debt under the credit facility prior to the

stated maturity of the debt if there were not otherwise an event of default and acceleration of the maturity of the debt, we did not satisfy our leverage ratio covenant for the period ended March 31, 2008 that was in effect under our then existing credit agreement. Failure to satisfy the covenant would constitute a default under our credit facility absent a waiver from our lenders. Our independent registered public accounting firm included an explanatory paragraph in its report on our 2007 consolidated financial statements related to the uncertainty in our ability to continue as a going concern. The inclusion of that paragraph in its report would also constitute a default under our credit facility absent a waiver. On April 8, 2008, we obtained a temporary waiver from the lenders for these defaults. The waiver was in effect until May 31, 2008. On May 30, 2008, prior to the expiration of the waiver, we entered in to an amendment and restatement of the credit agreement governing our credit facility. As a result of this amendment and restatement, on August 4, 2008, our independent registered public accounting firm reissued its report relating to our financial statements as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 to remove the explanatory paragraph with respect to our ability to continue as a going concern and to insert an emphasis paragraph that the conditions that raised substantial doubt about whether we will continue as a going concern no longer exist.

Overview

We are a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper—clothing and roll covers. Our operations are strategically located in the major paper-producing regions of North America, Europe, South America and Asia-Pacific.

Our products play key roles in the formation and processing of paper along the length of a paper-making machine. Paper producers rely on our products and services to help improve the quality of their paper, differentiate their paper products, operate their paper-making machines more efficiently and reduce production costs. Our products and services typically represent only a small fraction of a paper producer’s overall production costs, yet they reduce costs by permitting the use of lower-cost raw materials and reducing energy consumption. Paper producers must replace clothing and refurbish or replace roll covers regularly as these products wear down during the paper production process. Our products are designed to withstand extreme temperature, chemical and 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: clothing and roll covers. In our clothing segment, we manufacture and sell highly engineered synthetic textile belts that transport paper as it is processed on a paper-making machine. Clothing plays a significant role in the forming, pressing and drying stages of paper production. Because paper-making processes and machine specifications vary widely, the clothing size, form, material and function is selected to fit each individual paper-making machine and process. In 2008, our clothing segment represented 65% 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. Roll covers are tailored to each individual paper-making machine and process, using different materials, treatments and finishings. In addition to manufacturing and selling new roll covers, we also provide refurbishment services for previously installed roll covers and manufacture spreader rolls. Additionally, we provide various related products and services to our customers, both directly and through third party providers, as a growing part of our overall product offering through our roll covers sales channels. In 2008, our roll cover segment represented 35% of our net sales.

In 2008, sales in other industrial applications outside of the paper industry, such as steel, plastics and textiles, accounted for approximately 11% and 8% of the net sales in our clothing segment and roll covers segment, respectively.

Industry Trends and Outlook

Historically, demand for our products has been driven primarily by the volume of paper produced on a worldwide basis. According to the Food and Agriculture Organization of the United Nations, the volume of paper productions between 1980 and 2007 increased at a compound annual growth rate of approximately 3.07%. RISI, the leading information provider for the global forest products industry, expects the growth of global paper production from 2007 to 2020 to be slightly more than 3% per annum, although in certain periods the growth of global paper production may be higher or lower. There is also the possibility that paper production may decline in any specific period compared to prior periods. Generally, and over time, we expect growth in paper production to be greater in Asia, South America and Eastern Europe than in the more mature North American and Western European regions.

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. A sustained downturn in the paper industry, either globally or in a particular region, can cause paper manufacturers to reduce production or cease operations, which could adversely affect our revenues and profitability. Since 2000, paper producers have taken actions that seek to structurally improve the balance between the supply of and demand for paper. As part of these efforts, they have shut down many paper-making machines. Between 2001 and 2004 the bulk of these closures occurred in North America. Announcements by paper producers concerning temporary and permanent shutdowns of paper-making machines in both North America and Europe have continued. During 2005 through 2008, the sales and profitability of our North American and European operations were adversely affected by these shutdowns. Papermakers continue to experience low levels of profitability, and we believe that further consolidation among papermakers, reducing the number of paper producers, and shutdowns of paper-making machines will occur 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. Over a number of years, consumption growth of paper is expected to drive an increase in the global production rates required to maintain balance between supply and demand although it is likely that a consumption slow-down and related effect on global paper production will occur in the near term.

Global paper production growth that does occur would be moderated by the level of industry consolidation and paper-machine shutdown activity that is a continuing underlying trend in North America and Western Europe. We also believe that, in addition to industry consolidation and paper machine shutdown activity in North America and Western Europe, the trend towards new paper machine designs which have fewer rolls and market recognition of extended life of our roll cover products has been and will continue to negatively impact demand for these products and that the volume potential for the roll covers business in North America and Western Europe will slowly diminish. Additionally, we are seeing a trend that paper producers are placing an increasing emphasis on maintenance cost reduction and, as a result, are extending the life of roll covers through additional maintenance cycles before replacing them. Accordingly, in November, 2007 we acquired two roll cover manufacturing plants in China to expand our served market, and are now focused on adding related products and services to our offerings in this new territory.

We anticipate that pricing pressure for our products will continue with the consolidation among paper producers and as the shift of paper production growth in Asia develops. In response to this pricing pressure, we expect to increase our expenditure levels on research and development expenses and continue to develop our value added selling approach as part of our strategy to differentiate our products, while at the same time remaining focused on cost reduction and efficiency programs.

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. The global economic crisis and the lack of credit availability may affect our customers' demand for products and their ability to pay their debts. For example, two of our major customers, who collectively represent approximately 5% of 2008 revenues, have had recent financial difficulties. One of them filed for bankruptcy protection in January 2009 and we believe the

other may be facing liquidity issues and potential credit refinancing during 2009. We have fully reserved for amounts due from these customers, however, decreases in orders from these customers or future payment problems from these or other customers could have a material adverse effect on our sales and profitability.

Sales and Expenses

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

- The volume of worldwide paper production;
- Advances in the technology of our products, which can provide value to our customers by improving the efficiency of paper-making machines; and
- Our ability to provide products and services which reduce paper-making machine downtime, while at the same time allowing the manufacture of high quality paper products.
- Impact of currency fluctuations.

Sales in our roll covers segment include our mechanical services business. We have expanded this business in response to demand from paper producers that we perform work on the internal mechanisms of a roll while we refurbish or replace a roll cover. In our clothing segment, a small portion of our business has been conducted pursuant to consignment arrangements under which 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. We are striving to reduce the number of consignment arrangements and increase the use of standard terms of sale under which we recognize a sale upon product shipment. We expect this effort to be successful over several years.

Our operating costs are driven primarily by our total sales volume, the impact of inflation and currency and the level and impact of 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 $11.7 million, $10.2 million and $9.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Foreign Exchange

We have a geographically diverse customer base. In 2008, approximately 36% of our sales was in North America, 37% was in Europe, 9% was in South America, 16% was in Asia-Pacific and 2% was in the rest of the world.

A substantial portion of our 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 revenues 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.

For certain transactions, our sales are denominated in U.S. Dollars or Euros 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 consist of transactions in which the sales are denominated in or indexed to U.S. Dollars and all or a substantial portion of the associated costs are denominated in Euros, Reals or other currencies.

Currency fluctuations have a greater effect on the level of our net sales than on the level of our income (loss) from operations. For example, in 2008 as compared to 2007, the change in the value of the U.S. Dollar against most of the currencies we conduct our business in resulted in currency translation increases in net sales and income from operations of $24.1 million and $3.0 million, respectively. Although the 2008 results reflect a period in which the value of the U.S. Dollar decreased as compared to 2007, we would expect an opposite effect in a period in which the value of the U.S. Dollar increases.

During 2008, we conducted business in 11 foreign currencies. The following table provides the average exchange rate in 2008 and 2007 of the U.S. Dollar against each of the five foreign currencies in which we conduct the largest portion of our operations, and indicates the percentage of our net sales in 2008 and 2007 denominated in each such foreign currency.

Currency	Average exchange rate of the U.S. Dollar in 2008	Average exchange rate of the U.S. Dollar in 2007
Euro	$1.47 = 1 Euro	$1.37 = 1 Euro
Brazilian Real	$0.56 = 1 Brazilian Real	$0.52 = 1 Brazilian Real
Canadian Dollar	$0.94 = 1 Canadian Dollar	$0.94 = 1 Canadian Dollar
Australian Dollar	$0.85 = 1 Australian Dollar	$0.84 = 1 Australian Dollar
British Pound	$1.85 = 1 British Pound	$2.00 = 1 British Pound

Currency	Percentage of 2008 net sales denominated in such currency	Percentage of 2007 net sales denominated in such currency
Euro	42.5%	42.0%
Brazilian Real	9.3	7.1
Canadian Dollar	7.6	9.3
Australian Dollar	5.4	4.5
British Pound	2.7	3.4

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 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.

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 have engaged in a series of cost reduction programs since 2002, which were designed to improve the cost structure of our operations in North America, South America and Europe, in response to changing market conditions. These cost reduction programs include headcount reductions throughout the world as well as plant closures that have rationalized production among our facilities to better enable us to meet customer demands.

Our cost reduction efforts between 2002 and 2008 included the closing of twelve manufacturing facilities and the movement of certain production from two other facilities. Five facilities were closed in the clothing segment, of which three were in North America, one was in the United Kingdom and one in Australia (we committed in 2008 to complete the closing of our manufacturing facility in Australia in the first quarter of 2009). We closed seven facilities in the rolls segment, four of which were in North America (includes Sherbrooke Canada, the closing of which we announced in 2008, and which facility was still performing manufacturing operations as of December 31, 2008 and has ceased such operations in early 2009), two were in the United Kingdom and one in Europe. From 2002 to 2008, we eliminated approximately 530 positions in connection with our cost reduction efforts. As a result of these actions, offset by other changes in workforce, our headcount decreased by approximately 430 positions during that period.

In 2006, we charged a total of $4.7 million for restructuring and impairments-related expense of which (i) $2.3 million related to the reorganization of our European management structure along functional lines, (ii) $2.1 million related to impaired assets, primarily in the United Kingdom, as discussed below and (iii) $0.3 million related to the closures of facilities under restructuring programs that were commenced prior to 2006.

In 2007, we charged a total of $7.7 million for restructuring and impairments-related expense as follows: (i) in March 2007, we ceased manufacturing activity at our roll covers manufacturing facility in the United Kingdom and recorded restructuring expenses of $1.4 million related thereto. We had recorded asset impairment charges of $1.7 million related to this facility during the fourth quarter of 2006; (ii) in the first quarter of 2007, the Company also initiated the closure of a roll covers manufacturing facility in the U.S. for which restructuring expenses and asset impairments of $0.6 million and $0.4 million, respectively, were recorded during 2007 and (iii) during the first quarter of 2007, we initiated a program to streamline our operating structure for which restructuring expenses of $5.3 million were recorded during 2007.

In 2008, we charged a total of $17.0 million for restructuring and impairments-related expense as follows: (i) the streamlining of our operating structure continued during 2008, for which we recorded restructuring expenses of $6.1 million during the year ended December 31, 2008; (ii) the closing of our roll covers manufacturing facility in Sherbrooke, Canada and the closing our roll covers manufacturing facility in Sweden (and transferring production to our other roll covers manufacturing facilities in Europe) were both announced during the second quarter of 2008 for which we recorded restructuring and impairment expenses of $2.8 million during the year ended December 31, 2008; (iii) our commitment to a plan to cease production in Australia and to discontinue construction of our new Vietnam facility was announced in December 2008 for which we recorded restructuring and impairment expenses of $7.1 million during the fourth quarter of 2008; and (iv) our evaluation of assets in the U.S. resulted in impairment charges of $1.0 million during the fourth quarter of 2008.

We are targeting restructuring expenses of approximately $5 to $6 million during 2009 primarily related to headcount reductions resulting from the integration of the regional management structure in North America and similar actions in Europe. We expect to continue to review our business to determine if additional actions can be taken to further improve our cost structure. In light of our assessment of the impact of the global credit crisis and the potential effect on our customers and our industry, and therefore, on our performance, additional operating structure improvements and related restructuring expenses are being analyzed.

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Results of Operations

The tables that follow set forth for each of the three years in the period ended December 31, 2008, 2007 and 2006 certain consolidated operating results and the percentage of net sales they represent:

	Year ended December 31,		
	2008	2007	2006
		(in millions)	
Net sales	$638.1	$ 615.4	$601.4
Cost of products sold	394.4	361.9	355.4
Selling expenses	80.2	79.2	76.3
General and administrative expenses	92.1	70.2	70.6
Restructuring and impairments expenses	17.0	7.7	4.7
Research and development expenses	11.7	10.2	9.9
Goodwill impairment	—	185.3	—
Curtailment/settlement gains	(40.0)	—	—
Income (loss) from operations	82.6	(99.1)	84.5
Interest expense, net	(58.5)	(53.1)	(40.0)
Foreign exchange gain (loss)	6.4	(0.3)	(0.1)
Income (loss) before provision for income taxes	30.5	(152.5)	44.4
Provision (benefit) for income taxes	3.9	(2.3)	13.1
Net income (loss)	$ 26.6	$(150.2)	$ 31.3

	Percentage of Net Sales Year ended December 31,		
	2008	2007	2006
Net sales	100.0%	100.0%	100.0%
Cost of products sold	61.8	58.8	59.1
Selling expenses	12.6	12.9	12.7
General and administrative expenses	14.4	11.4	11.7
Restructuring and impairments expenses	2.7	1.3	0.8
Research and development expenses	1.8	1.6	1.6
Goodwill impairment	—	30.1	—
Curtailment/settlement gains	(6.3)	—	—
Income (loss) from operations	13.0	(16.1)	14.1
Interest expense, net	(9.2)	(8.7)	(6.7)
Foreign exchange gain (loss)	1.0	—	—
Income (loss) before provision for income taxes	4.8	(24.8)	7.4
Provision for income taxes	0.6	(0.4)	2.2
Net income (loss)	4.2%	(24.4)%	5.2%

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007.

Net Sales. Net sales for 2008 increased by $22.7 million, or 3.7%, to $638.1 million from $615.4 million for 2007. In 2008, 65% of our net sales was in our clothing segment and 35% was in our roll cover segment.

In our clothing segment, net sales for 2008 increased by $5.1 million, or 1.3%, to $413.2 million from $408.1 million for 2007 primarily due to favorable currency effects on net sales in our clothing segment of $17.2 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. This increase was partially offset by (i) unfavorable currency effects on pricing

related to sales prices indexed in U.S. Dollars by certain non-U.S. operations of $6.4 million, (ii) decreased sales volume primarily in North America and Europe, partially offset by increased sales volume in Asia-Pacific, and (iii) the impact of pricing declines in our clothing segment of approximately 1% during 2008 as compared with 2007.

In our roll covers segment, net sales for 2008 increased by $17.6 million, or 8.5%, to $224.9 million from $207.3 million for 2007 primarily due to (i) favorable currency effects on net sales of $6.9 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes, (ii) sales of $6.4 million generated from roll cover plants acquired in November of 2007 and (iii) increased sales volumes in Europe, Asia-Pacific and North America. Overall pricing levels in our roll covers segment decreased by less than 1.5% during 2008 as compared with 2007.

Cost of Products Sold. Cost of products sold for 2008 increased by $32.5 million, or 9.0%, to $394.4 million from $361.9 million for 2007.

In our clothing segment, cost of products sold for 2008 increased by $17.3 million, or 7.3%, to $253.7 million from $236.4 million for 2007. The increase was primarily due to (i) unfavorable currency translation effects of $10.9 million, (ii) increased write offs of $8.5 million for slow moving and obsolete inventory due to our assessment of the impact of the global economic crisis on our customers and our industry (See "Recent Developments"), (iii) increased inflation specifically in South America and (iv) costs to move equipment between locations for better utilization, partially offset by (i) the $0.7 million impact of a lower cost structure, resulting from our cost reduction programs, during 2008 as compared with 2007 and (ii) the overall decrease in sales volume in this segment during 2008 as compared with 2007.

In our roll covers segment, cost of products sold increased by $15.2 million, or 12.1%, to $140.7 million from $125.5 million for 2007 primarily due to (i) increased writeoffs for slow moving and obsolete inventory of $2.1 million due to our assessment of the impact of the global economic crisis on our customers and our industry (See "Recent Developments"), (ii) the overall increase in sales volume in this segment during 2008 as compared with 2007, (iii) unfavorable currency effects of $4.4 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and (iv) costs of goods sold of $3.6 million associated with roll cover plants acquired in November of 2007. These increases were partially offset by the $3.5 million impact of a lower cost structure, resulting from our cost reduction programs during 2008 as compared with 2007.

Selling Expenses. For 2008, selling expenses increased by $1.0 million, or 1.3%, to $80.2 million from $79.2 million for 2007. The increase was primarily due to unfavorable currency translation effects of $3.2 million, partially offset by the $1.4 million impact of a lower cost structure resulting from our restructuring programs during 2008 as compared with 2007.

General and Administrative Expenses. For 2008, general and administrative expenses increased by $21.9 million, or 31.2%, to $92.1 million from $70.2 million for 2007. The increase was primarily due to (i) increased provisions of $11.8 million for potential bad debts and reserves against certain other non trade receivables due to our assessment of the impact of the global economic crisis on our customers and our industry (See "Recent Developments"), (ii) consulting, legal and bank fees of $5.4 million relating to the amendment of our senior credit facility on May 30, 2008, (iii) an increase in management incentive bonus accrual of $4.9 million, (iv) an accrual for environmental remediation costs at one of our foreign facilities of $4.1 million and (v) unfavorable currency translation effects of $3.2 million. These increases were partially offset by (i) the $3.3 million impact of a lower cost structure, resulting from our restructuring programs, during 2008 as compared with 2007, (ii) decreased amortization of intangible assets of $1.5 million as certain licenses and patents reached the end of their book life and (iii) increased gains on sales of property and equipment of $1.7 million during 2008 as compared with 2007.

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Restructuring and Impairments Expenses. For 2008, restructuring and impairments expenses increased by $9.3 million to $17.0 million from $7.7 million for 2007. Restructuring and impairments expenses result from our long-term strategy to reduce costs and improve long-term competitiveness as described above under "Cost Reduction Programs" by closing and/or transferring production from certain of our manufacturing facilities and through headcount reductions. Expenses incurred in 2008 include severance, facility and asset impairment costs of $8.8 million, $4.2 million, and $4.0 million, respectively. For 2007, restructuring and impairments expenses consisted of severance, facility, and asset impairment costs of $5.7 million, $1.6 million, and $0.4 million, respectively.

Research and Development Expenses. For 2008, research and development expenses increased by $1.5 million, or 14.7%, to $11.7 million from $10.2 million for 2007 primarily as a result of our increased focus on new product development during 2008 as compared with 2007.

Curtailment/Settlement Gains. During the third quarter of 2008, we recorded curtailment/settlement gains of $40.0 million as a result of the following decisions we made and communicated during the third quarter of 2008: (i) freezing benefit pension accruals under our Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "Pension Plan") effective December 31, 2008 so that future service beyond December 31, 2008 will no longer be credited under the Pension Plan and (ii) no longer sponsoring or funding, as of December 31, 2008, our U.S. retiree health insurance program under which we offered health care benefits to a certain group of retired U.S. employees and their covered dependents and beneficiaries. The gain was net of a loss of $0.2 million incurred as a result of the settlement of one of our Canadian pension plans. As a result of these decisions, we target a decrease in our pre-tax pension and post-retirement expense of approximately $2.8 million annually beginning in 2009, as compared with that of 2008, based on current estimates and assumptions. Actual results may differ materially from those indicated due to a number of factors, including changes in actuarial assumptions used and actual return on pension plan assets.

Interest Expense, Net. Net interest expense for 2008 increased by $5.4 million, or 9.6%, to $58.5 million from $53.1 million for 2007. The increase is primarily attributable to (i) increased interest rates during 2008 as compared with 2007 as a result of Moody's reduced rating of our senior credit facility in February 2007 and to increased interest rates resulting from the amendment of our senior credit facility on May 30, 2008 and (ii) unfavorable currency effects of $1.8 million. These increases were partially offset by the $7.8 million decrease in interest expense recognized in 2008 as compared with 2007 in connection with the change in the fair value of our interest rate swaps.

Foreign Exchange Gain (Loss). For 2008, we had a foreign exchange gain of $6.4 million compared to a foreign exchange loss of $0.3 million for 2007. This $6.7 million difference was primarily attributable mark to market gains on fair value hedges, including gains on hedges for which the underlying foreign exchange exposure on certain intercompany debt that no longer existed in the first quarter of 2008, and gains on hedges on future purchases of equipment. Foreign exchange gains and losses result primarily from hedging and intercompany activities.

Provision (Benefit) for Income Taxes. For 2008, we recognized a provision for income taxes of $3.9 million as compared with a benefit for income taxes of $2.3 million for 2007. Our effective tax rate was 12.8% for 2008 which was below statutory rates principally due to curtailment/settlements gains recorded relating to the U.S. retiree plans of $40.2 million for which no taxes were reflected due to the U.S. valuation allowance. In addition, tax losses in certain other jurisdictions for which there were valuation allowances were offset by profits in certain of our foreign tax-paying jurisdictions. In 2007, the benefit for income taxes includes $18.3 million for the reversal of deferred income taxes related to the goodwill impairment recorded in our roll covers segment in 2007. Other than this tax benefit on impaired goodwill, the Company's effective tax rate for 2007 was 49%, which was also impacted by minimal tax benefit recognition on the change in the fair value of the Company's interest rate swaps because of its tax loss carryforward position.

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Year Ended December 31, 2007 Compared to Year Ended December 31, 2006.

Net Sales. Net sales for 2007 increased by $14.0 million, or 2.3%, to $615.4 million from $601.4 million for 2006. In 2007, 66% of our net sales were in our clothing segment and 34% were in our roll cover segment.

In our clothing segment, net sales for 2007 increased by $20.7 million, or 5.3%, to $408.1 million from $387.4 million for 2006 primarily due to (i) favorable currency effects on net sales in our clothing segment of $26.0 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and (ii) increased sales volume in Asia of $2.6 million as a result of our acquisition in the third quarter of 2006 of PMA Shoji Co. Ltd. These increases were partially offset by (i) unfavorable currency effects on pricing related to sales prices indexed in U.S. Dollars by certain non-U.S. operations of $8.2 million and (ii) decreased sales volume and pricing levels, primarily in North America and Europe. Overall pricing levels in our clothing segment decreased approximately 1.5% during 2007 as compared with 2006.

In our roll covers segment, net sales for 2007 decreased by $6.7 million, or 3.1%, to $207.3 million from $214.0 million for 2006. The negative effects of lower sales volume, mix of product sold and lower pricing levels, primarily in North America and Europe, were partially offset by favorable currency effects of $9.9 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. Overall pricing levels in our roll covers segment decreased approximately 1.3% during 2007 as compared with 2006.

Cost of Products Sold. Cost of products sold for 2007 increased by $6.5 million, or 1.8%, to $361.9 million from $355.4 million for 2006.

In our clothing segment, cost of products sold for 2007 increased by $9.4 million, or 4.1%, to $236.4 million from $227.0 million for 2006. Unfavorable currency effects of $17.3 million related to the translation of costs incurred in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes were partially offset by (i) certain operating costs incurred in connection with the transition of production operations from closed facilities to other facilities under our cost reduction programs that were $4.8 million lower during 2007 as compared with 2006, (ii) rebates on material costs of $2.4 million during 2007 related to a purchase contract we signed during the fourth quarter of 2006 and (iii) the $1.3 million impact of a lower cost structure, resulting from our cost reduction programs, during 2007 as compared with 2006.

In our roll covers segment, cost of products sold decreased by $2.9 million, or 2.3%, to $125.5 million from $128.4 million for 2006. The decrease was primarily due to (i) lower sales in this segment during 2007 as compared with 2006 resulting in lower cost of products sold and (ii) the $2.6 million impact of a lower cost structure, resulting from our cost reduction programs, during 2007 as compared with 2006. These decreases were partially offset by (i) unfavorable currency translation effects of $6.4 million related to the translation of costs incurred in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and to (ii) an unfavorable shift in the mix of our product sales to lower margin products.

Selling Expenses. For 2007, selling expenses increased by $2.9 million, or 3.8%, to $79.2 million from $76.3 million for 2006 primarily due to unfavorable currency translation effects of $4.8 million related to the translation of costs incurred in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes, partially offset by the $0.8 million impact of a lower cost structure, resulting from our cost reduction programs during 2007 as compared with 2006 and to reduced sales expenses as a result of lower overall sales.

General and Administrative Expenses. For 2007, general and administrative expenses decreased by $0.4 million, or 0.6%, to $70.2 million from $70.6 million for 2006. The decrease was primarily due to (i) a decrease of $3.0 million in our environmental expense in 2007 as compared to 2006, (ii) the $2.0 million impact of a lower cost structure, resulting from our cost reduction programs, during 2007 as compared with 2006, (iii) the gain on sale of buildings in the U.S. and U.K. of $1.4 million during the second quarter of 2007 and (iv) a decrease of $0.8 million in compensation expense primarily due to changes in estimates of forfeiture rates

related to our restricted stock units. These decreases were partially offset by (i) unfavorable currency translation effects of $3.9 million and (ii) accrued severance and related costs of approximately $2.5 million as a result of the resignation of our former chief executive officer.

Restructuring and Impairments Expenses. For 2007, restructuring and impairments expenses increased by $3.0 million, or 3.9%, to $7.7 million from $4.7 million for 2006. Restructuring and impairments expenses result from our long-term strategy to reduce costs and improve long-term competitiveness as described above under “Cost Reduction Programs” by closing and/or transferring production from certain of our manufacturing facilities and through headcount reductions. For 2007, restructuring expense consisted of severance, facility and asset impairment costs of $5.7 million, $1.6 million and $0.4 million, respectively.

Research and Development Expenses. For 2007, research and development increased by $0.3 million, or 3.0%, to $10.2 million from $9.9 million for 2006 primarily due to unfavorable currency translation effects related to the translation of costs incurred in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes.

Goodwill Impairment. As of December 31, 2007, we recorded a non-cash charge for goodwill impairment of $185.3 million related to our roll covers segment based on assessments performed as of December 31, 2007. We are required to test goodwill at least annually for impairment, which we perform annually as of December 31. We determined, as of December 31, 2007, that our goodwill for the roll covers segment was impaired due to expectations of lower profitability and to the increased carrying value of the net assets in this segment due primarily to currency translation effects thereon. There was no goodwill impairment recorded during the year ended December 31, 2006. See “Critical Accounting Policies and Estimates”.

Interest Expense, Net. Net interest expense for 2007 increased by $13.1 million, or 32.8%, to $53.1 million from $40.0 million for 2006. The increase is primarily attributable to (i) the $7.8 million increase in interest expense recognized in 2007 as compared with 2006 in connection with the change in the fair value of our interest rate swaps, (ii) increased interest rates during 2007 as compared with 2006 as a result of Moody’s reduced rating of our senior credit facility in February 2007 and (iii) unfavorable currency effects of $1.7 million in 2007 as compared with 2006.

Foreign Exchange Gain (Loss). For 2007 and 2006, we had a foreign exchange loss of $0.3 million and $0.1 million, respectively. This $0.2 million difference was primarily attributable to the manner in which swings in the value of the U.S. Dollar as compared to other currencies, primarily the Euro and the Brazilian Real, affected certain intercompany transactions. Foreign exchange gains and losses have resulted primarily from intercompany activity.

Provision (Benefit) for Income Taxes. We had a benefit for income taxes for 2007 of $2.3 million as compared to a provision for income taxes of $13.1 million for 2006. The benefit for income taxes includes $18.3 million for the reversal of deferred income taxes related to the goodwill impairment recorded in our roll covers segment in 2007. Other than this tax benefit on impaired goodwill, our effective tax rate for 2007 was 49% as compared with 30% for 2006. The effective tax rate for 2007 was impacted by minimal tax benefit recognition on the change in the fair value of our interest rate swaps because of our tax loss carryforward position. Additionally, the effective tax rate for 2007 as compared to 2006 was impacted by (i) a tax benefit of $1.0 million in June 2006 reflecting the reversal of a previously established valuation allowance against deferred tax assets (based on the increased profitability of our clothing operations in the United Kingdom) and (ii) the benefit of a $1.0 million U.S. tax refund in the third quarter of 2006, offset by a tax benefit of approximately $1.1 million during the third quarter of 2007 due to reductions in tax rates enacted by law in certain jurisdictions. Additionally, we recorded a benefit in the U.S. of $1.7 million related to a U.S. net operating loss carryback that had a previously established valuation allowance against deferred taxes in 2006.

Liquidity and Capital Resources

The Company's 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 the economic slowdown causes additional mill closures. In addition, the global economic crisis and the ensuing lack of availability of credit availability may affect our customers' ability to pay their debts.

Our principal liquidity requirements are for working capital, capital expenditures and debt service. We expect to fund our liquidity requirements primarily with cash generated from operations and, to the extent necessary, through borrowings under our credit facility. We plan to continue to generate positive cash flow from operations in 2009 and will use cash generated by operations as our primary source of liquidity as well as borrowings, if necessary, under the revolving portion of the credit facility to meet normal operating requirements for at least the next twelve months.

Net cash provided by operating activities was $77.1 million, $89.0 million and $69.2 million in 2008, 2007, and 2006, respectively. The $11.9 million decrease is principally attributable to a lower net income, after adjusting for non-working capital changes, in 2008 as compared with 2007. This decrease was partially offset by the favorable working capital changes as a result of our continuing efforts to target a reduction in days sales outstanding and increases in inventory turns and days payables outstanding. The $19.8 million increase in 2007 as compared with 2006 is primarily due to working capital changes.

Net cash used in investing activities was $35.2 million, $57.2 million and $37.9 million for 2008, 2007 and 2006, respectively. The $22.0 million decrease in 2008 as compared to 2007 was primarily due to (i) decreased capital equipment spending of $8.8 million in 2008 as compared with 2007, (ii) increased proceeds from the sales of property and equipment of $1.6 million during 2008 as compared with 2007 and (ii) a decrease in "payments for acquisitions, net of cash acquired" of $12.4 million primarily due to the acquisition in November of 2007 of a roll covers operation in China for $11.8 million, net of cash acquired. Partially offsetting these decreases was the temporary purchase of the Chief Executive Officer's former home for $1.7 million in 2008, as provided in his employment agreement in connection with the Executive's relocation of his principal residence. The increase of $19.3 million during 2007 as compared with 2006 was primarily due to an increase in capital expenditures of $15.4 million related to our expansion of production capacity in Brazil and to deposits on equipment for use at our planned manufacturing facility in Vietnam, the construction of which began in the fourth quarter of 2007 (and which was discontinued as of December 1, 2008) and (ii) an increase in "payments for acquisitions, net of cash acquired" of $3.6 million due to the acquisition in November of 2007 of a roll covers operation in China for $11.8 million, net of cash acquired (and subject to certain adjustments) compared to an aggregate of $8.2 million, net of cash acquired, in 2006 for our acquisitions of Coldwater Covers, Inc. and PMA Shoji Co. Ltd.

Net cash used in financing activities was $32.3 million, $27.2 million and $78.2 million in 2008, 2007 and 2006, respectively. The increase of $5.1 million was primarily the result of (i) higher debt payments of $13.5 million, including voluntary debt repayments of $6.1 million during 2008 and (ii) increased amendment fees and related expenses of $7.0 million during 2008 as compared with 2007. Partially offsetting these increases were (i) increased borrowings of $3.7 million during 2008 as compared with 2007 and (ii) the impact of cash dividends of $11.8 million that were paid to our shareholders during 2007. No dividends have been paid to our shareholders during 2008; our amended senior credit facility agreement that was entered into during the second quarter of 2008 prohibits the payment of such dividends through May 2012, the term of the agreement.

The $51.0 million decrease in 2007 as compared to 2006 was primarily the result of (i) lower cash dividends of $27.6 million paid to our shareholders during 2007 as compared with 2006 as a result of both reduced dividend amounts in 2007 and the participation in our dividend reinvestment plan established during 2007 (ii) lower net debt payments in 2007 compared with 2006 of $22.5 million primarily due to voluntary repayments of our senior debt made during 2006 totaling $28 million, partially offset by increased borrowings of $5.5 million in 2007 as compared with 2006 and (iii) increased debt amendment fees and related expenses of $0.8 million during 2007 as compared with 2006.

As of December 31, 2008, there was a $606.2 million balance of term loans outstanding under our senior credit facility. During 2008, we have made scheduled principal payments of $7.3 million as required under the term loan, a mandatory principal repayment of $9.2 million and a voluntary repayment of $6.1 million. In addition, as of December 31, 2008, we had no borrowings outstanding under our revolving lines of credit, including the revolving credit facility under our senior credit facility and lines of credit in various foreign countries that are used to facilitate local short-term operating needs, and an aggregate of $45.9 million available for additional borrowings under these revolving lines of credit. We had cash and cash equivalents of $34.7 million, $24.2 million and $16.8 million at December 31, 2008, 2007 and 2006, respectively.

Capital Expenditures

We use the term "capital expenditures" to refer to costs incurred to purchase 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.

During 2008, we had capital expenditures of $39.0 million consisting of approximately $15.2 million of growth capital expenditures and approximately $23.8 million of maintenance capital expenditures. Growth capital expenditures consist of items that are intended to increase the manufacturing, production and/or distribution capacity or efficiencies of our operations in conjunction with the execution of our business strategies. Maintenance capital expenditures are designed to sustain the current capacity or efficiency of our operations and include items relating to the renovation of existing manufacturing or service facilities, the purchase of machinery and equipment for safety and environmental needs and information technology.

During 2007, we had capital expenditures of $47.9 million consisting of approximately $26.6 million of growth capital expenditures and approximately $21.3 million of maintenance capital expenditures.

During 2006, we had capital expenditures of $32.5 million consisting of approximately $19.9 million of growth capital expenditures and approximately $12.6 million of maintenance capital expenditures.

We expanded production capacity in Brazil and began building a clothing manufacturing facility in Vietnam in the fourth quarter of 2007. In the first quarter of 2008 we began an effort to reduce our planned capital expenditures. As part of this effort, we determined to delay the planned capital expenditures for the Vietnam facility and cancelled or rescheduled certain other previously planned capital expenditures. These cancellations did not result in any substantial penalties for us. In December 2008, we discontinued the construction of the Vietnam facility. Due to our assessment of the impact of the global economic crisis and the potential effect on our customers and our industry, we are currently evaluating additional capital expenditures reductions and cost reduction actions to improve long-term operating efficiencies and to better match our production with demand. We target capital expenditures for 2009 to be approximately $42 million, as we complete obligations undertaken as part of our Vietnam initiatives and that capital expenditures in 2010 will be lower than those for 2009.

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 these amounts.

See "—Credit Facility" below for a description on limitations on capital expenditures imposed by our credit facility.

Credit Facility

Upon the completion of the initial public of offering of our common stock on May 19, 2005, we and certain of our subsidiaries entered into a senior secured credit facility. The credit facility was amended four times: on February 8, 2006, December 22, 2006, May 2, 2007 and April 8, 2008. The credit facility was amended and restated on May 30, 2008.

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The description of the credit facility below describes the facility as amended and restated.

Our credit facility provides for a $50 million senior secured revolving credit facility and for term loans that had a total principal amount of $650 million as of May 2005. Because the term loans include portions denominated in Euros and Canadian dollars, in addition to a U.S. Dollar denominated portion, the aggregate outstanding principal on our term loans is affected by our currency exchange rates as well as principal repayments. The revolving credit facility matures on November 19, 2011, and the term loans mature on May 19, 2012. The credit facility is secured by substantially all of our assets and the assets of most of our subsidiaries, subject to legal and tax considerations and requirements.

Borrowings under the revolving credit facility and the term loans bear interest at the sum of, as applicable, LIBOR, the Euribor rate or CDOR plus, in each case, the applicable margin. The applicable margin is set at 5.50% through December 31, 2008. Beginning January 1, 2009, the applicable margin will depend upon our credit rating level: it will be 2.75% if our credit rating is Ba3 or higher by Moody’s and BB- or higher by S&P, 3.75% if our credit rating is B1 by Moody’s or B+ by S&P, 4.25% if our credit rating is B3 or higher but lower than B1 by Moody’s and 'B-' or higher but lower than 'B+' by S&P, and 5.50% if our credit rating is lower than B3 by Moody’s or lower than B- by S&P. In order to qualify at each level the rating must be with a stable outlook. Our current credit rating is Caa1 by Moody’s and 'B-' by S&P. On September 29, 2008, Standard & Poor's Ratings Services raised its ratings on the Company, including raising the long-term corporate credit rating, from 'CCC+' to 'B-'.

On November 16, 2007, we entered into interest rate swap arrangements which initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 1, the debt was potentially payable prior to the expiration of the underlying interest rate swaps, and therefore, hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (“SFAS No. 133”) was no longer applicable for these interest rate swaps. Accordingly, the mark to market changes in their fair value was recorded as a non-cash credit to interest expense of $1.7 million for the six month period ended June 30, 2008, respectively. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on 3-month LIBOR-based interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $14.4 million on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion charged to interest expense during the second half of 2008 was less than $0.1 million. The new interest rate swaps effectively fixed the interest rate on approximately 85% of the term loan portion of our credit facility through 2010. As of December 31, 2008, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.55%.

The credit facility provides for scheduled quarterly principal payments of the term loans as set out below:

Currency:	USD	Euro	CAD
2009	2,458,174	1,392,040	584,489
2010	3,318,535	1,879,254	789,059
2011	4,055,987	2,296,865	964,406
2012 (first quarter only)	4,916,348	2,784,080	1,168,976

The credit facility also requires us to make additional prepayments of the term loans under the following circumstances:

- with 100% of the net cash proceeds received by us from any sale, transfer or other disposition of any assets (excluding inventory and certain discontinued manufacturing facilities), subject to an exemption for the reinvestment of up to $3 million of such proceeds within a year of our receipt thereof in long term productive assets of the general type used in our business;
- with 100% of the net cash proceeds received by us from any insurance recovery or condemnation events, subject to certain exceptions and reinvestment rights and exempting the first $2 million;

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- with 75% of the net cash proceeds from the issuance of any common stock, subject to customary exceptions and exempting the first $100,000;
- with 100% of the net cash proceeds from the incurrence of any indebtedness by us (excluding indebtedness permitted under the credit facility, but including any subordinated indebtedness), subject to customary exceptions; and
- with 75% of our excess cash on an annual basis; that is, our Adjusted EBITDA minus consolidated interest expense, cash income tax expense, consolidated capital expenditures (subject to certain exceptions), consolidated restructuring costs, cash payments of withholding taxes from proceeds of the repurchase, redemption or retention of common stock and the aggregate amount of scheduled and voluntary payments made during the past fiscal year.

Prior to the effectiveness of the amendment and restatement of our credit facility, the percentage of our annual excess cash required to be prepaid was 40% for 2007, 27.5% for 2008 and 50% for each fiscal year thereafter. We made mandatory principal prepayments from excess cash of $9.4 million and $4.1 million in the first quarters of 2008 and 2007, respectively. During the third quarter of 2008, we also made voluntary debt repayments of approximately $6.1 million.

Our credit facility requires that we observe and perform numerous affirmative and negative covenants, including certain financial covenants. For the period ended March 31, 2008, we were in default of our leverage ratio covenant that was in effect prior to the amendment and restatement. Further, our independent registered public accounting firm included an explanatory paragraph in its report on our 2007 consolidated financial statements relating to uncertainty as to our ability to continue as a going concern, which also constituted a default under our credit facility.

As a result of the Company's amendment and restatement of its senior credit facility described below, on August 4, 2008, the Company's independent registered public accounting firm reissued its report relating to the Company's financial statements as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 to remove the explanatory paragraph with respect to the Company's ability to continue as a going concern and to insert an emphasis paragraph that the conditions that raised substantial doubt about whether the Company will continue as a going concern no longer exist.

The financial covenants per the amended credit facility are now as follows:

Minimum Interest Coverage Ratio:	Four Fiscal Quarters Ending	Ratio
The ratio of four quarter Adjusted EBITDA to interest expense.	March 31, 2008	3.00:1.00
	June 30, 2008	2.75:1.00
	September 30, 2008	2.50:1.00
	December 31, 2008	2.25:1.00
	March 31, 2009 to March 31, 2010	2.00:1.00
	June 30, 2010 to March 31, 2011	2.25:1.00
	June 30, 2011 to December 31, 2011	2.50:1.00
	March 31, 2012	2.75:1.00
Minimum Fixed Charge Coverage Ratio:	**Four Fiscal Quarters Ending**	**Ratio**
The ratio of four quarter Adjusted EBITDA to fixed charges (interest expense, scheduled principal payments, and cash taxes).	March 31, 2008	1.85:1.00
	June 30, 2008	1.70:1.00
	September 30, 2008	1.60:1.00
	December 31, 2008 and March 31, 2009	1.40:1.00
	June 30, 2009 to March 31, 2012	1.20:1.00
Maximum Leverage Ratio:	**Four Fiscal Quarters Ending**	**Ratio**
The ratio of outstanding debt to four quarter Adjusted EBITDA.	March 31, 2008	4.50:1.00
	June 30, 2008 and September 30, 2008	5.75:1.00
	December 31, 2008 and March 31, 2009	5.50:1.00
	June 30, 2009 and September 30, 2009	5.25:1.00
	December 31, 2009	5.00:1.00
	March 31, 2010 and June 30, 2010	4.75:1.00
	September 30, 2010	4.50:1.00
	December 31, 2010 and March 31, 2011	4.25:1.00
	June 30, 2011 to March 31, 2012	4.00:1.00

At March 31, 2008 we would have been in compliance with these revised covenants.

For the four fiscal quarters ended December 31, 2008 our interest coverage ratio was 3.14:1, our fixed charge coverage ratio was 2.09:1 and our leverage ratio was 3.84:1.

Our credit facility defines consolidated capital expenditures for a particular fiscal year as all expenditures required under GAAP to be included in "purchase of property and equipment" or similar items. The credit facility limits the amount of our consolidated capital expenditures in any given fiscal year to an amount not exceeding $50 million for fiscal year 2008 and $35 million for each of fiscal years 2009, 2010 and 2011, exclusive of capital expenditures paid with net insurance and condemnation proceeds; provided that the maximum amount of consolidated capital expenditures permitted in each fiscal year shall be increased by 50% of the amount below the maximum not spent in the prior fiscal year (determined without reference to any carryover amount); and provided, further, that solely for fiscal year 2008, the maximum amount that may be carried forward to fiscal year 2009 shall equal 100% of the first $10 million of any permitted consolidated expenditures not expended in fiscal year 2008 plus 50% of any remaining expenditures not expended in fiscal year 2008.

Our credit facility also prohibits the payment of dividends on our common stock.

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Contractual Obligations and Commercial Commitments

The following table provides aggregated information about our contractual obligations as of December 31, 2008.

	Payments Due by Period					
Contractual Obligations *(in millions)*	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Other
			(in millions)			
Long-term debt obligations (1)	$617.0	$ 39.7	$ 63.7	$ 513.6	$ —	$—
Interest expense on long-term debt (2)	164.2	55.3	90.2	18.7	—	—
Operating leases	20.7	4.9	6.4	3.7	5.7	—
Purchase obligations (3)	44.4	22.1	19.3	2.7	0.3	—
Pension and other postretirement obligations	68.7	6.5	11.7	12.6	37.9	—
FIN 48 obligations (4)	4.8	0.9	—	—	—	3.9
Total contractual cash obligations	$919.8	$ 129.4	$ 191.3	$ 551.3	$ 43.9	$ 3.9

(1) We may be required to make additional debt repayments based on “excess cash”, as defined in our credit agreement. We included $16.1 million as of December 31, 2008 for such additional repayments that are to be made in the first quarter of 2009 in the "Less than 1 year" column of this table. Because the amount of any such future repayment is not currently determinable, it is excluded from this table for the periods after "Less than 1 year".

(2) Interest expense shown above is based on the effective interest rate as of December 31, 2008. As of December 31, 2008, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74% and the weighted average interest rate on the portion of the term loan facility not effectively fixed, based on the 90-day LIBOR, was 7.55%. The interest rate on approximately 85% of the term loan portion of the credit facility is effectively fixed by interest rate swap contracts through December 31, 2010.

(3) Includes obligations with respect to raw materials purchases, repair and maintenance services, utilities and capital expenditures.

(4) Amounts in “Other” represent future cash outflows for which we are unable to make reasonably reliable estimates of the period of cash settlement.

Off-Balance Sheet Financing

During the year ended December 31, 2008, we have not engaged in material 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 Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. We have formal accounting policies in place including those that address critical and complex accounting areas. Note 2 to the consolidated financial statements included elsewhere in this Annual Report identify 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. We account for our derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS No. 133). SFAS No. 133 requires companies to record derivatives on their balance sheets as

either assets or liabilities measured at their fair value. All changes in the fair value of derivatives are recognized currently in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

There are two types of hedges into which we enter: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset or liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction or the variability of cash flows to be paid related to a recognized liability. Changes in derivative fair values are recognized in earnings as offsets to the changes in fair value of the related hedged assets and liabilities. Changes in the derivative fair values that are designated as cash flow hedges which meet the criteria for hedge accounting are recorded in other comprehensive income. We entered into interest rate swaps in November 2007 that initially qualified for hedge accounting under SFAS No. 133. As a result of anticipated financial covenant non-compliance for the period ended March 31, 2008, we classified as current on our balance sheet as of December 31, 2007 $641.2 million of the long-term debt under our senior credit facility. Accordingly, because this debt was potentially payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market change in their fair value was recorded as a noncash charge to interest expense of $1.9 million during the fourth quarter of 2007 and a noncash credit to interest expense of $1.7 million during the six months ended June 30, 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on 3-month LIBOR-based interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $14.4 million on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion charged to interest expense during the six months ended December 31, 2008 was less than $0.1 million.

Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157") for measuring our derivative assets and liabilities. We have classified our interest rate swaps in Level 2 of the SFAS No. 157 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 trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment.

To comply with the provisions of SFAS No. 157, we incorporated 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. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty's credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty's credit spread is applied to our exposure to the counterparty, and our own credit spread is applied to the counterparty's exposure to us, and the net credit valuation adjustment is reflected in our derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from its publicly-traded debt. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for any significant changes.

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 Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of December 31, 2008, we have assessed the net significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments reduced the settlement values of our derivative liabilities by $7.7 million. Various factors impact changes in the credit are not significant to the overall valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors were deemed immaterial by us as of December 31, 2008. 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, 2008.

Financial Accounting Standards Board (FASB) Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, permits us to defer the recognition and measurement of nonfinancial assets and nonfinancial liabilities until January 1, 2009. The adoption of SFAS No. 157 for measuring our derivative assets and liabilities resulted in a decrease in derivative liabilities of $0.9 million as of December 31, 2008. At December 31, 2008, we did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

Goodwill. We account for acquired goodwill and intangible assets in accordance with SFAS No. 141, *Business Combinations* ("SFAS No. 141"). Purchase accounting required by SFAS No. 141 involves judgment with respect to the valuation of the acquired assets and liabilities in order to determine the amount of goodwill. We believe that the estimates that we have used to record prior acquisitions are reasonable and in accordance with SFAS No. 141.

Impairment of Goodwill and Indefinite-Lived Intangible Assets. We account for acquired goodwill and goodwill impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). This pronouncement requires considerable judgment in the valuation of acquired goodwill and the ongoing evaluation of goodwill impairment. SFAS No. 142 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.

We perform an annual test for goodwill impairment as of December 31st at the business segment level. We have two business segments: clothing and roll covers. When our business was acquired in 1999, more than 80% of the goodwill was assigned to the roll covers segment based on relative fair values at the date of acquisition. In 2008 and 2007, segment earnings were $114 million and $104 million for the clothing segment, respectively, and $56 million and $54 million for the roll covers segment, respectively.

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 all tangible and intangible assets, excluding goodwill, 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 business segments based upon the percentage of each segment's revenue to total revenue. Shared expenses are allocated to each segment 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 proprietary information to determine measures that are used to value our business segments. The income approach is a present value technique used to measure the fair value of future cash flows produced by each business segment. Determining the fair value of a business segment 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 SFAS No. 142 are reasonable, but inherently uncertain.

Based on these assessments performed as of December 31, 2008, we determined that no impairment of goodwill exists. The excess of the fair value over the carrying value for our clothing and roll covers segment as of December 31, 2008, the annual test date, was approximately $134 million and $30 million, respectively. In order to evaluate the sensitivity of the analysis performed, we applied a hypothetical 5% decrease to the fair value of these business segments, which resulted in a fair value in excess of carrying value of approximately $110 million and $13 million for the clothing segment and roll covers segment, respectively.

Based on these assessments performed as of December 31, 2007, we determined that our goodwill for the roll covers segment was impaired due to expectations of lower profitability and to the increased carrying value of the net assets of the roll covers segment due primarily to currency translation effects thereon. Accordingly, we recorded a non-cash charge for goodwill impairment of $185.3 million (and a related tax benefit of $18.3 million) related to our roll covers segment. Step 1 of the process indicated that the fair value of the net assets of the roll covers segment was $69.3 million less than their carrying value as of December 31, 2007. Based on the Step 1 result, the Company proceeded with Step 2. Based on the increase in fair value of tangible and intangible assets over book value of $116.0 million as determined in Step 2, an aggregate impairment of $185.3 million was recorded. There was no goodwill impairment recorded for the clothing segment during the year ended December 31, 2007, nor for either segment prior to 2007. The excess of the fair value over the carrying value for our clothing segment as of December 31, 2007 was approximately $304 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 SFAS No. 5, *Accounting for 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. In connection with the closure of certain manufacturing facilities under our restructuring programs, in 2004, we had conducted environmental site assessments which had indicated contamination at two sites. Management believes that both sites have been substantially remediated and no significant further remediation costs are expected to be incurred. During the third quarter of 2008, while evaluating one of our foreign facilities, we discovered the possibility of contamination at the facility. Subsequently we had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to clean up the facility. Based upon this evaluation, we recorded $4.1 million in 2008 as our best estimate of the remediation costs we expect to incur.

Income Taxes. We utilize the asset and liability method for accounting for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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 have recognized a net deferred tax liability of $1.4 million at December 31, 2008 and $15.1 million at December 31, 2007. The deferred taxes relate principally to pension and post-retirement benefits, intangible assets and differences between the book and tax bases of property and equipment.

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. Relevant evidence, both positive and negative, is considered in determining the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years. In light of our accumulated loss position in certain tax jurisdictions at December 31, 2008, and the uncertainty of profitability in future periods, we recorded valuation allowances for deferred tax assets primarily related to net operating loss carryforwards in the United States, Germany, Sweden and Australia.

Undistributed earnings of our foreign subsidiaries amounted to approximately $231 million at December 31, 2008. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for income taxes or withholding taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we may be subject to both income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various jurisdictions. Determination of the amount of unrecognized deferred U.S. income tax liability or withholding taxes is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credit carryforwards and net operating loss carryforwards would be available to reduce some portion of the liability.

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. 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. There are currently no U.S. Federal or state audits or examinations underway. We are currently concluding an audit relating to our German subsidiaries for tax years 1999 through 2002. There are various minor adjustments proposed for which we have established reserves in amounts sufficient to meet any assessment. The Canadian Federal tax authorities contacted us in October of 2008 and have initiated an audit of our Canadian companies. The audit is still in the initial information gathering stages and no issues or assessments have been raised. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS No. 109. FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. 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 percent likelihood of being realized upon ultimate settlement. We adopted FIN 48 on January 1, 2007 and, accordingly, recorded a cumulative effect increase of $3.3 million to accumulated deficit, an increase of $0.6 million to income taxes payable and an increase of $2.7 million to other long-term liabilities for uncertain tax positions upon adoption. Management cannot provide a reasonably reliable estimate of the period of related future payments for which settlement is expected to occur beyond the next twelve months.

Pension and Postretirement Plans. We have various defined benefit plans and we also had an unfunded plan to provide postretirement healthcare benefits to substantially all retired U.S. employees and their covered dependents and beneficiaries. During the third quarter of 2008, we froze benefit pension accruals under our Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the “Pension Plan”) effective December 31, 2008 so that future service beyond December 31, 2008 will no longer be credited under the Pension Plan, and also curtailed sponsoring or funding, as of December 31, 2008, our U.S. retiree health insurance. Accordingly we expect to have lower pension expense in 2009 as compared with 2008 and minimal postretirement expense after 2008.

We use assumptions, such as expected long-term return on plan assets and discount rate, to determine our pension expense. We cannot determine whether or how much future assumptions may change. However, as of December 31, 2008, a 1% increase or decrease in the following assumptions would increase (decrease) pension expense, on a pre-tax basis as follows:

(in millions)	Effect of 1% increase in :	
	Discount Rate	Expected Long-Term Return on Plan Asset
Increase (decrease) to pension expense	$ (6.8)	$ 7.6

	Effect of 1% decrease in :	
	Discount Rate	Expected Long-Term Return on Plan Asset
Increase (decrease) to pension expense	$ 10.2	$ (8.9)

New Accounting Standards

Effective January 1, 2008, we partially adopted SFAS No. 157. This statement clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. We adopted this statement for our derivative assets and liabilities, which are measured at fair value on a recurring basis, determined by using observable inputs of the fair value hierarchy prescribed by SFAS No. 157. The adoption of SFAS No. 157 for measuring our derivative assets and liabilities resulted in a decrease in derivative assets of $0.9 million as of December 31, 2008. See "Derivatives and Hedging" above. Financial Accounting Standards Board (FASB) Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, permits the Company to defer the recognition and measurement of its nonfinancial assets and nonfinancial liabilities until January 1, 2009. At December 31, 2008, we did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS No. 158"). This pronouncement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet, measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for defined benefit plans and the accumulated postretirement benefit obligation for other postretirement plans). SFAS No. 158 also requires an employer to recognize changes in its funded status in the year in which the changes occur through comprehensive income. We adopted the funded status provisions of SFAS No. 158 as of December 31, 2006. In addition, effective for fiscal years ending on or after December 15, 2008, this statement requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet, with limited exceptions. Earlier application of this provision is encouraged and accordingly, we changed the September 30 measurement date of our U.S. pension and postretirement plans to December 31 for the fiscal year ending December 31, 2007. We remeasured the plan assets and obligations of our U.S. plans using the remeasurement method allowed under SFAS No. 158 and, accordingly, as of January 1, 2007, recognized a $1.7 million increase to accumulated deficit, a $0.5 million decrease to accumulated other comprehensive loss and a $1.2 million increase to pension, other postretirement and postemployment obligations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). Unrealized gains and losses on items for which the Fair Value Option has been elected are reported in earnings. The Fair Value Option is applied instrument by instrument (with certain exceptions), is irrevocable

(unless a new election date occurs) and is applied only to an entire instrument. The effect of the first remeasurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 with earlier application permitted, subject to certain conditions. Our adoption of SFAS No. 159 did not have a material effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. Transaction costs will be expensed as incurred. SFAS 141R also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS No. 141R amends SFAS No. 109, *Accounting for Income Taxes*, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The potential impact that the adoption could have on our financial statements is unknown until such time that we enter into a business combination transaction during a period subsequent to the required adoption date of SFAS No. 141R.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS No. 160"), an amendment of Accounting Research Bulletin ("ARB") No. 51 ("ARB No. 51"). SFAS No. 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for, and reporting of, transactions between the reporting entity and holders of such noncontrolling interests. Under SFAS No. 160, noncontrolling interests are considered equity and should be reported as an element of consolidated equity. Net income will encompass the total income of all consolidated subsidiaries, and there will be separate disclosure on the face of the statement of operations of the attribution of that income between the controlling and noncontrolling interests; increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008, and earlier application is prohibited. SFAS 160 is required to be adopted prospectively, except for reclassifying noncontrolling interests to equity, separate from the parent's shareholders' equity, in the consolidated statement of financial position and recasting consolidated net income (loss) to include net income (loss) attributable to both the controlling and noncontrolling interests, both of which are required to be adopted retrospectively. Since essentially all of our subsidiaries are 100% owned, we do not expect that the adoption of SFAS No. 160 will have a significant impact to our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS No. 161"), an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We believe that the adoption of SFAS No. 161 will not have a material effect on our financial position or results of operations.

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Non-GAAP Liquidity Measures

We use EBITDA and Adjusted EBITDA 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. Our credit facility includes covenants based on Adjusted EBITDA. If our Adjusted EBITDA declines below certain levels, we will violate covenants resulting in a default condition under the credit facility or be required to prepay the credit facility. Neither EBITDA nor Adjusted EBITDA should be considered in isolation or as a substitute for net cash provided by operating activities (as determined in accordance with GAAP) or income (loss) from operations (as determined in accordance with GAAP).

EBITDA is defined as net income (loss) before interest expense, income tax provision (benefit) and depreciation and amortization. Adjusted EBITDA is defined in our credit facility and is EBITDA plus (i) restructuring or related impairment costs (not to exceed $12.0 million in the aggregate for 2007 and $5.0 million in the aggregate in each year thereafter), (ii) reserves for inventory in connection with plant closings, (iii) stock-based and other non-cash compensation charges, charges from forgiveness of loans made to employees in connection with the purchase of equity and any tax gross-up payments made in respect of such loan forgiveness in connection with or prior to the completion of our initial public offering, (iv) certain transaction costs, including costs incurred in connection with our initial public offering and the related debt financing, the legal reorganization of Brazilian subsidiaries and the preparation and closing of the existing credit agreement, (v) consolidated amendment/termination costs, which consist of costs incurred in connection with the consummation of the fourth and fifth amendments to the senior credit facility and the termination of the employment contract of the former Chief Executive Officer and transition to the new Chief Executive Officer, not to exceed $8.0 million in the aggregate, (vi) non-cash charges resulting from the application of purchase accounting, (vii) non-cash expenses resulting from the granting of stock options, restricted stock or restricted stock unit awards under equity compensation programs solely with respect to our common stock and (viii) expenses incurred not exceeding $7 million per year as a result of the repurchase, redemption or retention of our own common stock earned under equity compensation programs solely in order to make withholding tax payments. The amended credit agreement specified Adjusted EBITDA is $35,610,000, $36,514,000 and $38,431,000 for the quarters ended March 31, 2008, December 31, 2007 and September 30, 2007, respectively. For the quarter ended March 31, 2008, the amount reflects an increase of $800 over the originally disclosed amount in the first quarter of 2008, related to the transition to the new Chief Executive Officer. Adjusted EBITDA, as defined in the credit facility and calculated below, may not be comparable to similarly titled measurements used by other companies.

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The following table provides a reconciliation from net cash provided by operating activities, which is the most directly comparable GAAP financial measure, to EBITDA and Adjusted EBITDA.

	Year Ended December 31,		
	2008	2007	2006
		(in thousands)	
Net cash provided by operating activities	$ 77,068	$ 89,020	$ 69,236
Interest expense, net	58,504	53,126	40,016
Net change in operating assets and liabilities	(48,149)	(8,845)	21,661
Income tax provision (benefit)	3,901	(2,345)	13,107
Stock-based compensation	(4,275)	(1,749)	(2,507)
Deferred financing cost amortization	(4,670)	(3,676)	(3,726)
Deferred taxes	12,948	16,984	(4,793)
Asset impairment	(3,989)	(389)	(2,095)
Unrealized foreign exchange gain (loss) on indebtedness, net	10,272	(4,198)	(964)
Gain on disposition of property and equipment	3,080	1,367	319
Change in fair value of interest rate swaps	1,668	(6,146)	1,604
Goodwill impairment	—	(185,300)	—
Curtailment/settlement gains	39,968	—	—
Provision for bad debt expense	(11,397)	(1,740)	(2,055)
EBITDA	**134,929**	**(53,891)**	**129,803**
Expenses related to debt or equity financing	—	—	116
Amendment/termination costs (G)	6,766	—	—
Unrealized foreign exchange (gain) loss on indebtedness, net (E)	(1,985)	4,198	964
Change in fair value of interest rate swaps (F)	13,686	(3,954)	—
Change in fair value of other derivatives	(2,126)	—	—
Restructuring expenses (A)	5,000	7,344	2,641
Non-cash compensation and related expenses	2,009	1,749	2,507
Non-cash impairment charges (B)	3,989	185,689	2,095
Growth program costs (C)	1,764	4,656	—
Inventory write-offs under restructuring programs	455	148	—
Non-recurring expenses resulting from cost reduction programs (D)	—	82	8,044
Adjusted EBITDA	**$164,487**	**$146,021**	**$146,170**

(A) Restructuring and related impairment costs, including growth program costs (in 2007) that can be added back to determine Adjusted EBITDA were capped at $5,000 for 2008, $12,000 for 2007 and $4,000 for 2006.

(B) In accordance with the definition of Adjusted EBITDA in our credit facility, non-cash impairment charges resulting from application of Statement of Financial Accounting Standards Nos. 141, 142 and 144 have been added back to Adjusted EBITDA.

(C) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, growth program costs are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008. During 2007 and through the first quarter of 2008, growth programs were added back to Adjusted EBITDA based upon the credit facility agreement as in effect at that time. Growth program costs were not added back to net income in calculating Adjusted EBITDA for the year ended December 31, 2006 because the credit facility as in effect at that time did not provide for the add back of such items. Growth programs were those intended to increase productivity and economic efficiency or our market share capacity, reduce cost structure, improve equipment utilization or provide additional regional capacity to better serve growth markets. Our growth program costs included expenses incurred for our lean manufacturing initiatives, expansion into Vietnam and other growth programs. The amount of growth programs was $5,321 in 2007, which was reduced above due to the cap as noted in (A).

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(D) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, non-recurring expenses resulting from cost reduction programs are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008. Prior to that period, cost reduction programs were added back to Adjusted EBITDA based upon the credit facility agreement as in effect at that time and were comprised of the following:

	Year Ended December 31, 2008	Year Ended December 31, 2007 (in thousands)	Year Ended December 31, 2006
Environmental charges in connection with facilities closures pursuant to cost reduction programs (1)	$ —	$ (50)	$ 3,072
Certain operating costs incurred in connection with the transition of production operations from closed facilities to other facilities (2)	—	132	4,972
Total	$ —	$ 82	$ 8,044

(1) The 2007 amount reflects the reversal of amounts accrued in prior periods.

(2) For 2007, the amount includes added operating costs related to restructuring programs in Italy. For 2006, the amount includes added operating costs related to closures in North America and Italy of $3,465 and $1,507, respectively.

(E) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, unrealized foreign exchange gains and losses on indebtedness are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008. Prior to that period, such gains and losses were added back to Adjusted EBITDA based upon the credit facility agreement as in effect at that time.

(F) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, interest expense added back to calculate Adjusted EBITDA excludes, for periods beginning after the quarter ended March 31, 2008, the effect of any non-cash gains and losses resulting from the marking to market of hedging obligations that has been charged to interest expense. Had this amended definition been in place for all periods presented, Adjusted EBITDA would have been $12,156 lower for 2008, $6,146 lower for 2007 and $1,604 higher for 2006.

(G) For 2008, amendment/termination costs include $5,966 of costs incurred in connection with the consummation of the fourth and fifth amendments to the credit facility and an $800 increase to Adjusted EBITDA for the first quarter of 2008, in accordance with the agreement with our lenders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Hedging. We have foreign currency cash flow and earnings exposure with respect to specific sale 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 this exposure, 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 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 $3.8 million at December 31, 2008. These contracts mature at various dates through October 2009.

Relative to foreign currency exposures existing at December 31, 2008, a 10% unfavorable movement in foreign currency exchange rates would not expose us to significant losses in earnings or cash flows because we hedge substantially all of our exposures against fluctuations in foreign currency exchange rates. As of December 31, 2008, we had open foreign currency exchange contracts maturing through October 2009 with total net notional amounts of approximately $10.3 million. At December 31, 2008, we prepared an analysis to determine the sensitivity of our forward foreign exchange contracts to changes in exchange rates. A hypothetical adverse exchange rate movement of 10% against our forward foreign exchange contracts would have resulted in potential net loss in fair value of these contracts of approximately $1.0 million. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar. In addition to the direct effects of changes in exchange rates, such changes typically 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. Our senior credit facility has a variable interest rate. We had entered into interest rate swap contracts effective June 30, 2005 pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR rates. These interest rate swaps did not qualify for hedge accounting under SFAS No. 133 and the change in their fair value was subject to mark to market through earnings. As a result of the mark to market accounting through earnings, we recorded a mark to market increase (decrease) to interest expense of $4.2 million and ($1.6) million during the years ended December 31, 2007 and 2006, respectively. Although these interest rate swaps were subject to mark to market accounting through earnings, they were to have effectively fixed, from a cash flow hedge perspective, the interest rate on approximately 86% of the term loan portion of the credit facility through June 30, 2008.

We entered into interest rate swaps in November 2007 that initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 1 of the Notes to Condensed Consolidated Financial Statements, we classified as current on our balance sheet as of December 31, 2007 $641.2 million of the long-term debt under our senior credit facility. Accordingly, because the debt was potentially payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps. A non-cash credit of $1.7 million was recorded to interest expense for the six months ended June 30, 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on 3-month LIBOR-based interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $14.4

million on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion charged to interest expense during the six months ended December 31, 2008 was less than $0.1 million. The interest rate swaps effectively fix, from a cash flow perspective, the interest rate on approximately 85% of the term loan portion of the our credit facility through 2010. As of December 31, 2008, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%; the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.55%. As a result of the amendment of our senior credit facility agreement on May 30, 2008, the applicable margin for LIBOR term loans, LIBOR revolving loans, Euribor loans and CDOR loans under our senior credit facility increased from 2.75% to 5.50%. We estimate that a 1% increase in the LIBOR rate would increase our interest expense on the term debt by approximately $0.9 million on an annual basis through December 31, 2010, the period covered by the interest rate swap agreements.

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

We have carried out an evaluation, as of December 31, 2008, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a–15(e) and 15d–15(e) under the Securities Exchange Act of 1934, as amended (the “Act”). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms; and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. No evaluation of disclosure controls and procedures can provide absolute assurance that these controls and procedures will operate effectively 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, 2008. 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, 2008. 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, 2008, which appears in our 2008 Annual Report.

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Shareholders.

In August of 2008 we filed with the New York Stock Exchange ("NYSE") the Annual CEO Certification regarding the Company's compliance with the NYSE's Corporate Governance listing standards as required by Section 303A-12(a) of the NYSE Listed Company Manual. In addition, we filed as exhibits to this annual report on Form 10-K the applicable certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of our public disclosures.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2009 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 2009 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 2009 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 2009 Annual Meeting of Shareholders.

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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 Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements and Schedule

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

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.

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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 Youngsville, North Carolina, on March 12, 2009.

XERIUM TECHNOLOGIES, INC.

By: /s/ STEPHEN R. LIGHT
Stephen R. Light
Chairman, 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 on March 12, 2009.

Signature	Title
/s/ STEPHEN R. LIGHT **Stephen R. Light**	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ MICHAEL O' DONNELL **Michael O' Donnell**	Chief Financial Officer and Director (Principal Financial and Accounting Officer)
/s/ JOHN GURANDIANO **John Gurandiano**	Director
/s/ NICO HANSEN **Nico Hansen**	Director
/s/ DAVID MAFFUCCI **David Maffucci**	Director
/s/ EDWARD PAQUETTE **Edward Paquette**	Director
/s/ MICHAEL PHILLIPS **Michael Phillips**	Director
/s/ JOHN G. RAOS **John G. Raos**	Director

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Appendix

Index to Consolidated Financial Statements

XERIUM TECHNOLOGIES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

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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, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (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 Statement of Financial Responsibility and Report of Management 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, 2008, 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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008, of Xerium Technologies, Inc. and our report dated March 9, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Raleigh, North Carolina
March 9, 2009

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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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, 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.

As discussed in Note 9 to the consolidated financial statements, in 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FAS 109*. Also, as discussed in Note 10 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

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, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Raleigh, North Carolina
March 9, 2009

XERIUM TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007
	(dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,733	$ 24,218
Accounts receivable (net of allowance for doubtful accounts of $14,937 in 2008 and $5,367 in 2007)	94,049	113,256
Inventories	85,543	113,136
Prepaid expenses	4,844	6,287
Other current assets	14,938	29,441
Total current assets	234,107	286,338
Property and equipment, net	384,590	421,470
Goodwill	155,205	159,892
Intangible assets	32,129	17,381
Other assets	5,541	6,360
Total assets	$ 811,572	$ 891,441
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	$ —	$ 1,676
Accounts payable	53,076	44,842
Accrued expenses	83,139	61,070
Current maturities of long-term debt	39,687	19,253
Long-term debt classified as current	—	641,179
Total current liabilities	175,902	768,020
Long-term debt, net of current maturities and long-term debt classified as current	577,270	4,693
Deferred and long-term taxes	13,358	23,114
Pension, other postretirement and postemployment obligations	67,029	90,749
Other long-term liabilities	5,594	5,917
Commitments and contingencies (Note 12)		
Stockholders' equity (deficit)		
Preferred stock, $0.01 par value, 1,000,000 shares authorized; no shares outstanding as of December 31, 2008 and 2007	—	—
Common stock, $0.01 par value, 150,000,000 shares authorized; 46,257,772 and 46,028,003 shares outstanding as of December 31, 2008 and 2007, respectively	463	460
Paid-in capital	220,370	216,360
Accumulated deficit	(218,915)	(245,511)
Accumulated other comprehensive income (loss)	(29,499)	27,639
Total stockholders' deficit	(27,581)	(1,052)
Total liabilities and stockholders' deficit	$ 811,572	$ 891,441

See accompanying notes.

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XERIUM TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2008	2007	2006
		(dollars in thousands except per share data)	
Net sales	$ 638,139	$ 615,426	$ 601,439
Costs and expenses:			
Cost of products sold	394,467	361,913	355,375
Selling	80,175	79,157	76,313
General and administrative	92,112	70,218	70,621
Restructuring and impairments	16,968	7,733	4,736
Research and development	11,740	10,189	9,878
Goodwill impairment	—	185,300	—
Curtailment/settlement gains	(39,968)	—	—
	555,494	714,510	516,923
Income (loss) from operations	82,645	(99,084)	84,516
Interest expense	(60,328)	(54,609)	(41,893)
Interest income	1,824	1,483	1,877
Foreign exchange gain (loss)	6,356	(347)	(105)
Income (loss) before provision for income taxes	30,497	(152,557)	44,395
Provision (benefit) for income taxes	3,901	(2,345)	13,107
Net income (loss)	$ 26,596	$ (150,212)	$ 31,288
Net income (loss) per share:			
Basic	$ 0.58	$ (3.36)	$ 0.71
Diluted	$ 0.58	$ (3.36)	$ 0.71
Shares used in computing net income (loss) per share:			
Basic	46,133,841	44,745,296	43,768,609
Diluted	46,196,458	44,745,296	43,896,302
Cash dividends per common share	$ —	$ 0.5625	$ 0.90

See accompanying notes.

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XERIUM TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock					
	Shares	Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	(dollars in thousands)					
Balance at December 31, 2005	43,725,093	$ 437	$199,285	$ (56,876)	$ (33,500)	$ 109,346
Components of comprehensive loss:						
Net income	—	—	—	31,288	—	31,288
Foreign currency translation adjustments	—	—	—	—	21,371	21,371
Minimum pension liability adjustment, net of income taxes of $614	—	—	—	—	(1,712)	(1,712)
Change in value of derivative instruments, net of income taxes of $288	—	—	—	—	284	284
Total other comprehensive income						51,231
Cumulative adjustment for SFAS No. 158 transition, net of income taxes of $1,507	—	—	—	—	(6,727)	(6,727)
Issuance of common stock underlying restricted stock units	74,569	1	(375)	—	—	(374)
Compensation expense	—	—	2,507	—	—	2,507
Dividends paid to stockholders	—	—	146	(39,549)	—	(39,403)
Balance at December 31, 2006	43,799,662	438	201,563	(65,137)	(20,284)	116,580
Components of comprehensive loss:						
Net loss	—	—	—	(150,212)	—	(150,212)
Foreign currency translation adjustments	—	—	—	—	30,285	30,285
Change in funded status under SFAS No. 158, net of income taxes of $161	—	—	—	—	17,228	17,228
Change in value of derivative instruments, net of income taxes of $0	—	—	—	—	(90)	(90)
Total other comprehensive loss						(102,789)
Adoption of FIN 48	—	—	—	(3,323)	—	(3,323)
Early adoption of change in measurement date under SFAS No. 158				(1,700)	500	(1,200)
Issuance of common stock underlying restricted stock units	81,976	1	(288)	—	—	(287)
Issuance of common stock under dividend reinvestment plan	2,146,365	21	13,219	(13,240)	—	—
Compensation expense	—	—	1,749	—	—	1,749
Dividends paid to stockholders	—	—	117	(11,899)	—	(11,782)
Balance at December 31, 2007	46,028,003	460	216,360	(245,511)	27,639	(1,052)
Components of comprehensive income (loss):						
Net income	—	—	—	26,596	—	26,596
Foreign currency translation adjustments	—	—	—	—	(23,772)	(23,772)
Change in funded status under SFAS No. 158, net of income taxes of $(5)	—	—	—	—	(19,507)	(19,507)
Change in value of derivative instruments, net of income taxes of $534	—	—	—	—	(13,859)	(13,859)
Total other comprehensive loss	—	—	—	—	—	(30,542)
Issuance of common stock underlying restricted stock units	229,769	3	(265)	—	—	(262)
Compensation expense	—	—	4,275	—	—	4,275
Balance at December 31, 2008	46,257,772	$ 463	$220,370	$ (218,915)	$ (29,499)	$ (27,581)

See accompanying notes.

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XERIUM TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2008	2007	2006
	(dollars in thousands)		
Operating activities			
Net income (loss)	$ 26,596	$(150,212)	$ 31,288
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Goodwill impairment	—	185,300	—
Stock-based compensation	4,275	1,749	2,507
Depreciation	42,963	41,108	40,969
Amortization of other intangibles	2,965	4,432	4,423
Deferred financing cost amortization	4,670	3,676	3,726
Unrealized foreign exchange (gain) loss on revaluation of debt	(10,272)	4,198	964
Deferred taxes	(12,948)	(16,984)	4,793
Asset impairment	3,989	389	2,095
Gain on disposition of property and equipment	(3,080)	(1,367)	(319)
Change in the fair value of interest rate swaps	(1,668)	6,146	(1,604)
Curtailment/settlement gain	(39,968)	—	—
Provision for bad debt expense	11,397	1,740	2,055
Change in assets and liabilities which provided (used) cash:			
Accounts receivable	431	4,096	(2,384)
Inventories	20,664	2,243	261
Prepaid expenses	1,190	(1,403)	1,531
Other current assets	1,389	983	(2,300)
Accounts payable and accrued expenses	24,230	7,246	(11,695)
Deferred and other long term liabilities	245	(4,320)	(7,074)
Net cash provided by operating activities	77,068	89,020	69,236
Investing activities			
Capital expenditures, gross	(39,028)	(47,859)	(32,456)
Proceeds from disposals of property and equipment	4,528	2,961	1,012
Proceeds from dispositions of businesses	—	—	1,666
Payment for acquisitions, net of cash acquired	144	(12,298)	(8,155)
Other	(877)	(4)	(7)
Net cash used in investing activities	(35,233)	(57,200)	(37,940)
Financing activities			
Net increase (decrease) in borrowings (maturities of 90 days or less)	(1,776)	(8,207)	538
Proceeds from borrowings (maturities longer than 90 days)	2,687	5,435	155
Principal payments on debt	(24,429)	(10,890)	(36,870)
Cash dividends on common stock	—	(11,782)	(39,403)
Other	(8,794)	(1,793)	(2,628)
Net cash provided by (used in) financing activities	(32,312)	(27,237)	(78,208)
Effect of exchange rate changes on cash flows	992	2,819	3,752
Net increase (decrease) in cash	10,515	7,402	(43,160)
Cash and cash equivalents at beginning of year	24,218	16,816	59,976
Cash and cash equivalents at end of year	$ 34,733	$ 24,218	$ 16,816
Interest payments	$ 64,059	$ 39,780	$ 40,000
Income tax payments	$ 12,530	$ 10,981	$ 19,101
Supplemental schedule of noncash investing activities (Note 1)			
Common stock issued in lieu of cash dividends pursuant to the Dividend Reinvestment Plan	$ —	$ 13,240	$ —
Accrued capital expenditures	$ 3,672	$ —	$ —

See accompanying notes.

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands except per share data)

December 31, 2008

1. Company History

Xerium Technologies, Inc. (the "Company"), is a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper – clothing and roll covers. Operations are strategically located in the major paper-making regions of the world, including North America, Europe, South America and Asia-Pacific. The Company was reorganized in connection with its initial public offering, which was completed on May 19, 2005.

(a) Going Concern as of December 31, 2007

The consolidated financial statements as of December 31, 2007 were prepared assuming that the Company would continue as a going concern, which was contingent upon, among other things, the Company's ability to comply with all debt covenants under its then existing senior credit facility. As the Company was not in compliance with certain financial covenants for the period ended March 31, 2008, the balance sheets as of March 31, 2008 and December 31, 2007 included a reclassification of $658,815 and $641,179, respectively, to reflect as current the long-term debt under the senior credit facility. Additionally, because this debt was potentially payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS No. 133") was no longer applicable for these interest rate swaps and the mark to market changes in their fair value was recorded as non-cash charges to interest expense through June 30, 2008. These mark to market changes resulted in a credit to interest expense of $1,687 for the six month period ended June 30, 2008. See Note 8 for further discussion of derivatives and hedging.

On April 8, 2008, the Company entered into an amendment and waiver agreement with its lenders relating to its senior credit facility pursuant to which the lenders agreed to waive through May 31, 2008 (the "forbearance period") any past and then existing defaults. On May 30, 2008, prior to the expiration of the waiver, the Company entered into an amendment and restatement of the credit agreement governing its credit facility (Amendment No. 5) (See Note 7). After giving effect to Amendment No. 5, the Company believes that it was in compliance with all financial covenants of its credit facility. Based upon such compliance and other factors, the Company believes that the going concern contingency no longer exists. Thus, the Company reclassified on its balance sheet as of June 30, 2008 the long-term debt under the senior credit facility previously reported as current, to long-term. Additionally, related deferred financing costs that had been classified as other current assets as of December 31, 2007 and March 31, 2008 have been reclassified to intangible assets as of June 30, 2008 in the amount of approximately $21,000 which included approximately $8,500 of deferred financing costs capitalized during the second quarter of 2008 incurred in connection with the amendments.

As a result of the Company's amendment and restatement of its senior credit facility described above, on August 4, 2008, the Company's independent registered public accounting firm reissued its report relating to the Company's financial statements as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 to remove the explanatory paragraph with respect to the Company's ability to continue as a going concern and to insert an emphasis paragraph that the conditions that raised substantial doubt about whether the Company will continue as a going concern no longer exist.

(b) Acquisition of Roll Covers Operation.

On November 29, 2007, the Company acquired 100% of the common stock of a company which has two subsidiaries in China, one of which is 100% owned and the other 90% owned, for $11,787, net of $799 cash

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acquired. The purchase price was subject to a purchase price adjustment. The impact of the minority interest was not material to the Company's financial statements, where it has been included in general and administrative expenses on the statement of operations and other long-term liabilities in the balance sheet. As a result of the transaction, the Company acquired two established roll covers manufacturing plants in China whose results of operations have been included in the Company's consolidated statements of operations from the date of acquisition. The Company recorded $6,722 and $917 of goodwill and intangible assets, respectively, as a result of this transaction during 2007. The weighted average amortization period of these acquired intangible assets is approximately six years.

(c) Acquisition of PMA Shoji Co. Ltd.

On August 31, 2006 the Company acquired certain assets, and assumed certain related liabilities, of PMA Shoji Co. Ltd. ("PMA") for a total purchase price of $1,742, subject to certain adjustments, and assumed liabilities as follows:

Fair value of assets acquired	$ 3,961
Cash to be paid for assets acquired	(1,742)
Liabilities assumed	$ 2,219

The Company paid cash of $1,205 during 2006 related to this acquisition and made the final payment in June 2007. The acquisition was accounted for under the purchase method of accounting and, accordingly, PMA's results of operations have been included in the Company's consolidated statements of operations from the date of acquisition.

(d) Sale of Huyck Dewatering Equipment

On August 28, 2006 the Company completed the sale of its dewatering equipment business and received proceeds related thereto of $1,666. The dewatering equipment business involved the manufacture and sale of equipment utilized for the purpose of enhancing the removal of water from the paper manufacturing process.

(e) Acquisition of Coldwater Covers, Inc.

On February 2, 2006 the Company acquired all of the capital stock of privately-held Coldwater Covers, Inc. ("Coldwater") and a related manufacturing facility for a total purchase price of $6,999, subject to certain adjustments, and assumed liabilities as follows:

Fair value of assets acquired	$ 7,058
Cash paid for capital stock and manufacturing facility	(6,999)
Liabilities assumed	$ 59

Coldwater manufactures polyurethane and composite roll covers and bowed rolls, primarily for the paper industry and provides mechanical services for rolls used in paper making and in a variety of other industrial applications. The acquisition was accounted for under the purchase method of accounting and, accordingly, Coldwater's results of operations have been included in the Company's consolidated statements of operations from the date of acquisition.

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

2. Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared on the basis of U.S. Generally Accepted Accounting Principles. 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. The Company sells to certain customers on a consignment basis. 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 based on actual product usage 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 and 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, and other 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 $1,501, $1,880 and $2,088 in 2008, 2007 and 2006, 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' equity (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 gain (loss)" and amounted to a gain of $6,356 for the year ended December 31, 2008 and a loss of $347 and $105 for the years ended December 31, 2007 and 2006, 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).

Effective January 1, 2008, the Company changed the functional currency of one of its subsidiaries from the British Pound to the Euro. Significant changes in economic facts and circumstances supported this change in functional currency. The change in functional currency is applied on a prospective basis.

Derivatives and Hedging

There are two types of hedges into which the Company enters: hedges of cash flow exposure and hedges of fair value exposure. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction or the variability of cash flows to be paid related to a recognized liability. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset or liability, or a firm commitment. The Company accounts for its derivative instruments in accordance SFAS No. 133 which requires companies to record derivatives on their balance sheets as either assets or liabilities measured at their fair value. All changes in the fair value of derivatives are recognized currently in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Changes in the derivative fair values that are designated as cash flow hedges which meet the criteria for hedge accounting are recorded in other comprehensive income (loss). Changes in derivative fair values that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair value of the related hedged assets and liabilities. The Company's derivative and hedging activities are discussed in Note 8.

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), for measuring its derivative assets and liabilities. SFAS No. 157 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, SFAS No. 157 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

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

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 for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related 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 considers factors specific to the asset or liability.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty'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 utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2008, the Company has 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 are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2008.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observables Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives	$ 2,321	$ —	$ 2,321	$ —
Total	$ 2,321	$ —	$ 2,321	$ —
Liabilities				
Derivatives	$(22,029)	$ —	$ (22,029)	$ —
Total	$(22,029)	$ —	$ (22,029)	$ —

Estimates

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

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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, 2008, the Company's deposits in U.S. bank accounts did not exceed the FDIC guarantee of $250k per depositer.

Allowance for Doubtful Accounts

Bad debt provisions are included in general and administrative expense. The amounts recorded are derived based upon specific customer credit history and payment trends and the general aging of receivables, while also factoring in any new business conditions.

Inventories

Inventories are 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 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. Expenses for inventory write downs were $13,351, $1,288 and $1,334 during the years ended December 31, 2008, 2007 and 2006, respectively.

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 approximate fair value due to their short-term nature. The carrying value of long-term debt is greater than its fair value (see Note 7). 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

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

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Intangible assets

Intangible assets consist of patents, licenses, trademarks and deferred financing costs in 2006. In 2007, as a result of the going concern matter discussed in Note 1, deferred financing costs were reclassified to other current assets and, as of June 30, 2008, were reclassified to intangible assets.

Patents, licenses and trademarks are amortized on a straight-line basis over their remaining lives, which range from one and a half to fifteen years. Deferred financing costs are amortized using the effective interest method as a component of interest expense over the life of the related debt.

Impairment

The Company reviews its long-lived assets that have finite lives for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that companies evaluate the fair value of long-lived assets based on the anticipated undiscounted future cash flows to be generated by the assets when indicators of impairment exist to determine if there is impairment to the carrying value. Any change in the carrying amount of an asset as a result of the Company's evaluation has been recorded in restructuring and impairments expense in the consolidated statements of operations. Impairment charges are discussed in Note 15.

Goodwill

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, *Accounting for Goodwill and Other Intangible Assets* ("SFAS No. 142"). SFAS No. 142 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 all tangible and intangible assets, excluding goodwill, 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 31st at the business segment level. The Company has two business segments: clothing and roll covers. For the purpose of performing the annual impairment test, the Company allocates all shared assets and liabilities to the business segments based on the percentage of each segment's revenue to total revenue. Shared operating expenses are allocated to the business segments to the extent necessary to allow them to operate as independent businesses. To determine if impairment exists, the fair value of each business segment is compared to its carrying value. The fair value of the Company's segments was determined by using a weighted combination of both a market multiple approach and an income approach. The market multiple approach utilizes the Company's proprietary information that is used to value its business segments. The income approach is a present value technique used to measure the fair value of future cash flows produced by each business segment. As a result of the tests as of December 31, 2008, the Company determined that no goodwill impairment exists.

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As a result of the tests as of December 31, 2007, the Company determined that its goodwill for the roll covers segment was impaired due to expectations of lower profitability and to the increased carrying value of the net assets of the roll covers segment due primarily to currency translation effects thereon. Accordingly, the Company recorded a non-cash charge for goodwill impairment of $185,300 (and a related tax benefit thereon of $18,285) related to its roll covers segment. Step 1 of the process indicated that the fair value of the net assets of the roll covers segment was $69,300 less than their carrying value as of December 31, 2007. Based on Step 1 result, the Company proceeded with Step 2. Based on the increase in fair value of tangible and intangible assets over book value of $116,000 as determined in Step 2, an aggregate impairment of $185,300 was recorded. There was no goodwill impairment recorded for the clothing segment during the year ended December 31, 2007, nor for either segment prior to 2007.

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment (Revised 2004)* (“SFAS No. 123R”), which discontinued the accounting for share-based compensation using Accounting Principles Board No. 25 (“APB No. 25”) and generally requires that such transactions be recognized in the statement of operations based on their fair values at the date of grant. See Note 13 for further discussion.

Net Income (Loss) Per Common Share

Net income (loss) per common share has been computed and presented pursuant to the provisions of SFAS No. 128, *Earnings per Share* (“SFAS No. 128”). Net income (loss) per share is based on the weighted-average number of shares outstanding during the period.

As of December 31, 2008, 2007 and 2006, the Company had outstanding restricted stock units (“RSUs) (See Note 13). 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 shareholder return targets because the performance criteria have not been contingently achieved and therefore the RSUs are not contingently issuable. During 2007, 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 antidilutive as the Company incurred a net loss. During 2008, the dilutive effect of potential future issuances of common stock underlying certain of the Company’s RSUs was excluded from the calculation of diluted average shares outstanding because their effect would have been antidilutive.

	2008	2007	2006
Weighted-average common shares outstanding—basic	46,133,841	44,745,296	43,768,609
Dilutive effect of stock-based compensation awards outstanding	62,617	—	127,693
Weighted-average common shares outstanding—diluted	46,196,458	44,745,296	43,896,302

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, 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 change in deferred tax assets and liabilities, excluding any amounts accounted for as components of goodwill or accumulated other comprehensive loss, from the prior year, including the effect of foreign currency translation thereon. Income taxes are further discussed in Note 9.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. See Note 9 for additional discussion.

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

Certain prior year balances have been reclassified to conform with the current year presentation.

New Accounting Standards

Effective January 1, 2008, the Company partially adopted SFAS No. 157. This statement clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. The Company adopted this statement for its derivative assets and liabilities, which are measured at fair value on a recurring basis, determined by using observable inputs of the fair value hierarchy prescribed by SFAS No. 157. The adoption of SFAS No. 157 for measuring the Company's derivative assets and liabilities resulted in a decrease in derivative assets of $879 as of December 31, 2008. See "Derivatives and Hedging" above. Financial Accounting Standards Board (FASB) Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, permits the Company to defer the recognition and measurement of its nonfinancial assets and nonfinancial liabilities until January 1, 2009. At December 31, 2008, the Company did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS No. 158"). This pronouncement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet, measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for defined benefit plans and the accumulated postretirement benefit obligation for other postretirement plans). SFAS No. 158 also requires an employer to recognize changes in its funded status in the year in which the changes

occur through comprehensive income. The Company adopted the funded status provisions of SFAS No. 158 as of December 31, 2006. In addition, effective for fiscal years ending on or after December 15, 2008, this statement requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet, with limited exceptions. Earlier application of this provision is encouraged and accordingly, the Company changed the September 30 measurement date of its U.S. pension and postretirement plans to December 31 for the fiscal year ending December 31, 2007. The Company remeasured the plan assets and obligations of its U.S. plans using the remeasurement method allowed under SFAS No. 158 and, accordingly, as of January 1, 2007, recognized a $1,700 increase to accumulated deficit, a $500 decrease to accumulated other comprehensive loss and a $1,200 increase to pension, other postretirement and postemployment obligations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the “Fair Value Option”). Unrealized gains and losses on items for which the Fair Value Option has been elected are reported in earnings. The Fair Value Option is applied instrument by instrument (with certain exceptions), is irrevocable (unless a new election date occurs) and is applied only to an entire instrument. The effect of the first remeasurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 with earlier application permitted, subject to certain conditions. The adoption of SFAS No. 159 did not have a material effect on the Company’s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (“SFAS No. 141R”). SFAS No. 141R requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. Transaction costs will be expensed as incurred. SFAS 141R also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS No. 141R amends SFAS No. 109, *Accounting for Income Taxes*, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. Adoption is prospective and early adoption is not permitted. The potential impact that the adoption could have on the Company’s financial statements is unknown until such time that the Company enters into a business combination transaction during a period subsequent to the required adoption date of SFAS No. 141R.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (“SFAS No. 160”), an amendment of Accounting Research Bulletin (“ARB”) No. 51 (“ARB No. 51”). SFAS No. 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for, and reporting of, transactions between the reporting entity and holders of such noncontrolling interests. Under SFAS No. 160, noncontrolling interests are considered equity and should be reported as an element of consolidated equity. Net income will encompass the total income of all consolidated subsidiaries and there will be separate disclosure on the face of the statement of operations of the attribution of that income between the controlling and noncontrolling interests; increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008, and earlier application is prohibited. SFAS 160 is

XERIUM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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required to be adopted prospectively, except for reclassifying noncontrolling interests to equity, separate from the parent's shareholders' equity, in the consolidated statement of financial position and recasting consolidated net income (loss) to include net income (loss) attributable to both the controlling and noncontrolling interests, both of which are required to be adopted retrospectively. Since essentially all of our subsidiaries are 100% owned, the Company does not expect the adoption of SFAS No. 160 will have a significant impact to its financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS No. 161"), an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company believes that the adoption of SFAS No. 161 will not have a material effect on its financial position or results of operations.

3. Inventories

The components of inventories are as follows at:

	December 31	
	2008	2007
Raw materials	$ 17,357	$ 26,463
Work in process	29,385	44,372
Finished units	38,801	42,301
	$ 85,543	$ 113,136

4. Property and Equipment

Property and equipment consists of the following at:

	December 31	
	2008	2007
Land	$ 24,093	$ 26,376
Buildings and improvements	148,437	153,942
Machinery and equipment:		
—Heavy	53,333	48,076
—General	328,644	342,600
—Light	103,494	110,991
—Molds, tools, office and computers	67,254	69,781
Total machinery and equipment	552,725	571,448
Construction in progress	29,834	38,716
Total	755,089	790,482
Less accumulated depreciation	370,499	369,012
	$ 384,590	$ 421,470

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XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

5. Goodwill, Intangible Assets and Deferred Financing Costs

The following table provides changes in the carrying amount of goodwill by segment for the years ended December 31, 2008 and 2007:

	Clothing	Rolls	Total
Balance at December 31, 2006	$53,824	$ 264,195	$ 318,019
Acquisition of roll covers operations in China	—	6,722	6,722
Adjustments related to pre-acquisition income taxes	—	(221)	(221)
Foreign currency translations	3,643	17,029	20,672
Goodwill impairment (see Note 2)	—	(185,300)	(185,300)
Balance at December 31, 2007	57,467	102,425	159,892
Foreign currency translations	(365)	(4,322)	(4,687)
Balance at December 31, 2008	$57,102	$ 98,103	$ 155,205

The components of intangible assets and deferred financing costs are summarized as follows at:

	December 31	
	2008	2007
Patents and licenses	$ 31,920	$ 31,920
Less accumulated amortization	(25,751)	(24,151)
Net patents and licenses	6,169	7,769
Trademarks	18,920	18,920
Less accumulated amortization	(11,457)	(10,185)
Net trademarks	7,463	8,735
Other intangibles	958	948
Less accumulated amortization	(173)	(71)
Net other intangibles	785	877
Deferred financing costs	32,862	25,591
Less accumulated amortization	(15,150)	(10,813)
Net deferred financing costs (1)	17,712	14,778
Net amortizable intangible assets and deferred financing costs	32,129	32,159
Less net deferred financing costs reclassified to other current assets (1)	—	(14,778)
	$ 32,129	$ 17,381

(1) In connection with the going concern matter discussed in Note 1, the accompanying consolidated balance sheet as of December 31, 2007 includes a reclassification of $14,778 from “Intangible assets and deferred financing costs, net” to “Other current assets” to reflect the classification of net deferred financing costs related to the debt under the senior credit facility as a current asset. As of December 31, 2008, net deferred financing costs are classified as “Intangible assets and deferred financing costs, net”.

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Amortization expense for patents, licenses, trademarks and other intangibles amounted to $2,965, $4,432 and $4,423 for the years ended December 31, 2008, 2007 and 2006, respectively.

As of December 31, 2008, the estimated annual amortization expense for patents, licenses and trademarks and other intangibles for each of the succeeding five years totals $11,005 as follows:

2009	$2,315
2010	2,307
2011	2,307
2012	2,312
2013	1,764

6. Notes Payable

As part of the credit facility (see Note 7), the Company has a $50,000 revolving credit facility.

Notes payable consist of the following at:

	December 31	
	2008	2007
Unsecured notes	$—	$1,347
Secured notes	—	329
Total	$—	$1,676

Notes payable consist primarily of committed lines of credit at banks to fund short-term working capital needs. The unused portion of these lines of credit totaled $45,947 at December 31, 2008. The secured portion of the debt is collateralized by letters of credit available under a multi-currency revolving credit facility of $50,000 which is a part of the Company's credit agreement. Interest rates are variable and are based upon local market rates. Annual commitment and similar fees charged by the banks approximate 0.75% of the unused facilities. Weighted-average interest rates on the total of all facilities available were 7.11% in 2008 and 6.51% in 2007, and weighted-average interest rates on outstanding borrowings in 2007 were 2.03% as of December 31, 2007.

7. Long-Term Debt and Long-Term Debt Classified as Current

In connection with the going concern matter discussed in Note 1, the accompanying consolidated balance sheet as of December 31, 2007 includes a reclassification of $641,179 to reflect the long-term debt under the senior credit facility as current debt. As of December 31, 2008, the long-term debt under the senior credit facility is classified as long-term (See Note 1).

In connection with the Company's initial public offering on May 19, 2005, the Company entered into a $750,000 senior secured credit facility that provides for a term loan in a total principal amount of $650,000 and a $100,000 senior secured revolving credit facility, which was reduced at the end of 2005 to $50,000 in connection with the completion of the legal reorganization of the Company's Brazilian subsidiaries. The credit facility is secured by substantially all of the Company's assets. Borrowings under the revolving credit facility and term loan facility bear interest at either (a) LIBOR plus the applicable margin or (b) the Euribor rate plus the applicable margin, in addition to certain other mandatory costs associated with syndication in the European markets or (c) CDOR plus the applicable margin.

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On February 8, 2006, the Company amended its senior credit facility agreement with its lenders to modify certain covenants and ratios. In connection with the amendment, the Company's applicable margin for U.S. Dollar LIBOR term loans increased from 2.00% to 2.25% per annum and the Company paid an amendment fee of $829.

On December 22, 2006, the Company entered into a second amendment of its senior credit facility agreement to modify certain covenants and ratios. In connection with the second amendment, the Company's applicable margin for U.S. Dollar LIBOR term loans increased from 2.25% to 2.50% per annum and the Company paid an amendment fee of $1,420. As of December 31, 2006, the applicable margin for the term loans and the revolving loans was 2.50%, which was subject to an increase of 0.25% in the event that the indebtedness under the senior credit facility is rated lower than B1 by Moody's or lower than B+ by Standard & Poor's and, accordingly, in February 2007, the interest rate on the Company's debt increased as a result of a downgrade in the rating of its senior indebtedness by Moody's. If the credit facility subsequently achieves the higher ratings, the applicable margin will be decreased by 0.25%. The applicable margin with respect to the revolving loans may also be reduced by 0.25% or 0.50% based on a leverage test set forth in the credit agreement.

On May 2, 2007, the Company entered into a third amendment of its senior credit facility agreement to modify certain covenants, ratios and definitions and, in addition to other limitations on dividends, to limit the amount of any quarterly dividends payable on the Company's common stock to not more than $0.1125 per share. In connection with the amendment, the Company paid an amendment fee of $1,500, as well as other fees and expenses.

While the Company was in compliance with the financial covenants under its senior credit facility at December 31, 2007 and expected that it would generate cash flow from operations sufficient to service the debt under the senior credit facility prior to the stated maturity of the debt if there is not otherwise an event of default under the debt, the Company expected to be in financial covenant non-compliance for the period ended March 31, 2008. Failing to meet a financial covenant under the senior credit facility constitutes an event of default, upon which the lenders could accelerate the debt under the senior credit facility, causing it to become due and payable.

In connection with the matters discussed in Note 1, on April 8, 2008 and May 30, 2008, the Company amended its senior credit facility agreement with the lenders thereunder. In connection with the amendments, the Company capitalized approximately $8,500 as deferred financing costs which were classified as intangible assets on its balance sheet as of June 30, 2008 and expensed approximately $5, 350 to general and administrative expenses in 2008. Under the amended senior credit facility agreement, borrowings under the revolving credit facility and the term loans bear interest at the sum of, as applicable, LIBOR, the Euribor rate or CDOR plus, in each case, plus the applicable margin. The applicable margin increased from 2.75% to 5.50% through December 31, 2008 with three identified step downs (i.e. to 4.25%, 3.75% and 2.75%) that are contingent upon future improvements in the Company's credit rating levels beginning January 1, 2009.

Other key provisions of the amended senior credit facility agreement include the following: (a) dividend payments are prohibited for the term of the agreement; (b) foreign exchange rates are frozen for the purpose of calculating debt for certain covenant purposes; (c) debt paydown requirements and performance reporting requirements have been increased and (d) capital expenditures, restructuring, acquisitions, certain other investments and the use of proceeds from asset and equity sales have been limited.

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

The Company had entered into interest rate swap contracts effective June 30, 2005 pursuant to which it paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor and CDOR rates. These interest rate swaps did not qualify for hedge accounting under SFAS No. 133 and the change in their fair value was subject to mark to market through earnings. As a result of the mark to market accounting through earnings, the Company recorded a mark to market charge to interest expense of $4,215 and a mark to market credit to interest expense of $1,604 during the years ended December 31, 2007 and 2006, respectively, related to the interest rate swaps effective June 30, 2005. Although these interest rate swaps were subject to mark to market accounting through earnings, they were to have effectively fixed, from a cash flow hedge perspective, the interest rate on approximately 86% of the term loan portion of the credit facility through June 30, 2008. On November 16, 2007, the Company settled these interest rate swaps in consideration for their cash value of $5,600 and entered into new interest rate swap arrangements. The interest rate swaps entered into in November 2007 initially qualified for hedge accounting under SFAS No. 133. As a result of anticipated financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 1, the Company classified as current on its balance sheet as of December 31, 2007, $641,179 of the long-term debt under its senior credit facility. Accordingly, because this debt was potentially payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value was recorded as a non-cash charge to interest expense in the fourth quarter of 2007 and a non-cash credit of $1,687 was recorded to interest expense for the six months ended June 30, 2008. Effective July 1, 2008, the Company was again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on 3-month LIBOR-based interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $14,393 on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion of $19 was charged to interest expense during the six months ended December 31, 2008. As of December 31, 2008, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%; the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.55%. The revolving credit facility has a 6.5 year maturity and the term loan facility has a 7 year maturity from the date of the agreement.

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

Long-term debt consists of the following at:

	December 31	
	2008	2007
Senior Bank Debt (Secured):		
Term Loan B—payable quarterly:		
U.S. Dollar denominated—LIBOR plus 5.50% as of December 31, 2008 (6.96%); LIBOR plus 2.75 % as of December 31, 2007 (7.58%);	$ 308,664	$ 312,489
Euro denominated—EURIBOR plus 5.50% as of December 31, 2008 (8.47%); EURIBOR plus 2.75% as of December 31, 2007 (7.52%);	237,605	269,102
Canadian Dollar denominated—CDOR plus 5.50% as of December 31, 2008 (7.11%); CDOR plus 2.75% as of December 31, 2007 (7.57%);	59,931	75,915
	606,200	657,506
Other Long-Term Debt:		
Unsecured, interest fixed at 2.00% to 2.50%, Euro denominated	1,584	868
Unsecured, interest fixed at 2.68% to 3.90%, Yen denominated	9,173	6,751
	616,957	665,125
Less current maturities	39,687	19,253
Less long-term debt classified as current (1)	—	641,179
Total	$ 577,270	$ 4,693

(1) In connection with the going concern matter discussed in Note 1, the accompanying consolidated balance sheet as of December 31, 2007 includes a reclassification of $641,179 from “Long term debt, net of current maturities” to current debt as “Long-term debt classified as current”. As of December 31, 2008 the long term debt under the senior credit facility is classified as “Long term debt, net of current maturities”. The carrying value of the debt under the senior credit facility of $606,200 exceeds its fair value of approximately $350,000 as of December 31, 2008.

The credit facility provides for quarterly scheduled principal payments on the term loan and $512,109 due at maturity in May 2012. This facility contains covenants based on certain measures of debt levels, interest coverage and fixed charge coverage, all calculated in relation to Adjusted EBITDA as defined in the credit agreement, and restrictions on capital expenditures and dividends. During 2008, the Company made scheduled debt payments of $7,813 and also made voluntary debt repayments of $6,119. The Company may be required to make additional debt repayments based on its “excess cash”, as defined in its credit agreement. The Company included $9,235 as of December 31, 2007 for such additional repayments that were made in 2008 and $16,120 as of December 31, 2008 that is required to be paid in the first quarter of 2009. Because the amount of any such future repayments is not currently determinable, it is excluded from the long-term debt maturities schedule below for 2010 and thereafter.

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

The aggregate maturities of long-term debt for each of the following five years and thereafter are as follows:

2009	$ 39,687
2010	28,188
2011	35,537
2012	513,101
2013	444
Thereafter	—
	$ 616,957

8**. Derivatives and Hedging**

There are two types of hedges into which the Company enters; hedges of cash flow exposure and hedges of fair value exposure. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Company links all hedges that are designated as cash flow hedges to forecasted transactions or to floating-rate liabilities on the consolidated balance sheets. The Company also assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Should it be determined that a derivative is not highly effective as a hedge, the Company will discontinue hedge accounting prospectively. The Company links all hedges that are designated as fair value hedges to specific assets or liabilities on the consolidated balance sheets or to the specific firm commitments.

The Company's derivative activities are as follows:

Cash Flow and Fair Value Hedges

The Company utilizes interest rate swaps to reduce interest rate risks and utilizes foreign currency forward contracts to manage risk exposure to movements in foreign exchange rates.

(i) Cash Flow Hedges

The Company had entered into interest rate swap contracts effective June 30, 2005 pursuant to which it paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. The interest rate swaps did not qualify for hedge accounting under SFAS No. 133 and the change in their fair value was subject to mark to market through earnings. As a result of the mark to market accounting through earnings, the Company recorded a mark to market non-cash charge to interest expense of $4,215 and a mark to market non-cash credit to interest expense of $1,604 during the years ended December 31, 2007 and 2006, respectively, related to the interest rate swaps effective June 30, 2005.

Although these interest rate swaps were subject to mark to market accounting through earnings, they were to have effectively fixed, from a cash flow hedge perspective, the interest rate on approximately 86% of the term loan portion of the credit facility through June 30, 2008. On November 16, 2007, the Company settled these interest rate swaps in consideration for their cash value of $5,600 and entered into new interest rate swap arrangements. The interest rate swaps entered into in November 2007 initially qualified for hedge accounting under SFAS No. 133. As a result of anticipated financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 1, the Company classified as current on its balance sheet as of December 31, 2007 $641,179 of the long-term debt under its senior credit facility. Accordingly, because this

debt was potentially payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $1,931 was recorded as a non-cash charge to interest expense in the fourth quarter of 2007 and a non-cash credit to interest expense of $1,687 was recorded for the six months ended June 30, 2008.

Effective July 1, 2008, the Company was again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $14,393 on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion of $19 was charged to interest expense during the six months ended December 31, 2008. The new interest rate swaps effectively fix the interest rate on approximately 85% of the term loan portion of the Company's credit facility through 2010. As of December 31, 2008, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74% and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.55%. The fair value of the interest rate derivative contracts at December 31, 2008 was a net liability of $15,910, all of which was included in accumulated other comprehensive losses, and at December 31, 2007 was a net liability of $1,931 (of which $2,937 was included in accrued expenses, partially offset by $1,006 that was included in other current assets).

The Company, from time to time, enters into forward exchange 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 currency over the next year. The value of these contracts is recognized at fair value based on market exchange forward rates. The fair value of these contracts amounted to a net liability of $1,121 and a net asset of $417 at December 31, 2008 and 2007, respectively. The change in fair value of these contracts is included in foreign exchange gain/(loss) beginning with the quarter ended September 30, 2007 as the Company had decided not to seek hedge accounting for these transactions.

(ii) Fair Value Hedges

The Company is subject to exposure from fluctuations in foreign currencies. To manage this exposure, the Company uses foreign exchange forward contracts. The value of these contracts is recognized at fair value based on forward market exchange rates and the change in the fair value of these contracts is included in foreign exchange gain/(loss). Fair value hedges amounted to a net liability of $2,677 (of which $4,985 was included in accrued expenses, partially offset by $2,308 that was included in other current assets) and $3,203 (of which $3,321 was included in accrued expenses, partially offset by $118 that was included in other current assets) as of December 31, 2008 and 2007, respectively.

9. Income Taxes

Significant components of the provision for income taxes by taxing jurisdictions are shown below.

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

	Year Ended December 31		
	2008	2007	2006
U.S.	$ 29,538	$ (75,151)	$ 1,885
Foreign	959	(77,406)	42,510
Total	$ 30,497	$ (152,557)	$ 44,395

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

	Year Ended December 31		
	2008	2007	2006
Current:			
U.S.	$ 1,286	$ 721	$ (1,037)
Foreign	15,563	13,919	9,351
Total current	16,849	14,640	8,314
Deferred:			
U.S.	—	(14,052)	3,212
Foreign	(12,948)	(2,933)	1,581
Total deferred	(12,948)	(16,985)	4,793
Total provision (benefit)	$ 3,901	$ (2,345)	$13,107

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

	Year Ended December 31	
	2008	2007
Deferred tax assets arising from:		
Net operating loss carryforwards	$ 62,321	$ 67,801
Intangible assets, net (1)	8,004	12,120
Pension and other benefit accruals	7,349	8,696
Tax credits	1,830	1,783
Other allowances and accruals, net	30,511	34,711
Total	110,015	125,111
Deferred tax liabilities arising from:		
Property and equipment, net	(42,558)	(49,098)
Intangible assets, net (1)	—	—
Unrealized foreign exchange gains/losses	—	—
Other allowances and assets, net	(268)	(60)
Total	(42,826)	(49,158)
Valuation allowance	(68,589)	(91,066)
Net deferred tax asset (liability)	$ (1,400)	$ (15,113)

(1) 2007 reflects a deferred tax asset due to goodwill impairment and related reversal of the tax on the goodwill (see Note 2).

Compliance with SFAS No. 109 requires the Company to periodically evaluate the necessity of establishing or adjusting a valuation allowance for deferred tax assets depending on whether it is more likely than not that a related tax benefit will be recognized in future periods. Because of the accumulated loss position in certain tax jurisdictions at December 31, 2008 and December 31, 2007 and the uncertainty of profitability in future periods, the Company has recorded valuation allowances as shown above for deferred tax assets primarily related to net operating loss carryforwards in the United States, Germany, Sweden and Australia.

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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December 31, 2008

For 2008, the Company recognized a provision for income taxes of $3,901 as compared with a benefit for income taxes of $2,345 for 2007. The Company's effective tax rate for 2008 of 12.8% was below statutory rates principally due to changes in valuation allowances related to curtailment/settlements gains recorded relating to the U.S. retiree plans of $40,169 for which no taxes were reflected due to the U.S. valuation allowance. In addition, tax losses in certain other jurisdictions for which there were valuation allowances were offset by profits in certain of our foreign tax-paying jurisdictions. In 2007, the benefit for income taxes includes $18,300 for the reversal of deferred income taxes related to the goodwill impairment recorded in our roll covers segment in 2007. In addition, 2007 was impacted by a minimal tax benefit recognition on the change in the fair value of the Company’s interest rate swaps due to the U.S. valuation allowance.

As of December 31, 2008, the Company has pre-tax net operating loss carryforwards for U.S. federal and state income tax purposes of approximately $105,000 that expire on various dates through 2025 and federal tax credits of approximately $1,800 that either expire on various dates or can be carried forward indefinitely. The Company has foreign net operating loss carryforwards of approximately $103,000 that either expire on various dates or can be carried forward indefinitely, approximately half for which the utilization is restricted under current tax sharing agreements.

Undistributed earnings of the Company’s foreign subsidiaries amounted to approximately $231,000 at December 31, 2008. Those earnings are considered to be indefinitely reinvested except for Argentina, Brazil and Mexico. Upon distribution of those earnings in the form of dividends or otherwise, the Company may be subject to both income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various jurisdictions. Any withholding taxes incurred would be immaterial and any additional U.S. income tax liability would be offset by net operating loss carryforwards. Determination of the amount of unrecognized deferred income tax liability or withholding taxes is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credit carryforwards and net operating loss carryforwards would be available to reduce some portion of the liability.

The Company adopted FIN 48 on January 1, 2007 and, accordingly, recorded a cumulative effect increase of $3,323 to accumulated deficit, an increase of $627 to income taxes payable and an increase of $2,696 to other long-term liabilities for uncertain tax positions. On January 1, 2007, the Company had $4,126 in unrecognized tax benefits. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $4,831 as of December 31, 2008 and $5,349 as of December 31, 2007. The Company’s unrecognized tax benefits decreased approximately $500 and increased approximately $1,200 during the years ended December 31, 2008 and 2007, respectively. During the next 12 months, the unrecognized tax benefits may decrease up to $1,000 depending on the outcome of expected settlements of foreign audits.

The tax years 1999 through 2008 remain open to examination by the major taxing jurisdictions to which the Company and its subsidiaries are subject. There are currently no U.S. Federal or state audits or examinations underway. The Company is currently concluding an audit relating to its German subsidiaries for tax years 1999 through 2002. There are various minor adjustments proposed for which the Company has established reserves in amounts sufficient to meet any assessment. The Canadian Federal tax authorities contacted the Company in October of 2008 and have initiated an audit of its Canadian companies. The audit is still in the initial information gathering stages and no issues or assessments have been raised. The Company believes that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to its results of operations, financial position or cash flows. The Company further believes that it has made adequate provision for all income tax uncertainties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

A reconciliation of the FIN 48 balances is as follows:

	Year Ended December 31	
	2008	2007
Balance as of January 1	$ 5,349	$ 4,126
Gross increases—tax positions in prior period	—	363
Gross decreases—related to lapse in statute of limitations	(414)	(347)
Gross increases—tax positions in current period	170	698
Currency effects	(274)	509
Balance at December 31	$ 4,831	$ 5,349

The Company's policy is to recognize interest and penalties related to income tax matters as income tax expense and accordingly, the Company recorded approximately $100 and $600 for interest and penalties during the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Company had approximately $1,300 and $1,200, respectively, of accrued interest related to uncertain tax positions.

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		
	2008	2007	2006
Book income at U.S. 35% statutory rate	$ 10,674	$(53,395)	$15,539
State income taxes, net of federal benefit	465	(218)	(657)
Foreign tax rate differential	(336)	(3,824)	(1,326)
Dividends, net of foreign tax credits	3,813	4,180	4,350
Change in valuation allowance	(19,543)	11,049	(3,947)
Deferred gain on intercompany transaction	5,570	—	—
Tax rate changes	3,625	(542)	—
Tax credits and refunds	(451)	(1,605)	(2,504)
Goodwill	(2,778)	38,130	(2,825)
Other, net	2,862	3,880	4,477
Total	$ 3,901	$ (2,345)	$13,107

On November 29, 2007, the Company acquired 100% of the common stock of a company which has two subsidiaries in China, one of which is 90% owned, the other is 100% owned. One of the subsidiaries has a partial tax holiday that began in 2006 and will be available until at least 2009. The other subsidiary has a 0% tax rate in 2008 and 2009 and a reduced rate until at least 2012. The benefit of the tax holiday in 2008 and 2007 is immaterial.

In December of 2008, the Company entered into an intercompany transaction transferring ownership of its Australian subsidiary to its Austrian subsidiary. This transaction caused the Company to recognize a US tax gain that was offset by loss carryforwards on its U.S. return. As a result of the transaction, the Company utilized approximately $16 million of U.S. loss carryforwards and will also reduce its future foreign tax liabilities. In January of 2008 the Company also completed an amalgamation (merger) of its two Canadian operating subsidiaries. As a result of the transaction the company will realize the elimination of intercompany debt and reduced administrative and operating costs.

10. Pensions, Other Postretirement and Postemployment Obligations

Pension Plans

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 employees' years of service and compensation. These plans are funded in conformity with the funding requirements of applicable government regulations.

The Company also provides additional supplemental retirement benefits to two of its officers and certain other former employees, which have been included in the benefit costs below.

Postretirement Plans

In addition to defined benefit pension plans, the Company sponsors various unfunded defined contribution plans that provide for retirement benefits to employees, some in accordance with local government requirements.

Also, the Company sponsored an unfunded plan that offered the opportunity to obtain health care benefits to a certain group of retired U.S. employees and their covered dependents and beneficiaries. A portion of this plan was contributory, with retiree contributions adjusted periodically, as well as other cost-sharing features, such as deductibles and coinsurance. Eligibility varied according to date of hire, age and length of service. Certain retirees also have a life insurance benefit provided at no cost.

During the third quarter of 2008, the Company made and communicated the following decisions related to certain of its U.S. pension plans, postretirement benefit plans and 401(k) plans:

a) Freezing benefit pension accruals under its Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "Pension Plan") effective December 31, 2008 so that future service beyond December 31, 2008 will no longer be credited under the Pension Plan. Employees who are vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008. Current employees who are not vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008 upon five years of continuous employment from date of hire.

b) No longer sponsoring or funding, as of December 31, 2008, its U.S. retiree health insurance program under which the Company offered health care benefits to a certain group of retired U.S. employees and their covered dependents and beneficiaries.

c) Increasing its 401(k) plan match in the United States from 4% of eligible compensation to 6% as of January 1, 2009. Subsequently, after January 1, 2009 the Company announced that it will not implement this increase and instead will eliminate the employer match until further notice.

As a result of the decision to freeze benefits under the Pension Plan and to terminate the sponsorship of its U.S. retiree health insurance program, the Company recorded the following, in accordance with the applicable accounting literature: (i) pre-tax curtailment/settlement gains of $39,968 in its income statement during the quarter ended September 30, 2008, (ii) a decrease in its pension and postretirement liability of $31,951 as of September 30, 2008 and (iii) a charge to Other Comprehensive Income of $8,017. The above amounts also include a loss of $201 as a result of the settlement of one of the Company's Canadian pension plans.

XERIUM TECHNOLOGIES, INC.

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As of December 31, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R)*" ("SFAS No. 158"). The adoption of SFAS No. 158 impacted the Company's balance sheet at December 31, 2006 as follows: (i) an increase in pensions, other postretirement and postemployment obligations of 3,260, (ii) an increase in current liabilities of $4,974, (iii) an increase in deferred tax asset of $1,507 and (iv) an increase in accumulated other comprehensive loss of $6,727. In accordance with SFAS No. 158, the Company's 2005 accounting and related disclosures were not affected by the adoption of the new standard. The adoption of SFAS No. 158 had no effect on the Company's consolidated statement of operations for the year ended December 31, 2006, or for any other prior period presented.

In addition, effective for fiscal years ending on or after December 15, 2008, this statement requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet, with limited exceptions. Earlier application of this provision is encouraged and accordingly, the Company changed the September 30 measurement date of its U.S. pension and postretirement plans to December 31 for the fiscal year ending December 31, 2007. The Company remeasured the plan assets and obligations of its U.S. plans using the remeasurement method allowed under SFAS No. 158 and, accordingly, as of January 1, 2007, recognized a $1,700 increase to accumulated deficit, a $500 decrease to accumulated other comprehensive loss and a $1,200 increase to pension, other postretirement and postemployment obligations.

The measurement date for defined benefit plans outside the U.S. is December 31.

Postemployment Obligations

The Company has postemployment plans in various countries and accounts for these plans in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits.* The Company's postemployment obligations consist primarily of payments to be made to employees upon termination of employment, as defined, and are accrued according to local statutory laws in the respective countries. The Company's obligation for postemployment benefits amounted to $3,102 and $3,530 as of December 31, 2008 and 2007, respectively.

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Benefit Obligations and Plan Assets

A summary of the changes in benefit obligations and plan assets as of December 31, 2008 and 2007 is presented below. The Company has reclassified certain prior year information to be consistent with current year presentation.

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	2008	**2007**	**2008**	**2007**
Change in benefit obligation				
Benefit obligation at beginning of year	**$132,650**	$129,846	**$ 30,063**	$ 39,810
Service cost	**5,601**	6,858	**489**	688
Interest cost	**6,985**	6,478	**1,364**	2,217
Plan participants' contributions	**133**	155	**32**	246
Amendments	**—**	—	**—**	(1,206)
Adjustment to service and interest cost due to change in measurement date	**—**	1,317	**—**	714
Actuarial (gain) loss	**(5,168)**	(9,041)	**(3,420)**	(9,245)
Currency translation impact	**(13,748)**	7,864	**—**	—
Curtailment/settlement (gain) loss	**(5,214)**	(196)	**(25,228)**	—
Administrative expenses paid	**(87)**	(454)	**—**	—
Benefits paid	**(6,742)**	(10,177)	**(2,417)**	(3,161)
Benefit obligation at end of year	**$114,410**	$132,650	**$ 883**	$ 30,063
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 69,536**	$ 59,701	**$ —**	$ —
Actual return on plan assets	**(14,561)**	4,347	**—**	—
Employer contributions	**9,984**	13,121	**—**	—
Plan participants' contributions	**133**	155	**—**	—
Settlements	**(1,523)**	—	**—**	—
Administrative expenses paid	**(87)**	(454)	**—**	—
Currency translation impact	**(9,599)**	2,843	**—**	—
Benefits paid	**(6,742)**	(10,177)	**—**	—
Fair value of plan assets at end of year	**$ 47,141**	$ 69,536	**$ —**	$ —
Funded status (1)	**$ (67,269)**	$ (63,114)	**$ (883)**	$(30,063)

(1) In accordance with SFAS No. 158, $4,225 and $5,958 of this amount is recorded in accrued expenses as of December 31, 2008 and 2007.

Essentially 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, 2008 and 2007. The accumulated benefit obligation was $108,951 and $122,050 as of the years ended December 31, 2008 and 2007, respectively.

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

	December 31	
	2008	2007
Projected benefit obligation	**$ 101,431**	$ 114,441
Accumulated benefit obligation	**98,599**	107,462
Fair value of plan assets	**36,771**	54,377

Components of Net Periodic Benefit Cost

	Defined Benefit Plans			Other Postretirement Benefit Plans		
	2008	2007	2006	2008	2007	2006
Service cost	**$ 5,601**	$ 6,858	$ 6,511	**$ 489**	$ 688	$ 431
Interest cost	**6,985**	6,478	5,617	**1,364**	2,217	2,620
Expected return on plan assets	**(5,138)**	(4,967)	(3,664)	**—**	—	—
Amortization of prior service cost	**106**	118	117	**(418)**	(464)	(464)
Amortization of net (gain) loss	**666**	909	869	**(62)**	63	690
Curtailment (gain) loss	**(3,451)**	(196)	—	**(36,517)**	—	—
Net periodic benefit cost	**$ 4,769**	$ 9,200	$ 9,450	**$(35,144)**	$2,504	$3,277

For defined benefit plans, the estimated net loss and prior service cost to be amortized from accumulated other comprehensive income during 2009 is expected to be $1,242 and $96, respectively. For other postretirement benefit plans, the amortization of net loss from accumulated other comprehensive income is expected to be $5 and the amortization of prior service credit to accumulated other comprehensive income is expected to be $0.

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	2008	2007	2008	2007
Additional Information				
Change in funded status included in accumulated other comprehensive loss, net of tax	**$(19,507)**	$(17,728)	**N/A**	N/A

Assumptions

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

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	2008	2007	2008	2007
Discount rate	**5.79%**	5.64%	**6.00%**	6.25%
Rate of compensation increase	**2.82**	3.67	**—**	—

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

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	2008	2007	2008	2007
Discount rate	**5.64%**	5.14%	**6.25%**	5.75%
Expected long-term return on plan assets	**7.63**	7.67	**—**	—
Rate of compensation increase	**3.67**	3.71	**—**	—

Plan assets in the U.S. are invested in marketable equity and fixed income securities managed by the trustee. The investment objective of the portfolio is to outperform a composite benchmark comprised of 40% of the S&P 500 index; 10% of the Russell 2000 Index; 10% of the Morgan Stanley Capital International EAFE Index; and 40% of the Lehman Brothers Aggregate Bond Index. The portfolio also seeks to maintain a level of volatility (measured as standard deviation of returns) which approximates that of the composite benchmark returns.

Investment risk is substantially reduced by diversification of investments within particular asset classes. The majority of the Plan's liabilities are linked to price and salary inflation. The policy is therefore to invest the majority of the assets in investments which are expected to exceed price inflation and general salary growth over long periods. 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.

Assumed health care cost trend rates at December 31, 2007 are as follows. This information is not applicable for 2008 as the Company is no longer sponsoring or funding this plan as of December 31, 2008.

	2008	2007
Health care cost trend rate assumed for next year	**N/A**	9%
Rate at which the cost trend rate is assumed to decline (the ultimate trend rate)	**N/A**	5.0%
Year that the rate reaches the ultimate trend rate	**N/A**	2016

These assumed health care cost trends have a significant impact on the amounts reported for the plan. A change of 1% in the assumed health care cost trend rates would have had the following effect in 2007.

	1% increase		1% decrease	
	2008	2007	2008	2007
Effect on total of service and interest cost components	**$N/A**	$ 362	**$N/A**	$ (418)
Effect on accumulated postretirement benefit obligation	**N/A**	2,177	**N/A**	(3,386)

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	2008	2007
Marketable equities	**58%**	71%
Fixed income securities	**42**	29
Total	**100%**	100%

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Contributions

The Company expects to make contributions and direct benefit payments of approximately $8,700 (unaudited) under its defined benefit plans in 2009.

Estimated Future Benefit Payments

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

	Defined Benefit Plans	Other Postretirement Benefit Plans
2009	$ 6,292	$ 181
2010	5,676	59
2011	5,889	58
2012	6,059	56
2013	6,506	55
Years 2014–2018	37,642	237

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 15% of their compensation (plus catch-up contributions for participants over age 50), with the Company matching 100% of up to the first 4% of employee compensation. The Company eliminated the matching contribution in February 2009. Costs associated with the Plan are charged to the consolidated statements of operations and amounted to $1,169, $1,205 and $1,093 for the years ended December 31, 2008, 2007 and 2006, respectively.

11. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) were as follows:

	Foreign Currency Translation Adjustment	Minimum Pension Liability/ SFAS No. 158 Liability	Change in Value of Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2005	$ (21,993)	$ (11,313)	$ (194)	$ (33,500)
Current year change	21,371	(1,712)	284	19,943
Cumulative adjustment for transition to FAS No. 158	—	(6,727)	—	(6,727)
Balance at December 31, 2006	(622)	(19,752)	90	(20,284)
Current year change	30,285	17,228	(90)	47,423
Early adoption of change in measurement date	—	500	—	500
Balance at December 31, 2007	29,663	(2,024)	—	27,639
Current year change	(23,772)	(19,507)	(13,859)	(57,138)
Balance at December 31, 2008	$ 5,891	$ (21,531)	$ (13,859)	$ (29,499)

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Comprehensive income (loss) for years ended December 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
For the Years Ended December 31,			
Net income (loss)	$ 26,596	$(150,212)	$31,288
Foreign currency translation adjustments	(23,765)	30,285	21,371
Minimum pension liability/SFAS No. 158 Liability	(19,514)	17,228	(1,712)
Change in value of derivative instruments	(13,859)	(90)	284
Comprehensive income (loss)	$(30,542)	$(102,789)	$51,231

12. Commitments and Contingencies

Leases

The Company leases office buildings, vehicles, and computer equipment for its worldwide operations. These leases expire at various dates through 2052. Minimum rent is expensed on a straight-line basis over the term of the lease. At December 31, 2008, future minimum rental payments due under noncancelable leases were:

2009	$ 4,869
2010	3,935
2011	2,460
2012	1,997
2013	1,715
Thereafter	5,769
Total minimum operating lease payments	$20,745

Operating lease rental expense was $6,363, $5,146 and $4,547 during the years ended December 31, 2008, 2007 and 2006, respectively. In November 2008, the Company entered into an agreement to buy out a portion of its remaining lease in North Carolina for $616 and as a result also impaired leasehold improvements of $127, both of which are included in restructuring and impairments expense for the year ended December 31, 2008.

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Warranties

The Company offers warranties on certain 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. Changes in the Company's combined short-term and long-term warranty liabilities during the years ended December 31, 2008 and 2007 are as follows:

Balance at December 31, 2006	$ 2,969
Warranties provided during period	1,636
Settlements made during period	(1,835)
Changes in liability estimates, including expirations and currency effects	87
Balance at December 31, 2007	2,857
Warranties provided during period	1,979
Settlements made during period	(2,231)
Changes in liability estimates, including expirations and currency effects	(181)
Balance at December 31, 2008	$ 2,424

Collective Bargaining and Union Agreements

Approximately 72% of the Company's employees are subject to various collective bargaining agreements or are members of trade unions, predominantly outside of the United States. Approximately 55% of these employees are covered by agreements that expire during 2009.

Legal Proceedings

Stockholder Litigation

On June 7, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of a putative class of investors who purchased shares pursuant or traceable to the Company's initial public offering on or about May 16, 2005 through November 15, 2005 against the Company, its former Chief Executive Officer and its Chief Financial Officer. An amended complaint was filed on November 3, 2006. The complaint as amended concerns the Company's initial public offering of common stock and alleges violations of Sections 11 and liability under Section 15 of the Securities Act of 1933. The plaintiff seeks rescission rights, attorneys' fees and other costs and unspecified damages on behalf of a purported class of purchasers of the Company's common stock "pursuant and/or traceable to the Company's IPO on or about May 16, 2005 through November 15, 2005." On November 3, 2008, the Company agreed to a settlement with the plaintiffs, without admitting liability of any kind. On February 25, 2009, the Court entered a judgment granting final approval of the settlement. The settlement amount above the deductible is covered by the Company's Directors and Officers insurance and is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flow. Expenses related to this complaint have been deminimus during 2008.

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The Company is involved in various legal matters, which have arisen in the ordinary course of business. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its financial position, results of operations or cash flow.

Environmental Matters

During the third quarter, the Company, while evaluating its facility in Australia, discovered the possibility of contamination at the facility. Subsequently the Company had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to remediate this facility. Based upon this evaluation, the Company has accrued $4,100 as its best estimate of the remediation costs it expects to incur.

In connection with the closure of certain manufacturing facilities under its restructuring programs, in 2004, the Company had conducted environmental site assessments which had indicated contamination at two sites. Management believes that both sites have been substantially remediated and no significant further remediation costs are expected to be incurred. Accordingly, during 2008, no environmental remediation expenses were incurred nor were any payments made related to these environmental matters. During 2004 through 2007, in relation to these environmental matters, the Company recorded and paid environmental expenses of approximately $7,500 in the aggregate. These costs were classified in general and administrative expenses.

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.

13. Stock-Based Compensation

Effective May 19, 2005 the Company adopted the 2005 Equity Incentive Plan (the 2005 Plan), under which the Board of Directors authorized 2,500,000 shares for grant (subsequently increased to 7,500,000 at the Company's Annual Meeting of Stockholders on August 6, 2008). The Company has awarded RSUs and common stock under the 2005 Plan and has recorded compensation expense related to RSUs of $1,289, $1,749 and $2,507 for the years ended December 31, 2008, 2007 and 2006, respectively. The Company also recorded compensation expense of $2,986 for the year ended December 31, 2008 related to awards of shares of common stock to eligible participants under the Company's performance award program for 2008. The underlying shares of common stock were issued in the first quarter of 2009. See Note 17 for subsequent event discussion related to these awards.

On January 1, 2006, the Company adopted SFAS No. 123R and the modified prospective method permitted under SFAS No. 123R. Under this transition method, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R, compensation expense is recognized on all share-based payments granted prior to, but not yet vested, as of December 31, 2005 and for share-based payments granted subsequent to December 31, 2005. As a result of adopting SFAS 123R on January 1, 2006, the Company has used the straight-line attribution method to recognize expense for RSUs granted after December 31, 2005. The Company used the graded attribution method to recognize expense for all RSUs granted prior to the adoption of SFAS No. 123R.

Summary of Activity Under the 2005 Plan

During 2005, 424,683 time-based RSUs and 801,843 performance-based RSUs were granted to officers and employees of the Company. Non-employee directors were also granted 12,500 RSUs during 2005. Each RSU represents one share of common stock.

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To earn common stock under time-based RSUs granted in 2005, generally the grantee must have been employed by the Company through the applicable vesting date, which occurred annually on May 19, 2006, 2007 and 2008. The underlying shares were issued to the grantee following the applicable vesting dates, net of shares withheld to satisfy minimum tax withholding requirements. Accordingly, during the years ended December 31, 2006, 2007 and 2008, the following shares of common stock were issued, net of shares that were withheld from issuance in connection with minimum tax withholding requirements related to the issuance of such shares to the recipients:

	2008	2007	2006
RSUs that vested	193,728	117,116	112,666
Less: Shares withheld from issuance for tax withholding purposes	(62,303)	(35,140)	(38,097)
Common stock issued underlying such RSUs	131,425	81,976	74,569

To earn common stock under performance-based RSUs granted in 2005, generally defined shareholder return targets must be met over the four years following the completion of the Company's initial public offering on May 19, 2005 and the grantee must be employed by the Company through May 19, 2009. Awards to non-employee directors vest immediately under the 2005 Plan and the underlying shares will be issued to the director upon termination of service as a member of the Board or a change in control, as defined in the 2005 Plan. Annually during 2005, 2006 and 2007, the non-employee directors were granted 12,500 RSUs in the aggregate. In July 2008, they also were granted 48,820 RSUs in the aggregate. On November 30, 2008, three members of the Board retired, which resulted in an aggregate issuance of 81,351 shares of common stock to them underlying their vested RSUs.

On March 29, 2007, under the 2005 Plan, the Company granted 368,350 performance-based RSUs to certain officers and employees of the Company. The awards would have generally vested only if the individual remained employed by the Company through December 31, 2007 and if a performance metric based upon 2007 Adjusted EBITDA, as defined in the Company's senior credit facility as in effect on March 29, 2007 and with certain adjustments, equaled or exceeded a target level that had been specified by the Compensation Committee of the Board of Directors. If the performance metric equaled or exceeded the target level specified, the RSUs would have vested on the day the Company filed its 2007 Annual Report on Form 10-K. The Company would have been required within thirty days thereafter to issue one share of common stock in respect of each fully vested RSU. The performance metric did not achieve the target level and the RSUs did not vest. Under the provisions of SFAS No. 123R, during 2007, no compensation expense was recorded for the performance-based grants that are based on an Adjusted EBITDA target because the target level was not achieved.

On May 16, 2007, the Company granted 742,885 performance-based RSUs to certain officers and employees of the Company. Generally, to earn common stock under these performance-based RSUs, defined shareholder return targets must be met over the four years following the grant date and the grantee must be employed by the Company through May 16, 2011.

Certain time-based RSUs and all non-employee director RSUs automatically adjust to reflect awards of additional RSUs upon payment of dividends by the Company. Outstanding RSUs that were awarded in connection with the payment of dividends are included in the table below. During 2007, 9,190 additional time-

based RSUs and 2,808 additional non-employee director RSUs were issued in connection with the payments of dividends that occurred in 2007. These dividend RSUs were charged to accumulated deficit, in accordance with SFAS No. 123R.

On January 3, 2008, the Compensation Committee of the Company's Board of Directors approved 433,000 performance-based RSU awards (based on shareholder return targets) and 433,000 time-based RSU awards for certain of the Company's officers under the 2005 Plan, which were made contingent upon the approval by the Company's stockholders at or before the Company's 2008 annual meeting of stockholders of an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 5,000,000. On August 6, 2008, at the Company's 2008 annual meeting of stockholders, the stockholders approved an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 7,500,000. The shareholder return based awards will generally only vest if the share price of the Company's common stock plus dividends paid on the common stock from January 3, 2008 satisfies annual targets that the Compensation Committee has established in respect of the three years following January 3, 2008 and the named officer continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the awards) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price. The time-based restricted stock unit awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008 provided that the named officer continues to be employed by the Company on such dates. Dividends, if any, on such time based restricted stock units will be paid at the same rate as dividends on the Company's common stock, but only in the form of additional restricted stock units. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the awards) and/or termination of employment under the circumstances set forth in the restricted stock unit awards, under which 14,493 shares of common stock underlying 21,722 time-based RSUs were issued during 2008; the remaining 7,229 shares underlying the RSUs withheld from issuance in connection with minimum tax withholding requirements related to the issuance of such shares to the recipients.

The Company also granted time-based restricted stock unit awards to its new chief executive officer with respect to 75,000 shares on February 26, 2008 and 37,500 shares on June 13, 2008. These awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008 and June 13, 2008, respectively, provided that the Company's chief executive officer continues to be employed by the Company on such dates. Additionally, on June 13, 2008, the Company granted a time-based restricted stock unit award to certain of its executive officers with respect to an aggregate 60,000 shares, which are scheduled to vest on the third anniversary of June 13, 2008, provided that the named officers continue to be employed by the Company on that date. During 2008, the Company granted to certain employees 55,175 time-based restricted stock units that vest equally in annual installments from the grant date over a period of three to four years.

Certain time-based RSUs and all non-employee director RSUs automatically adjust to reflect awards of additional RSUs upon payment of dividends by the Company. During 2008, no RSUs were awarded in connection with the payment of dividends as no dividends were declared by the Company during any of those quarters.

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A summary of RSUs outstanding as of December 31, 2008 and their vesting dates is as follows:

	Vesting Dates	Number of RSUs
Time-based RSUs granted May 19, 2005	Final tranche vested May 19, 2008	—
Time-based RSUs granted February 26, 2008	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	75,000
Time-based RSUs granted June 13, 2008	With respect to 37,500 RSUs—annually in equal installments on June 13, 2009, June 13, 2010 and June 13, 2011; with respect to 60,000 RSUs—June 13, 2011	97,500
Time-based RSUs granted August 6, 2008 (contingently awarded on January 3, 2008)	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	186,000
Time-based RSUs granted during various dates in 2008	Annually in equal installments over three or four years, as applicable.	55,175
Performance-based RSUs granted May 19, 2005 (based on shareholder return targets)	May 19, 2009, assuming performance criteria are achieved	269,171
Performance-based RSUs granted March 29, 2007 (based on Adjusted EBITDA target)	The performance criteria were not satisfied and these RSUs became available for future issuance on April 8, 2008, the day the Company filed its 2007 Annual Report on Form 10-K.	—
Performance-based RSUs granted May 16, 2007 (based on shareholder return targets)	May 16, 2011, assuming performance criteria are achieved	453,200
Performance-based RSUs granted August 6, 2008 (based on shareholder return targets) (contingently awarded on January 3, 2008)	January 3, 2011, assuming performance criteria are achieved	186,000
Non-employee directors' RSUs	Date of grant	36,539
Total RSUs outstanding		1,358,585

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RSU activity during the year ended December 31, 2008, is 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, 2007	1,975,162	$ 4.59 – 12.01	$ 9.58
Granted	1,169,039	1.19 – 5.40	5.15
Forfeited	(1,488,815)	5.40 – 11.66	8.09
Issued or withheld for tax withholding purposes	(296,801)	1.19 – 11.66	9.11
Outstanding, December 31, 2008	1,358,585	$ 3.77 – 12.01	$7.50
Vested, December 31, 2008 (1)	36,539	$ 3.77 – 12.01	$ 6.42

(1) Vested RSUs at December 31, 2008 consist entirely of non-employee director RSUs. The common stock underlying these RSUs will be issued to the directors upon termination of their service as members of the Board and/or a change in control, as defined in the 2005 Plan. The total grant-date fair value of such non-employee directors RSUs that vested during the year ended December 31, 2008 was $216.

See Note 17 for subsequent events related to stock-based compensation awards.

Assumptions

Under SFAS No. 123R, 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 and non-employee directors' RSUs based on the closing price of the Company's common stock on the date of grant.

For the performance-based RSUs granted in 2008, 2007 and 2005 (none granted in 2006), the Company calculated the grant-date fair value of performance-based RSUs by using a Monte Carlo pricing model and the following assumptions:

	For Performance-Based RSUs Granted August 6, 2008 (contingently awarded January 3, 2008)	For Performance-Based RSUs Granted May 16, 2007	For Performance-Based RSUs Granted May 19, 2005
Expected term	Three years	Four years	Four years
Expected volatility	44%	39%	37%
Expected dividends	None	$0.45 per year ($0.1125 per quarter)	$0.90 per year ($0.225 per quarter)
Risk-free interest rate	2.64%	4.32%	3.73%

(i) *Expected term*. Performance-based RSUs expire three years after the date grant date for the 2008 awards and four years after the grant date for the 2007 and 2005 awards.

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(ii) *Expected volatility*. The Company is responsible for estimating the volatility of the price of its common stock and has considered a number of factors, including third party estimates, to determine its expected volatility. For the 2008, 2007 and 2005 awards, the Company performed a peer group analysis of historical and implied volatility measures rather than using its own historical volatility because it had been a public company for a relatively short period of time (i.e. since its initial public offering on May 19, 2005). Based upon the peer group analysis, the Company determined to use a 44%, 39% and 37% volatility assumption for performance-based RSUs granted in 2008, 2007 and 2005, respectively, which is the midpoint of the range developed by looking at the peer group.

(iii) *Expected dividends*. Based on the Company's dividend policy in place at the time of the performance-based RSU rants on May 19, 2005, an assumed continuation of quarterly dividends at the rate of $0.225 per share of common stock was used for the purposes of the application of the Monte Carlo pricing model. On May 2, 2007, the Company modified its credit agreement to limit the amount of any quarterly dividends payable on its common stock to not more than $0.1125 per share. Accordingly, for the performance-based RSUs that were granted on May 16, 2007, the Company assumed continuation of quarterly dividends at the rate of $0.1125 per share of common stock for the purposes of the application of the Monte Carlo pricing model. On May 30, 2008, the Company amended its credit facility. No dividends are permitted to be paid on the Company's common stock through May 2012, the maturity date of the term loans under the amended senior credit facility. Accordingly no dividends were assumed for the 2008 awards for purposes of the application of the Monte Carlo pricing model.

(iv) *Risk-free interest rate*. The yield on zero-coupon U.S. Treasury securities for the period that is commensurate with the expected term assumption (i.e. three years and four years, respectively).

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Forfeitures

As the time-based and performance-based RSUs require continued employment up to the time of vesting, the amount of stock-based compensation recognized during a period is required to include an estimate of forfeitures. SFAS No. 123R 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. The Company revised its forfeiture estimates during 2008 and as of December 31, 2008 the following forfeiture rates are estimated:

Description of Award	Forfeiture Rates
Time-based RSUs granted on various dates in 2008, other than those on August 6, 2008	10%
Time-based RSUs granted on August 6, 2008	55%
Performance-based RSUs granted May 19, 2005 (based on shareholder return targets)	64%
Performance-based RSUs granted May 19, 2007 and August 6, 2008 (based on shareholder return targets)	65%
Non-employee directors’ RSUs	Vest immediately upon grant so no forfeiture rate required.

In accordance with SFAS No. 123R, the cumulative effect of applying the change in estimate retrospectively is recognized in the period of change; accordingly, the Company’s change in forfeiture rate during 2008 resulted in a cumulative decrease to compensation expense of $557.

As of December 31, 2008, there was approximately $2,350 of total unrecognized compensation expense related to unvested share-based awards which is expected to be recognized over a weighted average period of 2.15 years.

14. Dividends and Dividend Reinvestment Plan

On May 2, 2007, the Company modified its credit agreement, to limit the amount of any quarterly dividends payable on its common stock to not more than $0.1125 per share. The Company paid cash dividends of $0.5625 per share and $0.90 per share during the years ended December 31, 2007 and 2006, respectively. Pursuant to participation in the Company’s dividend reinvestment plan described below, a portion of the dividends paid in 2007 were for additional shares of common stock.

In February 2007, the Company established a dividend reinvestment plan (“DRIP”) that allowed shareholders of record to elect to receive all or part the dividends on shares of the Company’s common stock that otherwise would be paid in cash in the form of additional shares of common stock. Pursuant to a letter agreement with the Company dated December 22, 2006, as amended on May 2, 2007, Apax WW Nominees Ltd. and Apax-Xerium APIA LP (collectively the “Apax entities”) agreed that they would have participated in the DRIP through December 31, 2008 at a level such that at a minimum 50% of each dividend otherwise payable in cash on the

Company's common stock, including shares not held by Apax entities, was reinvested in the Company's common stock through the DRIP, provided that the Apax entities are not required to reinvest more than 100% of the cash dividends payable to them with respect to such dividend declaration. In connection with the dividend payments made by the Company in 2007, 2,146,365 shares of the Company's common stock were issued pursuant to the DRIP. The Apax entities held approximately 54% of the Company's outstanding common stock as of December 31, 2007 and 2008.

Pursuant to the Company's dividend policy, the Company's Board of Directors determined not to declare a dividend on the Company's common stock in the first quarter of 2008. On May 30, 2008, the Company amended its credit agreement, which prohibits the payment of dividends on its common stock through May 2012, the maturity date of the term loans under the senior credit facility. Accordingly, the Company does not anticipate paying dividends on its common stock for the foreseeable future.

15. Restructuring and Impairments Expense

Restructuring and impairments 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 shifting production from one facility to another. Facility costs are principally comprised of costs to relocate assets to the Company's other facilities, operating lease termination costs and other associated costs.

In 2006, the Company charged a total of $4,736 for restructuring and impairments-related expense against earnings in the Clothing, Rolls and Corporate segments consisting of $2,260, $2,320 and $156, respectively. In 2006, $2,286 of the restructuring and impairments expense related to the reorganization of the Company's European management structure along functional lines. During 2006, the Company also impaired assets of $2,095, primarily in the United Kingdom and Canada, and recorded $355 related to the closures of facilities under restructuring programs that were commenced prior to 2006.

During 2007, the Company charged a total of $7,733 for restructuring and impairments-related expense in the Clothing, Rolls and Corporate segments consisting of $3,824, $3,375 and $534, respectively. Restructuring and impairments-related activity in 2007 consisted of the following (i) in March 2007, the Company ceased manufacturing activity at its roll covers manufacturing facility in the United Kingdom and recorded restructuring expenses of $1,398 related thereto during 2007 (The Company had recorded asset impairment charges of $1,700 related to this facility during the fourth quarter of 2006); (ii) in the first quarter of 2007, the Company also initiated the closure of a roll covers manufacturing facility in the U.S. for which restructuring expenses and asset impairments of $593 and $389, respectively, were recorded during 2007; and (iii) during the first quarter of 2007, the Company initiated a program to streamline its operating structure for which restructuring expenses of $5,353 were recorded during 2007.

During 2008, the Company charged a total of $16,968 for restructuring and impairments-related expense in the Clothing, Rolls and Corporate segments consisting of $9,373, $4,541 and $3,054, respectively. During 2008, the Company continued its program of streamlining its operating structure and recorded restructuring expenses of approximately $6,100 in connection therewith. The Company targets restructuring expenses of approximately $5,000 to $6,000 during 2009, primarily related to headcount reductions resulting from the integration of the regional management structure in North America and similar actions in Europe.

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In April 2008, the Company announced that it will be closing its rolls manufacturing facility in Sweden and transferring production to certain of the Company's other rolls manufacturing facilities in Europe. Certain assets at the Sweden facility are being redeployed to the Company's roll covering plants in China. Also during the second quarter of 2008, the Company announced that it will be closing its rolls facility in Sherbrooke, Canada. This facility was still performing manufacturing operations as of December 31, 2008 and has ceased such operations in early 2009. During 2008, the Company recorded restructuring expenses of approximately $2,800 related to these closures and does not expect to incur significant restructuring expenses related thereto during 2009. Management has evaluated the assets of its business in Sweden and Sherbrooke, Canada for impairment under SFAS No. 144*, Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), and determined that no recognition of impairment loss was required.

On December 1, 2008, the Company committed to a plan to cease production at its Huyck Wangner clothing facility in Geelong, Australia by the end of the first quarter 2009. The Company also discontinued construction of its new Vietnam clothing facility in December 2008. The Company intends to retain a sales and distribution operation in Australia to service customers. The Company also plans to retain the Vietnam facility while it evaluates its long term potential. As a result of these actions, the Company recorded restructuring expenses in the fourth quarter of 2008 of approximately $4,100 and an impairment loss of approximately $3,000 based upon the Company's evaluation under SFAS No. 144. In addition, the Company is evaluating the future use of equipment located in Australia, and may transfer the equipment to other facilities when economically justified and, if transferred, would record expense to dismantle and move such equipment. Any additional restructuring expenses related to these announcements are expected to be minimal during 2009.

During 2008, the Company also recorded additional asset impairments in the U.S. of approximately $1,000 based upon the Company's evaluation under SFAS No. 144.

The table below sets forth the significant components and activity in the restructuring program and asset impairments during 2008:

	Balance at December 31 2007	Charges	Write-offs	Currency Effects	Cash Payments	Balance at December 31 2008
Severance	$ 2,046	$ 8,804	$ —	$ (476)	$ (4,952)	$ 5,422
Facility costs	—	4,175	—	50	(1,770)	2,455
Asset impairments	—	3,989	(3,989)	—	—	—
Total	$ 2,046	$16,968	$(3,989)	$ (426)	$ (6,722)	$ 7,877

The table below sets forth the significant components and activity in the restructuring program and asset impairments during 2007:

	Balance at December 31 2006	Charges	Write-offs	Currency Effects	Cash Payments	Balance at December 31 2007
Severance	$ 949	$ 7,344	$ —	$ 234	$ (6,481)	$ 2,046
Asset impairments	—	389	(389)	—	—	—
Total	$ 949	$ 7,733	$ (389)	$ 234	$ (6,481)	$ 2,046

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

The table below sets forth the significant components and activity in the restructuring program and asset impairments during 2006:

	Balance at December 31 2005	Charges	Write-offs	Currency Effects	Cash Payments	Balance at December 31 2006
Severance	$ 1,615	$ 2,286	$ —	$ 310	$ (3,262)	$ 949
Facility costs	282	355	—	(114)	(523)	—
Asset impairments	—	2,095	(2,095)	—	—	—
Total	$ 1,897	$ 4,736	$(2,095)	$ 196	$ (3,785)	$ 949

The Company expects to continue to review its business to determine if additional actions can be taken to further improve its cost structure. In light of the Company's assessment of the impact of the global credit crisis and the potential effect on its customers and its industry, and therefore, on the performance of the Company, additional operating structure improvements and related restructuring expenses are being analyzed.

16. Business Segment and Geographic Region 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: Clothing and Roll Covers. The Clothing segment represents the manufacture and sale of synthetic textile belts used to transport paper along the length of papermaking machines. The Roll Covers segment primarily represents the manufacture and refurbishment of covers used on the steel rolls of 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.

XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

Summarized financial information for the Company's reportable segments is presented in the tables that follow for each of the three years in the period ended December 31, 2008.

	Clothing	Roll Covers	Corporate	Eliminations	Total
2008:					
Net sales	$413,236	$224,903	$ —	$ —	$638,139
Depreciation and amortization (1)	32,155	13,501	272	—	45,928
Segment Earnings (Loss)	114,129	55,617	(11,859)	—	
Total assets	542,857	337,024	809,445	(877,754)	811,572
Capital expenditures	28,492	10,143	393	—	39,028
2007:					
Net sales	$408,130	$207,296	$ —	$ —	$615,426
Depreciation and amortization (1)	30,719	14,548	273	—	45,540
Segment Earnings (Loss)	103,685	53,815	(12,411)	—	
Total assets	601,752	307,559	833,688	(851,558)	891,441
Capital expenditures	33,728	13,927	204	—	47,859
2006:					
Net sales	$387,449	$213,990	$ —	$ —	$601,439
Depreciation and amortization (1)	30,679	14,549	164	—	45,392
Segment Earnings (Loss)	97,786	55,378	(15,038)	—	
Total assets	552,787	451,350	770,473	(783,884)	990,726
Capital expenditures	19,327	12,437	692	—	32,456

(1) Depreciation and amortization excludes amortization of financing costs of $4,670, $3,676, and $3,726 for 2008, 2007 and 2006, respectively.

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, 2008:

	2008	2007	2006
Segment Earnings (Loss):			
Clothing	$114,129	$ 103,685	$ 97,786
Roll Covers	55,617	53,815	55,378
Corporate	(11,859)	(12,411)	(15,038)
Non-cash compensation and related expenses	(2,009)	(1,749)	(2,507)
Net interest expense	(58,504)	(53,126)	(40,016)
Depreciation and amortization (2)	(45,928)	(45,540)	(45,392)
Restructuring and impairments expenses	(16,968)	(7,733)	(4,736)
Unrealized foreign exchange gain (loss) on revaluation of debt	1,985	(4,198)	(964)
Expenses related to debt or equity financing	(5,966)	—	(116)
Goodwill impairment	—	(185,300)	—
Income (loss) before provision (benefit) for income taxes	$ 30,497	$(152,557)	$ 44,395

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

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XERIUM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(dollars in thousands except per share data)

December 31, 2008

Information concerning principal geographic areas is set forth below. Net sales amounts are by geographic area of product destination. Net sales amounts are for the years ended December 31 and property, plant and equipment amounts are as of December 31.

	North America	Europe	Asia-Pacific	Other	Total
2008:					
Net sales (3)	$ 227,337	$ 237,054	$ 99,456	$ 74,292	$ 638,139
Property, plant and equipment (4)	115,117	176,738	46,264	46,471	384,590
2007:					
Net sales (3)	$ 234,517	$ 228,372	$ 86,459	$ 66,078	$ 615,426
Property, plant and equipment (4)	129,541	196,646	42,261	53,022	421,470
2006:					
Net sales (3)	$ 245,192	$ 216,412	$ 79,105	$ 60,730	$ 601,439
Property, plant and equipment (4)	120,014	183,625	31,293	40,247	375,179

(3) Included in North America are net sales in the United States of $168,999, $170,005 and $180,646 for 2008, 2007 and 2006, respectively.

(4) Included in North America are property, plant and equipment in the United States of $82,025, $86,780 and $84,798 as of December 31, 2008, 2007 and 2006, respectively. Included in Europe is property, plant and equipment in Germany of $79,630, $88,014 and $78,896 as of December 31, 2008, 2007 and 2006, respectively.

17. Subsequent Events

Stock-Based Compensation

Certain Material Equity Awards

On March 10, 2009, in accordance with the employment agreement between the Company and Mr. Stephen Light, the Company's Chairman, President and Chief Executive Officer, the Compensation Committee of the Company's Board of Directors approved RSU grants to Mr. Light as follows: (i) 341,761 time-based RSUs; (ii) 605,209 time-based RSUs that are contingent on shareholder approval of an increase in the maximum number of shares that may be granted as stock awards to any one person in any calendar year under the 2005 Plan; and (iii) 946,969 performance-based RSUs that are contingent on shareholder approval of the same increase. Mr. Light's employment agreement provides that he was to have been granted RSUs having a fair market value of $1,250 on January 1, 2009, or 1,893,939 RSUs, and that half of these are to vest based on his service over time while the other half vest based on the Company's performance. The 2005 Plan imposes a limit on the maximum number of shares that may be granted as stock awards to any one person in any calendar year. Those of the RSUs being granted to Mr. Light that are in excess of that limit have been granted contingent on shareholder approval of an amendment to the 2005 Plan that will increase the limit to enable these grants.

On March 10, 2009, the Company's Board of Directors approved the issuance of 4,034,819 shares of common stock to eligible participants under the Company's performance award program for 2008. After withholding shares of common stock to satisfy minimum tax withholding requirements, a net number of 2,564,111 shares was issued to the eligible participants on March 11, 2009.

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XERIUM TECHNOLOGIES, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(dollars in thousands)

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Classification	Balance at Beginning of Year	Charged to Cost and Expense	Effect of Foreign Currency Translation	Deduction from Reserves	Balance at End of Year
For the year-ended December 31, 2008:					
Allowance for doubtful accounts	$ 5,367	$ 11,397	$ (441)	$ (1,386)	$ 14,937
For the year-ended December 31, 2007:					
Allowance for doubtful accounts	$ 4,220	$ 1,740	$ 530	$ (1,123)	$ 5,367
For the year-ended December 31, 2006:					
Allowance for doubtful accounts	$ 2,277	$ 2,055	$ 203	$ (315)	$ 4,220

ALLOWANCE FOR SALES RETURNS

Classification	Balance at Beginning of Year	Charged to Revenue	Effect of Foreign Currency Translation	Deduction from Reserves	Balance at End of Year
For the year-ended December 31, 2008:					
Allowance for sales returns	$ 7,586	$ 7,782	$ (805)	$ (8,038)	$ 6,525
For the year-ended December 31, 2007:					
Allowance for sales returns	$ 5,448	$ 6,195	$ 593	$ (4,650)	$ 7,586
For the year-ended December 31, 2006:					
Allowance for sales returns	$ 5,510	$ 6,025	$ 398	$ (6,485)	$ 5,448

ALLOWANCE FOR CUSTOMER REBATES

Classification	Balance at Beginning of Year	Charged to Revenue	Effect of Foreign Currency Translation	Deduction from Reserves	Balance at End of Year
For the year-ended December 31, 2008:					
Allowance for customer rebates	$ 2,002	$ 1,133	$ (118)	$ (1,397)	$ 1,620
For the year-ended December 31, 2007:					
Allowance for customer rebates	$ 2,389	$ 2,263	$ 219	$ (2,869)	$ 2,002
For the year-ended December 31, 2006:					
Allowance for customer rebates	$ 2,036	$ 2,060	$ 178	$ (1,885)	$ 2,389

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1(1)	Amended and Restated Certificate of Incorporation of Xerium Technologies, Inc.
3.2(1)	Amended and Restated By-Laws of Xerium Technologies, Inc.
4.1(1)	Registration Rights Agreement by and among Xerium Technologies, Inc. and certain of its investors.
4.2(2)	Form of Stock Certificate for Common Stock, incorporated by reference to Exhibit 4.2 to Xerium Technologies, Inc.'s Registration Statement on Form S-1/A filed on May 3, 2005, Registration Number 333-114703.
4.3(9)	Dividend Reinvestment Plan, incorporated by reference to 8-K filed February 20, 2007.
10.1(1)	Credit Agreement, dated as of May 18, 2005 among Xerium Technologies, Inc. and certain financial institutions as the Lenders.
10.2(1)+	Employment Agreement with Thomas Gutierrez.
10.3(1)+	Employment Agreement with Michael O'Donnell.
10.4(1)+	Employment Agreement with Josef Mayer and supplemental Agreement.
10.5(30)+	2005 Equity Incentive Plan.
10.6(4)+	Xerium Technologies, Inc. 2006 Cash Incentive Bonus Plan.
10.7(2)+	Form of 2005 Performance-Based Restricted Stock Units Agreement for Executive Officers.
10.8(31)+	Form of 2005 Time-Based Restricted Stock Units Agreement for Executive Officers.
10.9(32)+	Form of Restricted Stock Units Agreement for Directors.
10.10(3)	Amendment No. 1 to Credit Agreement, dated as of February 8, 2006, among Xerium Technologies, Inc. and certain financial institutions as the Lenders.
10.11(4)+	Form of 2007 Corporate Award for Executive Officers under the Xerium Technologies, Inc. 2006 Cash Incentive Bonus Plan.
10.12(5)+	Supplemental Agreement No. 3 to Managing Director Service Contract between Xerium Germany Holding GmbH and Josef Mayer dated July 26, 2006.
10.13(6)+	Amended and Restated Service Contract with John Badrinas.
10.14(7)	Amendment No. 2 to Credit Agreement, dated as of December 22, 2006, among Xerium Technologies, Inc. and certain financial institutions as the Lenders.
10.15(8)	Letter Agreement, dated as of December 22, 2006, by and among Xerium Technologies, Inc., Apax WWW Nominees Ltd. AE4, Apax WW Nominees Ltd. and Apax Xerium APIA LP.
10.16(11)+	Form of Performance Based Restricted Stock Units Agreement (based upon a 2007 performance metric) under the 2005 Equity Incentive Plan.
10.17(12)	Amendment No. 3 to Credit Agreement, dated as of May 2, 2007, among Xerium Technologies, Inc. and certain financial institutions as the Lenders.
10.18(13)	Letter Agreement, dated as of May 2, 2007, by and among Xerium Technologies, Inc., Apax WWW Nominees Ltd. AE4, Apax WW Nominees Ltd. and Apax Xerium APIA LP.
10.19(14)+	Form of 2007 Shareholder Return Based Restricted Stock Units Agreement under the 2005 Equity Incentive Plan.

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Exhibit Number	Description of Exhibit
10.20(15)+	Form of 2008 Shareholder Return Based Restricted Stock Units Agreement under the 2005 Equity Incentive Plan.
10.21(16)+	Form of 2008 Time-Based Restricted Stock Units Agreement under the 2005 Equity Incentive Plan.
10.22(17)+	Employment Agreement with Stephen R. Light.
10.23(18)+	Amendment No. 1 to Employment Agreement between Xerium Technologies, Inc. and Michael O'Donnell dated February 11, 2008.
10.24(25)+	Amendment No. 1 to Employment Agreement with Stephen R. Light.
10.25(26)+	2008 Time-Based Restricted Stock Units Agreement with Stephen R. Light.
10.26(27)+	Amended and Restated Service Contract with Peter Williamson.
10.27(28)+	Description of Compensation for Non-Management Directors.
10.28(29)	Amendment No. 4 and Waiver to Credit Agreement, dated as of April 8, 2008, among Xerium Technologies, Inc. and certain financial institutions as the Lenders.
10.29(19)+	Amendment No. 1 to the 2005 Equity Incentive Plan.
10.30(20)+	Amendment No. 2 to the 2005 Equity Incentive Plan.
10.31(21)+	Performance Criteria Terms for Performance-Based Awards Under the 2005 Equity Incentive Plan.
10.32(22)+	Amendment No. 5, dated as of May 30, 2008, to the Credit Agreement.
10.33(23)+	Letter Agreement , dated August 13, 2008, with Thomas Gutierrez.
10.34(24)+	Form of Independent Director Indemnification Agreement entered into between the Registrant and the Registrant's independent directors.
10.35(33)+	Xerium Technologies, Inc. Performance Award Program for 2008.
10.36(33)+	Amended and Restated Employment Agreement with David Pretty.
10.37(33)+	Employment Agreement with Thomas C. Johnson.
21.1(33)	Subsidiaries of the Registrant.
23.1(33)	Consent of Ernst & Young LLP.
31.1(33)	Certification Statement of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2(33)	Certification Statement of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(33)	Certification Statement of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(33)	Certification Statement of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the same numbered exhibit to the Registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2005 filed on June 23, 2005.
(2) Incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1/A filed on May 3, 2005, Registration Number 333-114703.
(3) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 9, 2006, and incorporated herein by reference.
(4) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 30, 2007, and incorporated herein by reference.
(5) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 27, 2006, and incorporated herein by reference.

(6) Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2007, and incorporated herein by reference.
(7) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 22, 2006, and incorporated herein by reference.
(8) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 22, 2006, and incorporated herein by reference.
(9) 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.
(11) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 30, 2007, and incorporated herein by reference.
(12) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 2, 2007, and incorporated herein by reference.
(13) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 2, 2007, and incorporated herein by reference.
(14) Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 2, 2007, and incorporated herein by reference.
(15) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 7, 2008, and incorporated herein by reference.
(16) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 7, 2008, and incorporated herein by reference.
(17) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 12, 2008, and incorporated herein by reference.
(18) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 12, 2008, and incorporated herein by reference.
(19) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 11, 2008, and incorporated herein by reference.
(20) Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 11, 2008, and incorporated herein by reference.
(21) Filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on August 11, 2008, and incorporated herein by reference.
(22) Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2008, and incorporated herein by reference.
(23) Filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on November 10, 2008, 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 10.26 to the Registrant's Annual Report on Form 10-K filed on April 8, 2008, and incorporated herein by reference.
(26) Filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K filed on April 8, 2008, and incorporated herein by reference.
(27) Filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed on April 8, 2008, and incorporated herein by reference.
(28) Filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10-K filed on April 8, 2008, and incorporated herein by reference.
(29) Filed as Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed on April 8, 2008, and incorporated herein by reference.
(30) Incorporated by reference to Exhibit 10.7 to the Registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2005 filed on June 23, 2005.
(31) Incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1/A filed on May 3, 2005, Registration Number 333-114703.
(32) Incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1/A filed on May 3, 2005, Registration Number 333-114703.
(33) Filed herewith.
\+ Management contract or compensatory arrangement or plan.

EXHIBIT 10.35

XERIUM TECHNOLOGIES, INC.
PERFORMANCE AWARD PROGRAM

This Xerium Technologies, Inc. Performance Award Program (the "Program") contains rules supplemental to those set forth in the Xerium Technologies, Inc. 2005 Equity Incentive Plan (the "EIP"). The Program provides for the grant of the incentive award opportunities (each, an "Award") under and subject to the terms of the EIP, which is incorporated herein by reference. In the event of any inconsistency between the Program and applicable provisions of the EIP, the EIP shall control. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the EIP.

1. Administration; Eligibility; Features of Awards. The Program shall be administered by the Committee as described in the EIP. Eligibility to participate in the Program shall be limited to individuals who are selected in accordance with the terms of the EIP to participate in the Program from among those individuals who are eligible to participate in the EIP (each, a "Participant"). Participation in any Award shall not entitle a Participant to share in any future Awards or in any other future awards of Xerium Technologies, Inc. (the "Company") or its subsidiaries. Each Award shall entitle the holder, subject to satisfaction of the performance conditions under the Award (and, if the Award is intended to qualify for the performance-based compensation exception under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), to the further limitations of the EIP with respect thereto), to a benefit determined under Section 2 below and Exhibit A (the "Total Benefit Amount") that is payable as follows: (a) so much of the Total Benefit Amount as equals the minimum tax withholding shall be determined (the "Tax Withholding Amount"); (b) fifty (50%) percent of the Total Benefit Amount shall be payable in the form of Stock; and (c) the balance of the Total Benefit Amount (the "Election-Eligible Portion") after the amounts determined pursuant to clauses (a) and (b) of this Section 1 shall be payable, as the Participant may elect pursuant to Section 3 below, either in cash or in Stock (and will be paid in cash if the Participant makes no such election). The number of shares of Stock deliverable in respect of any portion of an Award payable in Stock shall be determined as described in Section 4 below.

2. Determination of Total Benefit Amount. The determination of each Participant's Total Benefit Amount under an Award for any calendar year or portion thereof (a "performance year") shall be made in accordance with the provisions of Exhibit A applicable to such Participant for such performance year.

3. Election to Receive Stock for Election-Eligible Portion. A Participant holding an Award for any performance year may elect not later than thirty-one (31) calendar days prior to the conclusion of the performance year to receive all or any portion of the Election-Eligible Portion of his or her Award payment, if any, in Stock rather than cash.

4. Determination of Number of Shares Payable. The number of shares of Stock payable under any Award shall be the quotient determined by dividing (x) by (y), where (x) is that portion of the Total Benefit Amount, if any, payable with respect to such Award in Stock, and (y) is the average of the per-share closing prices of the Stock (adjusted as appropriate to reflect any stock splits, stock dividends or similar events) for the last twenty (20) trading days of the performance year, rounded down to the nearest whole number.

5. Latest Payment Date; Tax Withholding.

(a) All payments, if any, under an Award shall be made not later than by March 15 of the calendar year following the performance year unless the Company establishes that it was administratively impracticable to make the payment by that deadline and, as of the date the Award was granted, such impracticability was unforeseeable in accordance with Section 409A of the Code and the regulations promulgated thereunder. If payment is delayed beyond March 15 by reason of the preceding sentence, payment shall be made as soon as administratively practicable.

(b) The Tax Withholding Amount with respect to an Award shall be used to satisfy tax withholding requirements for such Award and such withheld amount shall be deemed to have been paid to the Participant partially in cash and partially in Stock in the same proportion as the Stock and cash paid with respect to the Award excluding the Tax Withholding Amount.

6. Intent to be Exempt from Section 162(m). Awards for the 2008 performance year are not intended to qualify for the performance-based compensation exception under Section 162(m) of the Code. In the case of any Award for a subsequent performance year that is intended to so qualify, (i) the Exhibit A performance goals with respect to such Award shall be established by the Committee not later than ninety (90) days after the commencement of the performance year (or by such earlier date as is required by Section 1.162-27(e)(2)(i) of the Treasury Regulations), (ii) the Exhibit A performance goals, as so established, shall be consistent with the eligible performance measures, if any, approved by the shareholders of the Company for use in respect of performance awards under the EIP and shall be objectively determinable in compliance with Section 1.162-27(e)(2) of the Treasury Regulations, and (iii) no portion of the Award shall be paid unless and until the Committee has certified (as required by Section 1.162-27(e)(5) of the Treasury Regulations) that the performance goals have been achieved (or, if the performance goals are expressed in terms that admit of varying payout levels for different levels of performance, have been achieved at a level sufficient to support the payment).

7. Nature of Awards. Awards hereunder are intended to qualify as Stock Unit Awards under the EIP, with the cash portion payable pursuant to Section 9(d) of the EIP. The Program is unfunded and any cash payments by the Company hereunder shall be made from the general assets of the Company.

8. Termination of Employment. No Award shall be payable to or in respect of a Participant, except as the Committee shall otherwise expressly determine, unless the Participant is employed by the Company or a subsidiary on December 31 of the performance year.

9. Availability of Stock. If, when Awards become payable in respect of any performance year, the number of shares of Stock deliverable under the Awards exceeds the number of shares then available under the EIP, there shall first be reduced proportionally the number of shares deliverable under the Election-Eligible Portion of the Awards, and if any further reduction is needed such further reduction shall be made proportionally among all Awards, with the amount of any such reductions payable in cash.

10. Treatment of Awards Upon a Change in Control. If (a) the Company merges into or combines with any other entity and, immediately following such merger or combination, any Person or group of Persons acting in concert holds 50% or more of the voting power of the entity surviving such merger or combination (other than any Person or group of Persons which held 50% or more of the Company's voting power immediately prior to such merger or combination or any Affiliated Person of any such Person or member of such group); (b) any Person or group of Persons acting in concert acquires 50% or more of the Company's voting power; or (c) the Company sells all or substantially all of its assets or business for cash or for securities of another Person or group of Persons (other than to any Person or group of Persons which held 50% or more of the Company's total voting power immediately prior to such sale or to any Affiliated Person of any such Person or any member of such group), then, unless the Committee provides for the continuation or assumption of Awards or for the grant of new awards in substitution therefor (which substitute awards, if any, may be payable in cash or other property or a combination thereof) by the surviving entity or acquiror, in each case on such terms and subject to such conditions as the Committee may determine, with respect to each Award not so assumed or continued:

(a) In the event such transaction occurs on or after the close of the performance year with respect to the Award, the Committee shall determine, acting in its sole and reasonable discretion, prior to the occurrence of the transaction, the extent to which the applicable performance metrics specified in Exhibit A have been satisfied. If financial statements or other relevant data are not available prior to the time of such determination, the Committee shall make such determination based upon the financial information and data then available to the Company.

(b) In the event such transaction occurs prior to the close of the performance year with respect to the Award, the applicable performance metrics specified in Exhibit A shall be determined as follows: (i) the performance year shall be deemed to end on the effective date of such transaction; and (ii) the extent to which the applicable performance metrics specified in Exhibit A for the shortened performance year described in clause (i) above have been achieved shall be determined by the Committee acting in its sole and reasonable discretion based upon the financial information available to the Company (it being understood that the Committee may, to the extent it deems necessary, extrapolate performance through the effective date of the transaction based upon available data); (iii) the performance determined pursuant to clause (ii) shall then be adjusted by multiplying it by fraction, the numerator of which is the number of days in the shortened performance year and the denominator of which is 365, and the performance as so adjusted shall be the basis for determining the Total Benefit Amount with respect to the Award, subject to proration in accordance with Section 10(c) below.

(c) If subsection (b) above applies, the Total Benefit Amount initially determined under subsection (b) with respect to an Award shall be prorated by multiplying such initially determined amount by a fraction, the numerator of which is the number of days in the shortened performance year and the denominator of which is 365.

For purposes of this Section 10, "Person" means any individual, partnership, limited liability company, corporation, association, trust, joint venture, unincorporated organization, or other entity or group, and "Affiliated Person" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or is under common control with such Person.

11. Amendment. The Committee may amend the Program at any time and from time to time, and may terminate the Program, in each case subject only to such limitations, if any, as the EIP may impose.

12. 409A. This Program and the Awards granted thereunder shall be construed and administered consistent with the intent that they at all times be in compliance with or exempt from the requirements of Section 409A of the Code and the regulations promulgated thereunder.

XERIUM TECHNOLOGIES, INC.
PERFORMANCE AWARD PROGRAM

Exhibit A (applicable to 2008 performance year)

There are five different types of Awards under the Program for performance year 2008:

1. Corporate Awards
2. North America Division Awards
3. South America Division Awards
4. Europe Division Awards and
5. Asia Division Awards.

The North America Division Awards, South America Division Awards, Europe Division Awards and Asia Division Awards are referred to herein collectively as "Division Awards" and each as a "Division Award". The North America Division, South America Division, Europe Division and Asia Division are referred to herein collectively as "Divisions" and each as a "Division".

Participants in the Program selected by the Committee shall receive the types of Awards in the amounts determined by the Committee.

Corporate Awards are described in Section 1 below, and Division Awards are described in Section 2 below.

Except as otherwise expressly provided herein, all accounting terms not otherwise defined herein shall have the meanings assigned to them in conformity with U.S. generally accepted accounting principles.

Section 1 — Corporate Awards

Two measures of performance are relevant in determining the Total Benefit Amount, if any, under a Corporate Award: (i) the Corporate Cash Metric and (ii) the Corporate EBITDA Metric.

i. Corporate Cash Metric

The "Corporate Cash Metric" means, for Xerium Technologies, Inc., on a consolidated basis, net cash provided by operating activities for the year ended December 31, 2008 *minus* capital expenditures (as reflected on the cash flow statement) for the year ended December 31, 2008 *plus* interest expense (excluding the amortization of debt expense and net of interest income) for the year ended December 31, 2008 *plus* the reduction (where a reduction is expressed as a positive number and an increase is expressed as a negative number) in Trapped Cash for Xerium Technologies, Inc., on a consolidated basis, from December 31, 2007 to December 31, 2008. "Trapped Cash" means accounts receivable (if any) outstanding at December 31, 2007 or December 31, 2008, as the case may be, in excess of the accounts receivable that would cause the quotient determined by dividing accounts receivable on such date by the

ratio of net sales for the year then ended to 365 to be in excess of 50 *plus* inventory (if any) at December 31, 2007 or December 31, 2008, as the case may be, in excess of one-sixth of cost of goods sold for the year then ended *plus* accounts payable (if any) outstanding at December 31, 2007 or December 31, 2008, as the case may be, less than the amount of the accounts payable that would cause the quotient determined by dividing accounts payable on such date by the ratio of cost of goods sold for the year then ended to 365 to be less than 48. The Committee shall have sole discretion to determine the calculation of the amount of the Corporate Cash Metric.

Weighting: The amount of the target award under the Corporate Award that is based upon the Corporate Cash Metric is 60% of the total Corporate Award for the Participant. "X" below refers to the target award for the Participant under the Corporate Award that is based upon the Corporate Cash Metric.

The Target Corporate Cash Metric (referred to below as "Y") shall be established by the Committee upon the granting of Corporate Awards and communicated to Participants receiving a Corporate Award; *provided, however*, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by Xerium Technologies, Inc. or any of its subsidiaries.

Subject to Section 1(iii), the Total Benefit Amount payable with respect to a Corporate Award based upon the portion measured against the Corporate Cash Metric shall be determined as follows:

Corporate Cash Metric below .95Y: no payment under the Corporate Cash Metric component

Corporate Cash Metric at .95Y: bonus = .5 X

Corporate Cash Metric at .975Y: bonus = .667X

Corporate Cash Metric at Y: bonus = X

Corporate Cash Metric at 1.25Y: bonus = 1.5X

Corporate Cash Metric at 1.45Y: bonus = 2X

Corporate Cash Metric at 1.8Y or above: bonus = 2.5X

The amount payable between the levels of Corporate Cash Metric identified above shall be determined on the basis of straight line interpolation between points.

ii. Corporate EBITDA Metric

The "Corporate EBITDA Metric" means Adjusted EBITDA, as such term is defined in the first sentence of the definition of such term in the Credit and Guaranty Agreement (the "Credit Agreement), dated as of May 19, 2005, entered into by and among the Company, certain subsidiaries of the Company, Citigroup Global Markets, Inc., CIBC World Markets Corp. and other agents and banks party thereto, as amended and in effect on May 30, 2008, for Xerium Technologies, Inc. for the year ended December 31, 2008; provided, however, that notwithstanding anything to the contrary in such definition of "Adjusted EBITDA", (a) because the intent is

that the Corporate EBITDA Metric be calculated on a "self funded" basis, the Corporate EBITDA Metric shall be determined taking into account the expense for all Awards under the Program (including both Corporate and Division Awards) for the performance year regardless of whether such Awards are paid in cash or Stock; and (b) the Corporate EBITDA Metric for the three months ended March 31, 2008 was $35,610,000. The Committee shall have sole discretion to determine the calculation of the amount of the Corporate EBITDA Metric.

Weighting: The amount of the target award under the Corporate Award that is based upon the Corporate EBITDA Metric is 40% of the total Corporate Award for the Participant. "X" below refers to the target award for the Participant under the Corporate Award that is based upon the Corporate EBITDA Metric.

The Target Corporate EBITDA Metric (referred to below as "Y") shall be established by the Committee upon the granting of Corporate Awards and communicated to Participants receiving a Corporate Award; *provided, however*, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by the Company or any of its subsidiaries.

Subject to Section 1(iii), the Total Benefit Amount payable with respect to a Corporate Award based upon the portion measured against the Corporate EBITDA Metric shall be determined as follows:

Corporate EBITDA Metric below .95Y: no payment under the Corporate EBITDA Metric component

Corporate EBITDA at .95Y: bonus = .5 X

Corporate EBITDA at .975Y: bonus = .667X

Corporate EBITDA at Y: bonus = X

Corporate EBITDA at 1.06Y: bonus = 1.5X

Corporate EBITDA at 1.1Y: bonus = 2X

Corporate EBITDA at 1.42Y or above: bonus = 2.5X

The amount payable between the levels of Corporate EBITDA Metric identified above shall be determined on the basis of straight line interpolation between points.

iii. Total Benefit Amount payable with respect to a Corporate Award shall be the sum of the amounts determined pursuant to Section 1(i) and Section 1(ii) above; *provided, however*, if the such amount exceeds two (2) times the sum of (a) the target award for the Participant under the Corporate Award that is based upon the Corporate Cash Metric and (b) the target award for the Participant under the Corporate Award that is based upon the Corporate EBITDA Metric (such sum with respect to a Participant, the "Corporate Target") then the Total Benefit Amount payable with respect to a Corporate Award for such Participant shall be reduced to two (2) times the Corporate Target.

Section 2 — Division Awards

The description of Division Awards below applies to the Division Awards of each of the four Divisions.

Two measures of performance are relevant in determining the Total Benefit Amount, if any, under a Division Award: (i) the Division Cash Metric and (ii) the Division EBITDA Metric.

i. Division Cash Metric

The "Division Cash Metric" means net cash provided by operating activities for the year ended December 31, 2008 *minus* capital expenditures for the year ended December 31, 2008 *plus* interest expense (excluding the amortization of debt expense and net of interest income) for the year ended December 31, 2008 *plus* the reduction (where a reduction is expressed as a positive number and an increase is expressed as a negative number) in Trapped Cash (as defined in Section 1(i) above) for the particular Division from December 31, 2007 to December 31, 2008, in each case as required to be presented in the internal financial management reports (commonly referred to as "GRs") of the Company for the particular Division. The Committee shall have sole discretion to determine the calculation of the amount of the Division Cash Metric.

Weighting: The amount of the target award under the Division Award that is based upon the Division Cash Metric is 60% of the total Division Award for the Participant. "X" below refers to the target award for the Participant under the Division Award that is based upon the Division Cash Metric.

The Target Division Cash Metric (referred to below as "Y") shall be established by the Committee upon the granting of Division Awards and communicated to Participants receiving a Division Award for the particular Division; *provided, however*, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by the particular Division.

Subject to Section 2(iii), the Total Benefit Amount payable with respect to a Division Award (other than an Asia Division Award) based upon the portion measured against the Division Cash Metric shall be determined as follows:

Division Cash Metric below .95Y: no payment under the Division Cash Metric component

Division Cash Metric at .95Y: bonus = .5 X

Division Cash Metric at .975Y: bonus = .667X

Division Cash Metric at Y: bonus = X

Division Cash Metric at 1.25Y: bonus = 1.5X

Division Cash Metric at 1.45Y: bonus = 2X

Division Cash Metric at 1.81Y or above: bonus = 2.5X

The amount payable between the levels of Division Cash Metric identified above shall be determined on the basis of straight line interpolation between points.

Subject to Section 2(iii), the Total Benefit Amount payable with respect to an Asia Division Award based upon the portion measured against the Division Cash Metric shall be determined as follows:

Division Cash Metric below .95Y: no payment under the Division Cash Metric component

Division Cash Metric at .95Y: bonus = .5 X

Division Cash Metric at .975Y: bonus = .667X

Division Cash Metric at Y: bonus = X

Division Cash Metric at 3.5Y: bonus = 1.5X

Division Cash Metric at 7Y: bonus = 2X

Division Cash Metric at 8.25Y or above: bonus = 2.5X

The amount payable between the levels of Division Cash Metric identified above shall be determined on the basis of straight line interpolation between points.

ii. Division EBITDA Metric:

The "Division EBITDA Metric" means "Adjusted EBITDA" for the particular Division for the year ended December 31, 2008 as required to be presented in the internal financial management reports (commonly referred to as "GRs") of the Company in accordance with the guidelines for such reports in effect on June 30, 2008 and consistent with the definition of Adjusted EBITDA as set forth in the first sentence of the definition of such term in the Credit Agreement; provided that notwithstanding anything to the contrary contained herein, (a) because the intent is that the Division EBITDA Metric be calculated on a "self funded" basis, the Division EBITDA Metric shall be determined taking into account the expense for all Awards for that particular Division for the performance year and the expense for the allocated portion (as determined by the Compensation Committee in accordance with Company internal accounting policies) of any Corporate Awards for the performance year regardless of whether such Awards are paid in cash or Stock; (b) the limit on Consolidated Restructuring Costs (as defined in the Credit Agreement) that may be added back to net income for the purposes of calculating the Division EBITDA Metric shall be as determined by the Committee; (c) the amount of the Division EBITDA Metric for the Division for the three months ended March 31, 2008 shall be as previously reported in theGRs for such period. The Committee shall have sole discretion to determine the calculation of the amount of the Division EBITDA Metric.

Weighting: The amount of the target award under the Division Award that is based upon the Division EBITDA Metric is 40% of the total Division Award for the Participant. "X" below refers to the target award for the Participant under the Division Award that is based upon the Division EBITDA Metric.

The Target Division EBITDA Metric (referred to below as "Y") shall be established by the Committee upon the granting of Division Awards and communicated to Participants receiving a Division Award for the particular Division; *provided, however*, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by the particular Division.

Subject to Section 2(iii), the Total Benefit Amount payable with respect to a Division Award (other than an Asia Division Award) based upon the portion measured against the Division EBITDA Metric shall be determined as follows:

Division EBITDA Metric below .95Y: no payment under the Division EBITDA Metric component

Division EBITDA at .95Y: bonus = .5 X

Division EBITDA at .975Y: bonus = .667X

Division EBITDA at Y: bonus = X

Division EBITDA at 1.06Y: bonus = 1.5X

Division EBITDA at 1.1Y: bonus = 2X

Division EBITDA Metric at 1.38Y or above: bonus = 2.5X

The amount payable between the levels of Division EBITDA Metric identified above shall be determined on the basis of straight line interpolation between points.

Subject to Section 2(iii), the Total Benefit Amount payable with respect to an Asia Division Award based upon the portion measured against the Division EBITDA Metric shall be determined as follows:

Division EBITDA Metric below ..95Y: no payment under the Division EBITDA Metric component

Division EBITDA at .95Y: bonus = .5 X

Division EBITDA at .975Y: bonus = .667X

Division EBITDA at Y: bonus = XDivision EBITDA at 1.65Y: bonus = 1.5X

Division EBITDA at 2.6Y: bonus = 2X

Division EBITDA Metric at 3.25Y or above: bonus = 2.5X

The amount payable between the levels of Division EBITDA Metric identified above shall be determined on the basis of straight line interpolation between points.

iii. Total Benefit Amount payable with respect to a Division Award shall be the sum of the amounts determined pursuant to Section 2(i) and Section 2(ii) above; *provided, however*, if the such amount exceeds two (2) times the sum of (a) the target award for the Participant under the Division Award that is based upon the Division Cash Metric and (b) the target award for the Participant under the Division Award that is based upon the Division EBITDA Metric (such sum with respect to a Participant, the "Division Target") then the Total Benefit Amount payable with respect to a Division Award for such Participant shall be reduced to two (2) times the Division Target.

Section 3 — Total Benefit Amount

The Total Benefit Amount for a Participant shall be the sum of the Total Benefit Amount payable with respect to any Corporate Award for such Participant (as determined in accordance with Section 1(iii)) and the Total Benefit Amount payable with respect to any Division Award for such Participant (as determined in accordance with Section 2(iii)).

EXHIBIT 10.36

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AGREEMENT made and entered into by and between Xerium Technologies, Inc. (the "Company"), a Delaware corporation and David Pretty (the "Executive"), effective as of the 11th day of February, 2008 (the "Effective Date").

WHEREAS, the Executive has been employed by the Company pursuant to an Employment Agreement between the Executive and the Company made effective as of September 19, 2005 as amended on August 22, 2007 (the "Original Agreement"); and

WHEREAS, the Executive and the Company wish to amend and restate the Original Agreement on the terms and conditions hereinafter set forth,

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree that the Original Agreement is amended and restated in its entirety as set forth below:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers and the Executive hereby accepts continuation of employment.

2. Term. The employment of the Executive by the Company hereunder shall be for the period commencing on the Effective Date and expiring on the date of the termination of such employment in accordance with Section 5 hereof. For all purposes of this Agreement, references to (i) the "Termination Date" shall mean the date Executive's employment hereunder shall terminate pursuant to said Section 5, and (ii) references to the "term" of the Executive's employment hereunder shall mean the period commencing on the Effective Date and ending on the Termination Date. Following the Termination Date, unless specifically otherwise agreed between Executive and any applicable party, the Executive shall cease to hold any position (whether as an officer, director, manager, employee, trustee, fiduciary or otherwise) with the Company or any of its Subsidiaries or Affiliates.

3. Capacity and Performance.

(a) During the term of Executive's employment hereunder, the Executive shall serve the Company as its President—Xerium North America. In addition, and without further compensation, the Executive shall serve as a director and/or officer of one or more of the Company's Subsidiaries if so elected or appointed from time to time.

(b) During the term of Executive's employment hereunder, the Executive shall be employed by the Company on a full-time basis and shall perform such duties and responsibilities on behalf of the Company and its Subsidiaries as may be designated from time to time by the Chief Executive Officer.

(c) During the term of Executive's employment hereunder, the Executive shall devote his full business time to the advancement of the business and interests of the Company and its Subsidiaries and to the discharge of his duties and

responsibilities hereunder. The Executive shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the term of this Agreement, except as may be expressly approved in advance by the Chief Executive Officer in writing.

4. Compensation and Benefits. During the term of Executive's employment hereunder as compensation for all services performed by the Executive:

(a) Base Salary. The Company shall pay the Executive a base salary at the rate of three hundred fifty thousand dollars ($350,000) per year effective as of January 1, 2008, payable in accordance with the payroll practices of the Company for its executives and subject to increase from time to time by the Board, in its sole discretion. Such base salary, as from time to time increased, is hereafter referred to as the "Base Salary".

(b) Annual Cash Bonus Plan. The Executive shall be entitled to participate in any and all annual cash bonus plans (the "Annual Bonus Plans") from time to time in effect for senior executives of the Company generally. The terms of each Annual Bonus Plan and Executive's participation therein shall be determined by the compensation committee of the Board of Directors of the Company (the "Board") (or, if there is no such committee, by the Board); provided, however, that the Executive shall be entitled to participate in such plans at a minimum participation rate of 50% of his Base Salary paid for the applicable year, with any awards thereunder payable only to the extent earned pursuant to the terms of the applicable Annual Bonus Plan and subject to adjustment in accordance with the terms of the applicable Annual Bonus Plan. Notwithstanding the foregoing, no award under the Annual Bonus Plans may be granted if the compensation committee determines that in order for such award to qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Plan must be submitted to and approved, or resubmitted to and approved, by the stockholders of the Company in accordance with the requirements of Section 162(m) of the Code, unless such grant is made contingent upon such approval. The compensation committee of the Board (or, if there is no such committee, the Board) may alter, modify, add to or delete any Annual Bonus Plan at any time as it, in its sole judgment, determines to be appropriate.

(c) Other Incentive Plans. The Executive shall be entitled to participate in any and all cash, equity, bonus and other incentive plans which are not Annual Bonus Plans (the "Long Term Plans") from time to time in effect for senior executives of the Company generally (it being understood that effective immediately prior to the Company's initial public offering, the Company established a single such plan called the "2005 Equity Incentive Plan"). The terms of each Long Term Plan and Executive's participation therein shall be determined by the compensation committee of the Board (or, if there is no such committee, by the Board). The compensation committee of the Board (or, if there is no such committee, the Board) may alter, modify, add to or delete any Long Term Plan at any time as it, in its sole judgment, determines to be appropriate.

(d) Vacations. The Executive shall be entitled to an annual vacation of four (4) weeks, with reasonable notice to the Chief Executive Officer and subject to the reasonable business needs of the Company. Vacation shall otherwise be governed by the policies of the Company, as in effect from time to time.

(e) Other Benefits. Subject to any contribution therefor generally required of executives of the Company, the Executive shall be entitled to participate in any and all employee benefit plans from time to time in effect for executives of the Company generally, except to the extent such plans are in a category of benefit specifically otherwise provided to the Executive under this Agreement (*e.g*., severance pay). Such participation shall be subject to the terms of the applicable plan documents and generally applicable Company policies. The Board may alter, modify, add to or delete employee benefit plans at any time as it, in its sole judgment, determines to be appropriate.

(f) Business Expenses. The Company shall pay or reimburse the Executive for all reasonable and necessary business expenses incurred or paid by the Executive in the performance of his duties and responsibilities hereunder, subject to any maximum annual limit or other restrictions on such expenses set by the Board and to such reasonable substantiation and documentation as may be specified by the Company from time to time. In the case of any reimbursement to which the Executive is entitled pursuant to this Section 4(f) that would constitute deferred compensation subject to Section 409A of the Code, the following additional rules shall apply: (i) the reimbursable expense must have been incurred, except as otherwise expressly provided in this Agreement, during the term of this Agreement; (ii) the amount of expenses eligible for reimbursement during any calendar year will not affect the amount of expenses eligible for reimbursement in any other calendar year; (iii) the reimbursement shall be made not later than December 31 of the calendar year following the calendar year in which the expense was incurred; and (iv) the Executive’s entitlement to reimbursement shall not be subject to liquidation or exchange for another benefit.

(g) Payments/Actions by Company. Wherever it is provided in this Agreement that payment of any form of compensation or any other action shall by made by the Company, such payment or action may be made by any Subsidiary or Affiliate of the Company.

5. Termination of Employment. The Executive’s employment hereunder shall terminate under the following circumstances:

(a) Death. In the event of the Executive’s death during the term of Executive’s employment hereunder, the Executive’s employment shall immediately and automatically terminate.

(b) Disability. The Company may terminate the Executive’s employment hereunder, upon notice to the Executive, in the event that the Executive becomes disabled during his employment hereunder. For this purpose, disability means that the Executive (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to

result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company. If any question shall arise as to whether during any period the Executive is disabled within the meaning of this Section 5(b), the Executive, at the request of the Company, shall submit to a medical examination by a physician selected by the Company to determine whether the Executive is so disabled and such determination shall for the purposes of this Agreement be conclusive of the issue. If such question shall arise and the Executive shall fail to submit to such medical examination, the Company's determination of the issue shall be binding on the Executive.

(c) By the Company for Cause. The Company may terminate the Executive's employment hereunder for Cause at any time upon notice to the Executive setting forth the nature of such Cause. The following shall constitute Cause for termination: (i) the Executive's conviction of or plea of *nolo contendere* to a felony or other crime involving moral turpitude; (ii) the Executive's fraud, theft or embezzlement committed with respect to the Company or its Subsidiaries; (iii) material breach by the Executive of any of the provisions of Sections 8, 9 or 10 hereof that causes demonstrable harm to the Company or any of its Subsidiaries; or (iv) the Executive's willful and continued failure to perform his material duties to the Company and its Subsidiaries; provided, however, that the Company may terminate Executive's employment hereunder for "Cause" within the meaning of this clause (iv) only after the Company has provided written notice to the Executive of the failure and the Executive shall have not have remedied such failure within 10 business days following the effectiveness of such notice.

(d) By the Company Other than for Cause. The Company may terminate the Executive's employment hereunder other than for Cause at any time upon notice to the Executive.

(e) By the Executive Other Than for Good Reason. The Executive may terminate his employment hereunder other than for Good Reason (as defined in Section 5(f) below) at any time upon the provision of 60 days written notice to the Company. In the event of termination of the Executive pursuant to this Section 5(e), the Board may elect to waive the period of notice or any portion thereof.

(f) By the Executive for Good Reason. The Executive may terminate his employment hereunder for Good Reason upon written notice to the Company setting forth in reasonable detail the nature of such Good Reason; provided, that such written notice must be delivered to the Company within ninety (90) days of the initial existence of the condition or circumstance constituting or giving rise to the purported Good Reason. A termination by the Executive hereunder shall not be treated as a termination for Good Reason if the Company remedies the condition or circumstance constituting or giving rise to the purported Good Reason within thirty (30) days of the receipt of the Executive's notice, or if actual termination occurs more than two years following the initial existence of such condition or circumstance. The following shall constitute

Good Reason for purposes of this subsection (f): a requirement that the Executive relocate more than fifty (50) miles from his then-current principal residence, it being understood that the Executive may be required to travel frequently and that prolonged periods spent away from Executive's principal residence shall not constitute Good Reason.

6. Compensation Upon Termination.

(a) Death. In the event of a termination of the Executive's employment hereunder by reason of death as contemplated by Section 5(a), the Company shall pay in a lump sum within 30 days of such termination to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate, the Base Salary earned but not paid through the Termination Date.

(b) Disability. In the event of any termination of Executive's employment hereunder by reason of disability as contemplated by Section 5(b), the Company shall pay to him Base Salary earned but not paid through the Termination Date and, in addition, shall, subject to any employee contribution applicable to the Executive on the Termination Date, continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for eighteen (18) months (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms. In the event that there is any limitation on the Company's ability to provide, or any disqualification of the Executive's eligibility to receive (other than a disqualification under this Agreement resulting from Executive's access at a reasonable cost to substantially equivalent benefits through another employer) such group medical and/or dental plan benefits on a tax-favorable basis, the Company shall provide equivalent coverage through the purchase of insurance.

(c) By the Company for Cause. In the event of any termination of Executive's employment hereunder by the Company for Cause as contemplated by Section 5(c), the Company shall have no further obligations to the Executive under this Agreement other than payment of Base Salary through the Termination Date and except as specifically provided in Section 6(f).

(d) By the Company Other than for Cause or by the Executive for Good Reason.

(i) Not Close in Time to a Change of Control. In the event of any termination of Executive's employment hereunder by the Company pursuant to Section 5(d) or by the Executive pursuant to Section 5(f), which termination does not occur within three (3) months prior to or within two (2) years following a Change of Control, the Company (i) shall continue to pay the Executive the Base Salary at the rate in effect on the Termination Date for one (1) year, and (ii) subject to any employee contribution applicable to the Executive on the Termination Date, shall continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for

one (1) year (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms. In the event that there is any limitation on the Company's ability to provide, or any disqualification of the Executive's eligibility to receive (other than a disqualification under this Agreement resulting from Executive's access at a reasonable cost to substantially equivalent benefits through another employer) such group medical and/or dental plan benefits on a tax-favorable basis, the Company shall provide equivalent coverage through the purchase of insurance.

(ii) Close in Time to a Change of Control. In the event of any termination of Executive's employment hereunder by the Company pursuant to Section 5(d) or by the Executive pursuant to Section 5(f), which termination occurs within three (3) months prior to or within two (2) years following a Change of Control, the Company (i) shall continue to pay the Executive the Base Salary at the rate in effect on the Termination Date for eighteen (18) months, and (ii) subject to any employee contribution applicable to the Executive on the Termination Date, shall continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for eighteen (18) months (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms. In the event that there is any limitation on the Company's ability to provide, or any disqualification of the Executive's eligibility to receive (other than a disqualification under this Agreement resulting from Executive's access at a reasonable cost to substantially equivalent benefits through another employer), such group medical and/or dental plan benefits on a tax-favorable basis, the Company shall provide equivalent coverage through the purchase of insurance.

(iii) Conditions. Any obligation of the Company to the Executive under Sections 6(b) and 6(d) hereof is conditioned upon (i) the Executive signing a release of claims in the form appended hereto as Attachment A (the "Employee Release") within twenty-one (21) days (or such greater period as the Company may specify) following the date notice of termination of employment is given hereunder and upon the Executive's not revoking the Employee Release in a timely manner thereafter and (ii) the Executive's continued full performance of his continuing obligations hereunder, including those under Sections 8, 9 and 10. Base Salary to which the Executive is entitled under Sections 6(b) and 6(d) hereof shall be payable in accordance with the normal payroll practices of the Company and will begin at the Company's next regular payroll period which is at least five (5) business days following the effective date of the Employee Release, but shall be retroactive to next business day following the Termination Date.

(iv) No reduction. The continued payments/contributions by the Company that are described in Sections 6(d)(i) and 6(d)(ii) hereof shall not be reduced by any income or other compensation received by Executive subsequent to the termination of his employment.

(e) By the Executive Other Than for Good Reason. If the Executive shall terminate his employment pursuant to Section 5(e), the Company shall continue to pay Executive his Base Salary through the Termination Date (it being understood that if, in accordance with Section 5(e), the Board elects to waive the period of notice, or any portion thereof, the payment of Base Salary under this Section 6(e) shall continue through the notice period or any portion thereof so waived).

(f) Delay in Payment Commencement on Account of Internal Revenue Code Section 409A. If the Executive is, at the time of separation from service, a "specified employee" (as hereinafter defined), any and all amounts payable in connection with such separation from service that constitute deferred compensation subject to Section 409A of the Code, as determined by the Company in its sole discretion, and that would (but for this sentence) be payable within six months following such separation from service, shall not be paid until the date which is six (6) months and one (1) day after the date of such separation from service or, if earlier, Executive's date of death. In this regard, any payments that otherwise would have been made during such six (6) month period shall be paid to the Executive in a lump sum on the first date on which they may be paid, together with interest credited at the short-term applicable federal rate, compounded daily. For purposes of this subsection (f), "specified employee" means an individual determined by the Company to be a specified employee as defined in subsection (a)(2)(B)(i) of Section 409A of the Code. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-1(i) of the Treasury Regulations for purposes of determining "specified employee" status. Any such written election shall be deemed part of this Agreement.

(g) Post-Termination Obligations Generally. Except for (i) any right expressly set forth in this Section 6, (ii) any vested benefits under any employee benefit plan referred to in Section 4(e) which specifically is designed to provide benefits following termination of employment (such as any such plan providing benefits upon disability or retirement) (but subject to all of the terms, if any, of each such other benefit plan as to how such vested benefits will be treated following termination of employment) and (iii) any rights expressly set forth in any other written agreement to which Executive and any of the Company or any of its Subsidiaries or Affiliates shall become parties from time to time after the date hereof, none of the Company or any of its Subsidiaries or Affiliates shall have any further obligations to the Executive, in connection with his employment or the termination thereof, following expiration of the term of the Executive's employment hereunder. Satisfaction by the Company and other applicable Persons of such rights and benefits shall constitute full settlement of any claim that the Executive may have on account of any termination of employment hereunder against the Company, any of its Subsidiaries or Affiliates and all of their respective past and present officers, directors, stockholders, members, managers, partners, controlling Persons, employees, agents, representatives, successors and assigns and all other others connected with any of them, both individually and in their official capacities.

7. Limitation.

(a) In the event that it is determined that any payment or benefit provided by the Company or any of its Subsidiaries to or for the benefit of the Executive, either under this Agreement or otherwise, and regardless of under what plan or arrangement it was made, would, absent the application of this Section 7, be subject to the excise tax (the "Excise Tax") imposed by Section 4999 of the Code, or any successor provision ("Section 4999"), the Company will reduce such payments and/or benefits to the extent, but only to the extent, necessary so that no portion of the remaining payments and/or benefits will be subject to the Excise Tax. The Company shall have discretion in determining which, if any, of several payments and/or benefits (if more than one) are to be reduced.

(b) Determinations as to the amount of any cutback required under this Section 7 will be made by the Company's tax accountant unless the Executive has reasonable objections to the use of that firm, in which case the determinations will be made by a comparable firm chosen jointly by the Company and the Executive (the firm making the determinations to be referred to as the "Firm"). The determinations of the Firm will be binding upon the Company and the Executive except as the determinations are established in resolution (including by settlement) of a controversy with the Internal Revenue Service to have been incorrect. All fees and expenses of the Firm will be paid by the Company.

8. Restricted Activities. The Executive agrees that some restrictions on his activities during and after his employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Subsidiaries:

(a) While the Executive is employed by the Company and for one (1) year after his employment terminates (in the aggregate, the "Non-Competition Period"), the Executive shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, (i) compete with the Company anywhere throughout the world where, as of the Termination Date, the Company sells Products or conducts its business activities, has sold Products or has conducted such business activities, or intends to sell Products or conduct such business activities, or (ii) undertake any planning for any business competitive with the Company or any of its Subsidiaries. Specifically, but without limiting the foregoing, the Executive agrees not to engage in any manner in any activity that is directly or indirectly competitive or potentially competitive with the business of the Company or any of its Subsidiaries as conducted or under consideration at any time during the Executive's employment with the Company or any of its Subsidiaries (including prior to the date hereof). For the purposes of this Section 8, the Executive's undertaking shall encompass all items, products and services that may be used in substitution for Products.

(b) The Executive agrees that, during his employment with the Company, he will not undertake any outside activity, whether or not competitive with the business of the Company or its Subsidiaries, that could reasonably give rise to a conflict of interest or otherwise interfere with his duties and obligations to the Company or any of its Subsidiaries.

(c) The Executive further agrees that while he is employed by the Company and during the Non-Competition Period, the Executive will not, directly or indirectly, (i) hire or attempt to hire any employee of the Company or any of its Subsidiaries or anyone who was such an employee within the six (6) months preceding such hire or attempt to hire, (ii) hire or attempt to hire any independent contractor providing services to the Company or any of its Subsidiaries or anyone who was such an independent contractor within six (6) months preceding such hire or attempt to hire, (iii) assist in hiring or any attempt to hire of anyone identified in clauses (i) or (ii) of this sentence by any other Person, (iv) encourage any employee or independent contractor of the Company or any of its Subsidiaries to terminate his or her relationship with the Company or any of its Subsidiaries, or (v) solicit or encourage any customer or vendor of the Company or any of its Subsidiaries to terminate or diminish its relationship with any of them, or, in the case of a customer, to conduct with any Person any business or activity which such customer conducts or could conduct with the Company or any of its Subsidiaries.

9. Confidential Information.

(a) The Executive acknowledges that the Company and its Subsidiaries continually develop Confidential Information, that the Executive has in the past and may in the future develop Confidential Information for the Company or its Subsidiaries and that the Executive has in the past and may in the future learn of Confidential Information during the course of employment. The Executive will comply with the policies and procedures of the Company and its Subsidiaries for protecting Confidential Information and shall never use or disclose to any Person (except as required by applicable law or for the proper performance of his duties and responsibilities to the Company and its Subsidiaries), any Confidential Information obtained by the Executive incident to his employment or other association with the Company or any of its Subsidiaries. The Executive understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination.

(b) All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Subsidiaries and any copies, in whole or in part, thereof (the “Documents”), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company and its Subsidiaries. The Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in the Executive’s possession or control.

10. Assignment of Rights to Intellectual Property. The Executive shall promptly and fully disclose all Intellectual Property to the Company. The Executive hereby assigns and agrees to assign to the Company (or as otherwise directed by the Company)

the Executive's full right, title and interest in and to all Intellectual Property. The Executive agrees to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by the Company to assign the Intellectual Property to the Company and to permit the Company to enforce any patents, copyrights or other proprietary rights to the Intellectual Property. The Executive will not charge the Company for time spent in complying with these obligations. All copyrightable works that the Executive creates shall be considered "work made for hire".

11. Notification Requirement. Until the conclusion of the Non-Competition Period, the Executive shall give notice to the Company of each new business activity that he plans to undertake at least thirty (30) days prior to beginning any such activity. Such notice shall state the name and address of the Person for whom such activity is undertaken and the nature of the Executive's business relationship(s) and position(s) with such Person. The Executive shall provide the Company with such other pertinent information concerning such business activity as the Company may reasonably request in order to determine the Executive's continued compliance with his obligations under Sections 8, 9 and 10 hereof.

12. Enforcement of Covenants. The Executive acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to Sections 8, 9 and 10 hereof. The Executive agrees that said restraints are necessary for the reasonable and proper protection of the Company and its Subsidiaries and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. The Executive further acknowledges that, were he to breach any of the covenants contained in Sections 8, 9 and 10 hereof, the damage to the Company would be irreparable. The Executive therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by the Executive of any of said covenants, without having to post bond. The parties further agree that, in the event that any provision of Sections 8, 9 and 10 hereof shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law.

13. Conflicting Agreements. The Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which the Executive is a party or is bound and that the Executive is not now subject to any covenants against competition or similar covenants or any court order or other legal obligation that would affect the performance of his obligations hereunder. The Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

14. Definitions. Words or phrases which are initially capitalized or are within quotation marks shall have the meanings provided in this Section 14 and as provided elsewhere herein. For purposes of this Agreement, the following definitions apply:

(a) “Affiliate” means, with respect to the Company or any other specified Person, any other Person directly or indirectly controlling, controlled by or under common control with the Company or such other specified Person, where control may be by management authority, equity interest or other means.

(b) “Change of Control” shall mean any of the following which takes place after the consummation of the initial public offering of common stock of the Company (including as part of an income deposit security or other investment unit) registered under the Securities Act of 1933, as amended: (i) any Person or “group,” within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the “Act”), other than the Company or any of its Subsidiaries or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or one of its Subsidiaries, becomes a beneficial owner, directly or indirectly, in one or a series of transactions, of securities representing fifty percent (50%) or more of the total number of votes that may be cast for the election of directors of the Company; (ii) any merger or consolidation involving the Company or any sale or other disposition of all or substantially all of the assets of the Company, or any combination of the foregoing, occurs and the beneficial owners of the Company’s voting securities outstanding immediately prior to such consolidation, merger, sale or other disposition do not, immediately following the consummation of such consolidation, merger, sale or other disposition, hold beneficial ownership, directly or indirectly, of securities representing fifty percent (50%) or more of the total number of votes that may be cast for election of directors of the surviving or resulting corporation in the case of any merger or consolidation or of the acquiring Person or Persons in the case of any sale or other disposition; or (iii) within twelve (12) months after a tender offer or exchange offer for voting securities of the Company (other than by the Company or any of its Subsidiaries), individuals who are Continuing Directors shall cease to constitute a majority of the Board. For the purpose of this definition, the term “beneficial owner” (and correlative terms, including “beneficial ownership”) shall have the meaning set forth in Rule 13d-3 under the Act.

(c) “Confidential Information” means any and all information of the Company and its Subsidiaries that is not generally known by others with whom they compete or do business, or with whom they plan to compete or do business and any and all information which, if disclosed by the Company or its Subsidiaries, would assist in competition against them. Confidential Information includes without limitation such information relating to (i) the development, research, testing, manufacturing, marketing and financial activities of the Company and its Subsidiaries, (ii) the Products, (iii) the costs, sources of supply, financial performance and strategic plans of the Company and its Subsidiaries, (iv) the identity and special needs of the customers of the Company and its Subsidiaries and (v) the people and organizations with whom the Company and its Subsidiaries have business relationships and those relationships. Confidential Information also includes any information that the Company or any of its Subsidiaries have received, or may receive hereafter, from others which was received by the Company or any of its Subsidiaries with any understanding, express or implied, that the information would not be disclosed.

(d) “Continuing Director” means, with respect to any event referred to in the definition of “Change of Control”, each individual who was a director of the Company immediately prior to the event in question and each individual whose election as a director by the Board or whose nomination for election by the stockholders of the Company was approved by a vote of two-thirds of the directors then still in office who were directors immediately prior to such event or whose election or nomination was previously so approved.

(e) “Intellectual Property” means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by the Executive (whether alone or with others and whether or not during normal business hours or on or off the premises of the Company or any of its Subsidiaries) during the Executive’s employment with the Company or any of its Subsidiaries (including prior to the Effective Date if applicable) that relate to either the Products or any prospective activity of the Company or any of its Subsidiaries or that make use of Confidential Information or any of the equipment or facilities of the Company or any of its Subsidiaries.

(f) “Person” means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust and any other entity or organization.

(g) “Products” mean all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company or any of its Subsidiaries, together with all services provided or planned by the Company or any of its Subsidiaries, during the Executive’s employment with the Company or any of its Subsidiaries (including prior to the Effective Date if applicable).

(h) “Subsidiary” shall mean any Person of which the Company (or other specified Person) shall, directly or indirectly, own beneficially or control the voting of at least a majority of the outstanding capital stock (or other shares of beneficial interest) entitled to vote generally or at least a majority of the partnership, membership, joint venture or similar interests, or in which the Company (or other specified Person) or a Subsidiary thereof shall be a general partner or joint venturer without limited liability.

(i) All references in this Agreement to termination of employment, separation from service, retirement and similar or correlative terms, when used in a context that bears upon the vesting, payment or timing of payment of any amounts or benefits that constitute or could constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code, shall be construed to require a “separation from service” (as that term is defined in Section 1.409A-1(h) of the Treasury Regulations) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single “service recipient” with the Company under Section 1.409A-1(h)(3) of the Treasury Regulations. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-1(h) of the Treasury Regulations for purposes of determining whether a “separation from service” has occurred. Any such written election shall be deemed part of this Agreement.

15. Survival. The provisions of this Agreement shall survive following the Termination Date if so provided herein or desirable to accomplish the purposes of other surviving provisions, including without limitation the provisions of Section 6, 7, 8, 9, 10 and 11.

16. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

17. Assignment. Neither the Company nor the Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without the consent of the Executive in the event that the Company shall hereafter effect a reorganization, consolidation or merger or to whom the Company transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon the Company and the Executive, their respective successors, executors, administrators, heirs and permitted assigns.

18. Severability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

19. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

20. Notices. Any and all notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person, when delivered by courier at the Executive’s last known address on the books of the Company, or five business days following deposit in the United States mail, postage prepaid, registered or certified, and addressed to the Executive at his last known address on the books of the Company or, in the case of the Company, at its principal place of business, attention of the Chairman of the Board, or to such other address as either party may specify by notice to the other actually received.

21. Entire Agreement. This Agreement and the other plans and documents specifically referred to herein constitute the entire agreement between the parties regarding the subject matter of this Agreement and such other plans and documents and supersede all prior communications, agreements and understandings, written or oral, with respect to such subject matter.

22. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by a expressly authorized representative of the Company.

23. Headings. The headings and captions in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

24. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

25. Governing Law. This is a Massachusetts contract and shall be construed and enforced under and be governed in all respects by the laws of the Commonwealth of Massachusetts, without regard to the conflict of laws principles thereof.

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IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized representative, and by the Executive, as of the date first above written.

THE EXECUTIVE:

/s/ David Pretty
David Pretty

XERIUM TECHNOLOGIES, INC.

By: /s/ John Thomspon
Name: John Thompson
Title: Chairman

Attachment A

RELEASE OF CLAIMS

FOR AND IN CONSIDERATION OF the special payments and benefits to be provided in connection with the termination of my employment in accordance with the terms of the Amended and Restated Employment Agreement between me and Xerium Technologies, Inc., a Delaware corporation (the “Company”) dated as of February __, 2008 (the “Employment Agreement”), I, on my own behalf and on behalf of my personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees and all others connected with me, hereby release and forever discharge, the Company, its Subsidiaries and Affiliates and all of their respective past and present officers, directors, stockholders, members, partners, managers, controlling persons, employees, agents, representatives, successors and assigns and all others connected with any of them (all collectively, the “Released”), both individually and in their official capacities, from any and all rights, liabilities, claims, demands and causes of action of any type (all collectively “Claims”) which I have had in the past, now have, or might now have, through the date of my signing of this Release of Claims, in any way resulting from, arising out of or connected with my employment or its termination or pursuant to any federal, state, foreign or local employment law, regulation or other requirement (including without limitation Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, and the fair employment practices laws of the state or states in which I have been employed pursuant to the Employment Agreement, each as amended from time to time); provided, however, that the foregoing release shall not apply to any right or benefit that Section 6 of the Employment Agreement explicitly provides shall survive the termination of my employment. Capitalized terms used in this Release of Claims which are defined in the Employment Agreement are used herein with the meanings so defined.

In signing this Release of Claims, I acknowledge that I have had at least twenty-one (21) days from the date of notice of termination of my employment to consider the terms of this Release of Claims and that such time has been sufficient; that I am encouraged by the Company to seek the advice of an attorney prior to signing this Release of Claims; and that I am signing this Release of Claims voluntarily and with a full understanding of its terms.

I understand that I may revoke this Release of Claims at any time within seven (7) days of the date of my signing by written notice to the Company and that this Release of Claims will take effect only upon the expiration of such seven-day revocation period and only if I have not timely revoked it.

Intending to be legally bound, I have signed this Release of Claims under seal as of the date written below.

Signature: ______________________________
David Pretty

Date: ______________________________

EXHIBIT 10.37

EMPLOYMENT AGREEMENT

AGREEMENT made and entered into by and between Xerium Technologies, Inc. (the "Company"), a Delaware corporation and Thomas C. Johnson (the "Executive"), effective as of the 4th day of September, 2008 (the "Effective Date").

WHEREAS, the Executive has been employed by the Company; and

WHEREAS, subject to the terms and conditions hereinafter set forth, the Company wishes to continue to employ the Executive, in the position of President—Xerium Asia, and Executive wishes to accept such continued employment;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers and the Executive hereby accepts continuation of employment.

2. Term. The employment of the Executive by the Company hereunder shall be for the period commencing on the Effective Date and expiring on the date of the termination of such employment in accordance with Section 5 hereof. For all purposes of this Agreement, references to (a) the "Termination Date" shall mean the date Executive's employment hereunder shall terminate pursuant to said Section 5, and (b) references to the "term" of the Executive's employment hereunder shall mean the period commencing on the Effective Date and ending on the Termination Date. Following the Termination Date, unless specifically otherwise agreed between Executive and any applicable party, the Executive shall cease to hold any position (whether as an officer, director, manager, employee, trustee, fiduciary or otherwise) with the Company or any of its Subsidiaries or Affiliates.

3. Capacity and Performance.

(a) During the term of Executive's employment hereunder, the Executive shall serve the Company as its President—Xerium Asia. In addition, and without further compensation, the Executive shall serve as a director and/or officer of one or more of the Company's Subsidiaries if so elected or appointed from time to time.

(b) During the term of Executive's employment hereunder, the Executive shall be employed by the Company on a full-time basis and shall perform such duties and responsibilities on behalf of the Company and its Subsidiaries as may be designated from time to time by the Chief Executive Officer.

(c) During the term of Executive's employment hereunder, the Executive shall devote his full business time to the advancement of the business and interests of the Company and its Subsidiaries and to the discharge of his duties and responsibilities hereunder. The Executive shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the term of this Agreement, except as may be expressly approved in advance by the Chief Executive Officer in writing.

4. Compensation and Benefits. During the term of Executive's employment hereunder as compensation for all services performed by the Executive:

(a) Base Salary. The Company shall pay the Executive a base salary at the rate of three hundred thousand dollars ($300,000.) per year effective as of September 4, 2008, payable in accordance with the payroll practices of the Company for its executives and subject to increase from time to time by the Board, in its sole discretion. Such base salary, as from time to time increased, is hereafter referred to as the "Base Salary".

(b) Annual Cash Bonus Plan. The Executive shall be entitled to participate in any and all annual cash bonus plans (the "Annual Bonus Plans") from time to time in effect for senior executives of the Company generally. The terms of each Annual Bonus Plan and Executive's participation therein shall be determined by the compensation committee of the Board of Directors of the Company (the "Board") (or, if there is no such committee, by the Board); provided, however, that the Executive shall be entitled to participate in such plans at a minimum participation rate of 50% of his Base Salary paid for the applicable year, with any awards thereunder payable only to the extent earned pursuant to the terms of the applicable Annual Bonus Plan and subject to adjustment in accordance with the terms of the applicable Annual Bonus Plan. Notwithstanding the foregoing, no award under the Annual Bonus Plans may be granted if the compensation committee determines that in order for such award to qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Plan must be submitted to and approved, or resubmitted to and approved, by the stockholders of the Company in accordance with the requirements of Section 162(m) of the Code, unless such grant is made contingent upon such approval. The compensation committee of the Board (or, if there is no such committee, the Board) may alter, modify, add to or delete any Annual Bonus Plan at any time as it, in its sole judgment, determines to be appropriate.

(c) Other Incentive Plans. The Executive shall be entitled to participate in any and all cash, equity, bonus and other incentive plans which are not Annual Bonus Plans (the "Long Term Plans") from time to time in effect for senior executives of the Company generally. The terms of each Long Term Plan and Executive's participation therein shall be determined by the compensation committee of the Board (or, if there is no such committee, by the Board). The compensation committee of the Board (or, if there is no such committee, the Board) may alter, modify, add to or delete any Long Term Plan at any time as it, in its sole judgment, determines to be appropriate.

(d) Vacations. The Executive shall be entitled to an annual vacation of three (3) weeks, with reasonable notice to the Chief Executive Officer and subject to the reasonable business needs of the Company. Vacation shall otherwise be governed by the policies of the Company, as in effect from time to time.

(e) Other Benefits. Subject to any contribution therefor generally required of executives of the Company, the Executive shall be entitled to participate in any and all employee benefit plans from time to time in effect for executives of the Company generally, except to the extent such plans are in a category of benefit specifically otherwise provided to the Executive under this Agreement *(e.g.,* severance pay). Such participation shall be subject to the terms of the applicable plan documents and generally applicable Company policies. The Board may alter, modify, add to or delete employee benefit plans at any time as it, in its sole judgment, determines to be appropriate.

(f) Business Expenses. The Company shall pay or reimburse the Executive for all reasonable and necessary business expenses incurred or paid by the Executive in the performance of his duties and responsibilities hereunder, subject to any maximum annual limit or other restrictions on such expenses set by the Board and to such reasonable substantiation and documentation as may be specified by the Company from time to time. In the case of any reimbursement to which the

Executive is entitled pursuant to this Section 4(f) that would constitute deferred compensation subject to Section 409A of the Code, the following additional rules shall apply: (i) the reimbursable expense must have been incurred, except as otherwise expressly provided in this Agreement, during the term of this Agreement; (ii) the amount of expenses eligible for reimbursement during any calendar year will not affect the amount of expenses eligible for reimbursement in any other calendar year; (iii) the reimbursement shall be made not later than December 31 of the calendar year following the calendar year in which the expense was incurred; and (iv) the Executive's entitlement to reimbursement shall not be subject to liquidation or exchange for another benefit.

(g) Payments/Actions by Company. Wherever it is provided in this Agreement that payment of any form of compensation or any other action shall be made by the Company, such payment or action may be made by any Subsidiary or Affiliate of the Company.

5. Termination of Employment. The Executive's employment hereunder shall terminate under the following circumstances:

(a) Death. In the event of the Executive's death during the term of Executive's employment hereunder, the Executive's employment shall immediately and automatically terminate.

(b) Disability. The Company may terminate the Executive's employment hereunder, upon notice to the Executive, in the event that the Executive becomes disabled during his employment hereunder. For this purpose, disability means that the Executive (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company. If any question shall arise as to whether during any period the Executive is disabled within the meaning of this Section 5(b), the Executive, at the request of the Company, shall submit to a medical examination by a physician selected by the Company to determine whether the Executive is so disabled and such determination shall for the purposes of this Agreement be conclusive of the issue. If such question shall arise and the Executive shall fail to submit to such medical examination, the Company's determination of the issue shall be binding on the Executive.

(c) By the Company for Cause. The Company may terminate the Executive's employment hereunder for Cause at any time upon notice to the Executive setting forth the nature of such Cause. The following shall constitute Cause for termination: (i) the Executive's conviction of or plea of *nolo contendere* to a felony or other crime involving moral turpitude; (ii) the Executive's fraud, theft or embezzlement committed with respect to the Company or its Subsidiaries; (iii) material breach by the Executive of any of the provisions of Sections 8, 9 or 10 hereof that causes demonstrable harm to the Company or any of its Subsidiaries; or (iv) the Executive's willful and continued failure to perform his material duties to the Company and its Subsidiaries; provided, however, that the Company may terminate Executive's employment hereunder for "Cause" within the meaning of this clause (iv) only after the Company has provided written notice to the Executive of the failure and the Executive shall not have remedied such failure within 10 business days following the effectiveness of such notice.

(d) By the Company Other than for Cause. The Company may terminate the Executive's employment hereunder other than for Cause at any time upon notice to the Executive.

(e) By the Executive Other Than for Good Reason. The Executive may terminate his employment hereunder other than for Good Reason (as defined in Section 5(f) below) at any time upon the provision of sixty (60) days written notice to the Company. In the event of termination of the Executive pursuant to this Section 5(e), the Board may elect to waive the period of notice or any portion thereof.

(f) By the Executive for Good Reason. The Executive may terminate his employment hereunder for Good Reason upon written notice to the Company setting forth in reasonable detail the nature of such Good Reason; provided, that such written notice must be delivered to the Company within ninety (90) days of the initial existence of the condition or circumstance constituting or giving rise to the purported Good Reason. A termination by the Executive hereunder shall not be treated as a termination for Good Reason if the Company remedies the condition or circumstance constituting or giving rise to the purported Good Reason within thirty (30) days of the receipt of the Executive's notice, or if actual termination occurs more than two years following the initial existence of such condition or circumstance. The following shall constitute Good Reason for purposes of this subsection (f): a requirement that the Executive relocate more than fifty (50) miles from his then-current principal residence, it being understood that the Executive may be required to travel frequently and that prolonged periods spent away from Executive's principal residence shall not constitute Good Reason.

6. Compensation upon Termination.

(a) Death. In the event of a termination of the Executive's employment hereunder by reason of death as contemplated by Section 5(a), the Company shall pay in a lump sum within thirty (30) days of such termination to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate, the Base Salary earned but not paid through the Termination Date.

(b) Disability. In the event of any termination of Executive's employment hereunder by reason of disability as contemplated by Section 5(b), the Company shall pay to him Base Salary earned but not paid through the Termination Date and, in addition, shall, subject to any employee contribution applicable to the Executive on the Termination Date, continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for eighteen (18) months (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms. In the event that there is any limitation on the Company's ability to provide, or any disqualification of the Executive's eligibility to receive (other than a disqualification under this Agreement resulting from Executive's access at a reasonable cost to substantially equivalent benefits through another employer) such group medical and/or dental plan benefits on a tax-favorable basis, the Company shall provide equivalent coverage through the purchase of insurance.

(c) By the Company for Cause. In the event of any termination of Executive's employment hereunder by the Company for Cause as contemplated by Section 5(c), the Company shall have no further obligations to the Executive under this Agreement other than payment of Base Salary through the Termination Date and except as specifically provided in Section 6g).

(d) By the Company Other than for Cause or by the Executive for Good Reason.

(i) Not Close in Time to a Change of Control. In the event of any termination of Executive's employment hereunder by the Company pursuant to Section 5(d) or by the Executive pursuant to Section 5(f), which termination does not occur within three (3) months prior to or within two (2) years following a Change of Control, the Company (A) shall continue to pay the Executive the Base Salary at the rate in effect on the Termination Date for one (1) year, and (B) subject to any employee contribution applicable to the Executive on the Termination Date, shall continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for one (1) year (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms. In the event that there is any limitation on the Company's ability to provide, or any disqualification of the Executive's eligibility to receive (other than a disqualification under this Agreement resulting from Executive's access at a reasonable cost to substantially equivalent benefits through another employer) such group medical and/or dental plan benefits on a tax-favorable basis, the Company shall provide equivalent coverage through the purchase of insurance.

(ii) Close in Time to a Change of Control. In the event of any termination of Executive's employment hereunder by the Company pursuant to Section 5(d) or by the Executive pursuant to Section 5(f), which termination occurs within three (3) months prior to or within two (2) years following a Change of Control, the Company (A) shall continue to pay the Executive the Base Salary at the rate in effect on the Termination Date for eighteen (18) months, and (B) subject to any employee contribution applicable to the Executive on the Termination Date, shall continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for eighteen (18) months (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms. In the event that there is any limitation on the Company's ability to provide, or any disqualification of the Executive's eligibility to receive (other than a disqualification under this Agreement resulting from Executive's access at a reasonable cost to substantially equivalent benefits through another employer), such group medical and/or dental plan benefits on a tax-favorable basis, the Company shall provide equivalent coverage through the purchase of insurance.

(iii) Conditions. Any obligation of the Company to the Executive under Sections 6(b) and 6(d) hereof is conditioned upon (A) the Executive signing a release of claims in the form appended hereto as Attachment A or such other form as the Company may require (the "Employee Release") within twenty-one (21) days (or such greater period as the Company may specify) following the date notice of termination of employment is given hereunder and upon the Executive's not revoking the Employee Release in a timely manner thereafter and (B) the Executive's continued full performance of his continuing obligations hereunder, including those under Sections 8, 9 and 10. Base Salary to which the Executive is entitled under Sections 6(b) and 6(d) hereof shall be payable in accordance with the normal payroll practices of the Company in effect on the Termination Date and will begin at the Company's next regular payroll period which is at least five (5) business days following the effective date of the Employee Release, but shall be retroactive to next business day following the Termination Date.

(iv) No reduction. The continued payments/contributions by the Company that are described in Sections 6(d)(i) and 6(d)(ii) hereof shall not be reduced by any income or other compensation received by Executive subsequent to the termination of his employment.

(e) By the Executive Other Than for Good Reason. If the Executive shall terminate his employment pursuant to Section 5(e), the Company shall continue to pay Executive his Base Salary through the Termination Date (it being understood that if, in accordance with Section 5(e), the Board elects to waive the period of notice, or any portion thereof, the payment of Base Salary under this Section 6(e) shall continue through the notice period or any portion thereof so waived).

(f) Delay in Payment Commencement on Account of Internal Revenue Code Section 409A. If the Executive is, at the time of separation from service, a “specified employee” (as hereinafter defined), any and all amounts payable in connection with such separation from service that constitute deferred compensation subject to Section 409A of the Code, as determined by the Company in its sole discretion, and that would (but for this sentence) be payable within six months following such separation from service, shall not be paid until the date which is six (6) months and one (1) day after the date of such separation from service or, if earlier, Executive’s date of death. In this regard, any payments that otherwise would have been made during such six (6) month period shall be paid to the Executive in a lump sum on the first date on which they may be paid, together with interest credited at the short-term applicable federal rate, compounded daily. For purposes of this subsection (f), “specified employee’” means an individual determined by the Company to be a specified employee as defined in subsection (a)(2)(B)(i) of Section 409A of the Code. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-l(i) of the Treasury Regulations for purposes of determining “specified employee” status. Any such written election shall be deemed part of this Agreement.

(g) Post-Termination Obligations Generally. Except for (i) any right expressly set forth in this Section 6, (ii) any vested benefits under any employee benefit plan referred to in Section 4(e) which specifically is designed to provide benefits following termination of employment (such as any such plan providing benefits upon disability or retirement) (but subject to all of the terms, if any, of each such other benefit plan as to how such vested benefits will be treated following termination of employment) and (iii) any rights expressly set forth in any other written agreement to which Executive and any of the Company or any of its Subsidiaries or Affiliates shall become parties from time to time after the date hereof, none of the Company or any of its Subsidiaries or Affiliates shall have any further obligations to the Executive, in connection with his employment or the termination thereof, following expiration of the term of the Executive’s employment hereunder. Satisfaction by the Company and other applicable Persons of such rights and benefits shall constitute full settlement of any claim that the Executive may have on account of any termination of employment hereunder against the Company, any of its Subsidiaries or Affiliates and all of their respective past and present officers, directors, stockholders, members, managers, partners, controlling Persons, employees, agents, representatives, successors and assigns and all other others connected with any of them, both individually and in their official capacities.

7. Limitation.

(a) In the event that it is determined that any payment or benefit provided by the Company or any of its Subsidiaries to or for the benefit of the Executive, either under this Agreement or otherwise, and regardless of under what plan or arrangement it was made, would, absent the application of this Section 7, be subject to the excise tax (the “Excise Tax”) imposed by Section 4999 of the Code, or any successor provision (“Section 4999”), the Company will reduce such payments and/or benefits to the extent, but only to the extent, necessary so that no portion of the remaining payments and/or benefits will be subject to the Excise Tax. The Company shall have discretion in determining which, if any, of several payments and/or benefits (if more than one) are to be reduced.

(b) Determinations as to the amount of any cutback required under this Section 7 will be made by the Company's tax accountant unless the Executive has reasonable objections to the use of that firm, in which case the determinations will be made by a comparable firm chosen jointly by the Company and the Executive (the firm making the determinations to be referred to as the "Firm"). The determinations of the Firm will be binding upon the Company and the Executive except as the determinations are established in resolution (including by settlement) of a controversy with the Internal Revenue Service to have been incorrect. All fees and expenses of the Firm will be paid by the Company.

8. Restricted Activities. The Executive agrees that some restrictions on his activities during and after his employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company and its Subsidiaries:

(a) While the Executive is employed by the Company and for one (1) year after his employment terminates (in the aggregate, the "Non-Competition Period"), the Executive shall not, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Company: (i) anywhere throughout the world; (ii) in North America; (iii) in South America; (iii) in Europe; (iv) in Asia; or (v) in Australia. Specifically, but without limiting the foregoing, the Executive agrees not to: (A) undertake any planning for any business competitive with the Company or any of its Subsidiaries; or (B) engage in any manner in any activity that is competitive with the business of the Company or any of its Subsidiaries. For the purposes of this Section 8, the Executive's undertaking shall encompass all items, products and services that may be used in substitution for Products.

(b) The Executive agrees that, during his employment with the Company, he will not undertake any outside activity, whether or not competitive with the business of the Company or its Subsidiaries, that could reasonably give rise to a conflict of interest or otherwise interfere with his duties and obligations to the Company or any of its Subsidiaries.

(c) The Executive further agrees that while he is employed by the Company and during the Non-Competition Period, the Executive will not, directly or indirectly, (i) hire or attempt to hire any employee of the Company or any of its Subsidiaries, (ii) hire or attempt to hire any independent contractor providing services to the Company or any of its Subsidiaries, (iii) assist in hiring or any attempt to hire anyone identified in clauses (i) or (ii) of this sentence by any other Person, (iv) encourage any employee or independent contractor of the Company or any of its Subsidiaries to terminate his or her relationship with the Company or any of its Subsidiaries, or (v) solicit or encourage any customer or vendor of the Company or any of its Subsidiaries to terminate or diminish its relationship with any of them, or, in the case of a customer, to conduct with any Person any competing business or activity.

(d) In the event that the one (1) year post-termination period stated above is held unenforceable by a court of competent jurisdiction due to its length, then the period shall be six (6) months.

9. Confidential Information.

(a) The Executive acknowledges that the Company and its Subsidiaries continually develop Confidential Information, that the Executive has in the past and may in the future develop Confidential Information for the Company or its Subsidiaries and that the Executive has in the past and may in the future learn of Confidential Information during the course of employment. The Executive will comply with the policies and procedures of the Company and its Subsidiaries for protecting Confidential Information and shall never use or disclose to any Person (except as required by applicable law or for the proper performance of his duties and responsibilities to the Company and its Subsidiaries), any Confidential Information obtained by the Executive incident to his employment or other association with the Company or any of its Subsidiaries. The Executive understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination.

(b) All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Subsidiaries and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company and its Subsidiaries. The Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in the Executive's possession or control.

10. Assignment of Rights to Intellectual Property. The Executive shall promptly and fully disclose all Intellectual Property to the Company. The Executive hereby assigns and agrees to assign to the Company (or as otherwise directed by the Company) the Executive's full right, title and interest in and to all Intellectual Property. The Executive agrees to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by the Company to assign the Intellectual Property to the Company and to permit the Company to enforce any patents, copyrights or other proprietary rights to the Intellectual Property. The Executive will not charge the Company for time spent in complying with these obligations. All copyrightable works that the Executive creates shall be considered "work made for hire".

11. Notification Requirement. Until the conclusion of the Non-Competition Period, the Executive shall give notice to the Company of each new business activity that he plans to undertake at least thirty (30) days prior to beginning any such activity. Such notice shall state the name and address of the Person for whom such activity is undertaken and the nature of the Executive's business relationship(s) and position(s) with such Person. The Executive shall provide the Company with such other pertinent information concerning such business activity as the Company may reasonably request in order to determine the Executive's continued compliance with his obligations under Sections 8, 9 and 10 hereof.

12. Enforcement of Covenants. The Executive acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to Sections 8, 9 and 10 hereof. The Executive agrees that said restraints are necessary for the reasonable and proper protection of the Company and its Subsidiaries and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. The Executive further acknowledges that, were he to breach any of the covenants contained in Sections 8, 9 and 10 hereof, the damage to the Company would be irreparable. The Executive therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by the Executive of any of said covenants, without having to post bond. The parties further agree that, in the event that any provision of Sections 8, 9 and 10 hereof shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law.

13. Conflicting Agreements. The Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which the Executive is a party or is bound and that the Executive is not now subject to any covenants against competition or similar covenants or any court order or other legal obligation that would affect the performance of his obligations hereunder. The Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

14. Definitions. Words or phrases which are initially capitalized or are within quotation marks shall have the meanings provided in this Section 14 and as provided elsewhere herein. For purposes of this Agreement, the following definitions apply:

(a) "Affiliate" means, with respect to the Company or any other specified Person, any other Person directly or indirectly controlling, controlled by or under common control with the Company or such other specified Person, where control may be by management authority, equity interest or other means.

(b) "Change of Control" shall mean any of the following which takes place after the consummation of the initial public offering of common stock of the Company (including as part of an income deposit security or other investment unit) registered under the Securities Act of 1933, as amended: (i) any Person or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Act"), other than the Company or any of its Subsidiaries or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or one of its Subsidiaries, becomes a beneficial owner, directly or indirectly, in one or a series of transactions, of securities representing fifty percent (50%) or more of the total number of votes that may be cast for the election of directors of the Company; (ii) any merger or consolidation involving the Company or any sale or other disposition of all or substantially all of the assets of the Company, or any combination of the foregoing, occurs and the beneficial owners of the Company's voting securities outstanding immediately prior to such consolidation, merger, sale or other disposition do not, immediately following the consummation of such consolidation, merger, sale or other disposition, hold beneficial ownership, directly or indirectly, of securities representing fifty percent (50%) or more of the total number of votes that may be cast for election of directors of the surviving or resulting corporation in the case of any merger or consolidation or of the acquiring Person or Persons in the case of any sale or other disposition; or (iii) within twelve (12) months after a tender offer or exchange offer for voting securities of the Company (other than by the Company or any of its Subsidiaries), individuals who are Continuing Directors shall cease to constitute a majority of the Board. For the purpose of this definition, the term "beneficial owner" (and correlative terms, including "beneficial ownership") shall have the meaning set forth in Rule 13d-3 under the Act.

(c) "Confidential Information" means any and all information of the Company and its Subsidiaries that is not generally known by others with whom they compete or do business, or with whom they plan to compete or do business and any and all information which, if disclosed by the Company or its Subsidiaries, would assist in competition against them. Confidential Information includes without limitation such information relating to (i) the development, research, testing, manufacturing, marketing and financial activities of the Company and its Subsidiaries, (ii) the Products, (iii) the costs, sources of supply, financial performance and strategic plans of the Company and its Subsidiaries, (iv) the identity and special needs of the customers of the Company and its Subsidiaries and (v) the people and organizations with whom the Company and its Subsidiaries have business relationships and those relationships. Confidential Information also includes any information that the Company or any of its Subsidiaries have received, or may receive hereafter, from others which was received by the Company or any of its Subsidiaries with any understanding, express or implied, that the information would not be disclosed.

(d) “Continuing Director” means, with respect to any event referred to in the definition of “Change of Control”, each individual who was a director of the Company immediately prior to the event in question and each individual whose election as a director by the Board or whose nomination for election by the stockholders of the Company was approved by a vote of two-thirds of the directors then still in office who were directors immediately prior to such event or whose election or nomination was previously so approved.

(e) “Intellectual Property” means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by the Executive (whether alone or with others and whether or not during normal business hours or on or off the premises of the Company or any of its Subsidiaries) during the Executive’s employment with the Company or any of its Subsidiaries (including prior to the Effective Date if applicable) that relate to either the Products or any prospective activity of the Company or any of its Subsidiaries or that make use of Confidential Information or any of the equipment or facilities of the Company or any of its Subsidiaries.

(f) “Person” means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust and any other entity or organization.

(g) “Products” mean all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company or any of its Subsidiaries, together with all services provided or planned by the Company or any of its Subsidiaries, during the Executive’s employment with the Company or any of its Subsidiaries (including prior to the Effective Date if applicable).

(h) “Subsidiary” shall mean any Person of which the Company (or other specified Person) shall, directly or indirectly, own beneficially or control the voting of at least a majority of the outstanding capital stock (or other shares of beneficial interest) entitled to vote generally or at least a majority of the partnership, membership, joint venture or similar interests, or in which the Company (or other specified Person) or a Subsidiary thereof shall be a general partner or joint venturer without limited liability.

(i) All references in this Agreement to termination of employment, separation from service, retirement and similar or correlative terms, when used in a context that bears upon the vesting, payment or timing of payment of any amounts or benefits that constitute or could constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code, shall be construed to require a “separation from service” (as that term is defined in Section 1.409A-l(h) of the Treasury Regulations) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single “service recipient” with the Company under Section 1.409A- 1(h)(3) of the Treasury Regulations. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-l(h) of the Treasury Regulations for purposes of determining whether a “separation from service” has occurred. Any such written election shall be deemed part of this Agreement.

15. Survival. The provisions of this Agreement shall survive following the Termination Date if so provided herein or desirable to accomplish the purposes of other surviving provisions, including without limitation the provisions of Section 6, 7, 8, 9, 10 and 11.

16. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

17. Assignment. Neither the Company nor the Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without the consent of the Executive in the event that the Company shall hereafter effect a reorganization, consolidation or merger or to whom the Company transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon the Company and the Executive, their respective successors, executors, administrators, heirs and permitted assigns.

18. Severability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

19. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

20. Notices. Any and all notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person, when delivered by courier at the Executive's last known address on the books of the Company, or five business days following deposit in the United States mail, postage prepaid, registered or certified, and addressed to the Executive at his last known address on the books of the Company or, in the case of the Company, at its principal place of business, attention of the Chairman of the Board, or to such other address as either party may specify by notice to the other actually received.

21. Entire Agreement. This Agreement and the other plans and documents specifically referred to herein constitute the entire agreement between the parties regarding the subject matter of this Agreement and such other plans and documents and supersede all prior communications, agreements and understandings, written or oral, with respect to such subject matter.

22. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by a expressly authorized representative of the Company.

23. Headings. The headings and captions in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

24. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

25. Governing Law. This is a North Carolina contract and shall be construed and enforced under and be governed in all respects by the laws of the State of North Carolina, without regard to the conflict of laws principles thereof.

26. Seal. The Executive warrants and represents that he hereby adopts the word/symbol (SEAL) as his seal with the intent that this Agreement be signed by the Executive under seal and treated as a sealed instrument.

27. Consideration. The parties expressly waive any defense either may now or hereafter have as to the lack or inadequacy of consideration for this Agreement.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Executive, and by the Company, through its duly authorized representative, as the date first above written.

THE EXECUTIVE:

/s/ Thomas C. Johnson (SEAL)	By: /s/ Stephen Light
Thomas C. Johnson	Name: Stephen Light
	Title: Chairman and CEO

Attachment A

RELEASE OF CLAIMS

Note: Executive has twenty-one (21) days from the date of notice of termination of employment to consider the terms of this Release of Claims and is advised by the Company to seek the advice of an attorney prior to signing this Release of Claims. Executive may revoke this Release of Claims at any time within seven (7) days of the date of his signing by written notice to the Company. This Release of Claims will take effect only upon the expiration of such seven–day revocation period and only if Executive has not timely revoked it.

FOR AND IN CONSIDERATION OF the special payments and benefits to be provided in connection with the termination of my employment in accordance with the terms of the Employment Agreement between me and Xerium Technologies, Inc., a Delaware corporation (the "Company") dated as of , 200_(the "Employment Agreement"), I, on my own behalf and on behalf of my personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees and all others connected with me, hereby release and forever discharge, the Company, its Subsidiaries and Affiliates and all of their respective past and present officers, directors, stockholders, members, partners, managers, controlling persons, employees, agents, representatives, successors and assigns and all others connected with any of them (all collectively, the "Released"), both individually and in their official capacities, from any and all rights, liabilities, claims, demands and causes of action of any type (all collectively "Claims") which I have had in the past, now have, or might now have, through the date of my signing of this Release of Claims, in any way resulting from, arising out of or connected with my employment or its termination or pursuant to any federal, state, foreign or local employment law, regulation or other requirement (including without limitation Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, and the fair employment practices laws of the state or states in which I have been employed pursuant to the Employment Agreement, each as amended from time to time); provided, however, that the foregoing release shall not apply to:

(i) any right or benefit that Section 6 of the Employment Agreement explicitly provides shall survive the termination of my employment;

(ii) claims for workers' compensation benefits or unemployment benefits filed with the applicable state agencies;

(iii) bar a challenge under the Older Workers Benefit Protection Act to the enforceability of the waiver and release of ADEA claims set forth in this Agreement; and

(iv) prohibit Executive from filing a charge or participating in an investigation or proceeding conducted by the U.S. Equal Employment Opportunity Commission or other governmental agency with jurisdiction concerning the terms, conditions and privileges of his employment; provided, however, that by signing this Agreement, Executive waives his right to, and shall not seek or accept, any monetary or other relief of any nature whatsoever in connection with any such charges, investigations or proceedings.

Capitalized terms used in this Release of Claims which are defined in the Employment Agreement are used herein with the meanings so defined.

Intending to be legally bound, I have signed this Release of Claims under seal as of the date written below.

Signature: ______________________________

Thomas C. Johnson

Date: ______________________________

EXHIBIT 21.1

List of Subsidiaries of Xerium Technologies, Inc. (as of December 31, 2008)	State or Jurisdiction of Incorporation or Organization
Beloit Asia Pacific (M) Inc.	Mauritius
Beloit Xibe Roll Covering Company Ltd.	China
Huyck Argentina Sociedad Anónima	Argentina
Huyck Licenso Inc	Delaware
Huyck.Wangner Australia Pty. Limited	Australia
Huyck.Wangner Austria GmbH	Austria
Huyck.Wangner Italia SpA	Italy
Huyck.Wangner Japan Limited	Japan
Huyck.Wangner Germany GmbH	Germany
Huyck.Wangner Scandinavia AB	Sweden
Huyck.Wangner Spain SA	Spain
Huyck.Wangner (Shanghai) Trading Co. Ltd.	China
Huyck.Wangner (UK) Limited	United Kingdom
Huyck.Wangner (Vietnam) Co. Ltd.	Vietnam
PMP (Changzou) Roll Technologies Co. Ltd.	China
Robec Brazil LLC	Brazil
Robec Walzen GmbH	Germany
Stowe Woodward Finland Oy	Finland
Stowe Woodward México, SA De C.V.	Mexico
Stowe Woodward Sweden AB	Sweden
Stowe-Woodward Limited	United Kingdom
Stowe-Woodward (UK) Limited	United Kingdom
Stowe Woodward France SAS	France
Stowe Woodward AG	Germany
Stowe Woodward LLC	Delaware
Stowe Woodward Licensco LLC	Delaware
TIAG Transworld Interweaving GmbH	Switzerland
Wangner Itelpa I LLC	Delaware
Wangner Itelpa II LLC	Delaware
Wangner Itelpa Participações Ltda.	Brazil
Wangner Limited	Ireland
Weavexx, LLC	Delaware
Xerium Asia Holding Ltd	Hong Kong
Xerium Asia, LLC	Delaware
Xerium Canada Inc.	Canada
Xerium SAS	France
Xerium Germany Holding GmbH	Germany
Xerium Italia SpA	Italy
Xerium do Brasil Ltda	Brazil
Xerium Technologies Limited	United Kingdom
Xerium Technologies Brasil Indústria e Comércio S.A.	Brazil
Xerium III (US) Limited	Delaware
Xerium IV (US) Limited	Delaware
Xerium V (US) Limited	Delaware
XTI LLC	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-126420) pertaining to the Xerium Technologies, Inc. 2005 Equity Incentive Plan of our reports dated March 9, 2009, with respect to the consolidated financial statements and schedule of Xerium Technologies, Inc. and the effectiveness of internal control over financial reporting of Xerium Technologies, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/ Ernst & Young LLP

Raleigh, North Carolina
March 9, 2009

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen R. Light, certify that:

1. I have reviewed this Annual Report on Form 10-K of Xerium Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2009

/s/ Stephen R. Light

Stephen R. Light
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Michael P. O'Donnell, certify that:

1. I have reviewed this Annual Report on Form 10-K of Xerium Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 12, 2009

/s/ Michael P. O'Donnell

Michael P. O'Donnell
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal executive officer of Xerium Technologies, Inc. (the "Company"), does hereby certify that, to his knowledge:

1) the Company's Form 10-K for the period ended December 31, 2008, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-K for the period ended December 31, 2008, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen R. Light
Stephen R. Light
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Dated: March 12, 2009

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal financial officer of Xerium Technologies, Inc. (the "Company"), does hereby certify that, to his knowledge:

1) the Company's Form 10-K for the period ended December 31, 2008, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-K for the period ended December 31, 2008, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael P. O'Donnell

Michael P. O'Donnell
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: March 12, 2009

EXHIBIT C

XERIUM'S FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the Quarterly Period Ended March 31, 2009

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 **(State or other jurisdiction of incorporation or organization)**	**42-1558674** **(I.R.S. Employer Identification No.)**
8537 Six Forks Road **Suite 300** **Raleigh, North Carolina** **(Address of principal executive offices)**	**27615** **(Zip Code)**

(919) 556-7235
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of May 1, 2009 was 48,885,248.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Xerium Technologies, Inc.
Condensed Consolidated Balance Sheets—(Unaudited)
(dollars in thousands, except per share data)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,498	$ 34,733
Accounts receivable (net of allowance for doubtful accounts of $12,817 at March 31, 2009 and $14,937 at December 31, 2008)	76,649	94,049
Inventories	84,565	85,543
Prepaid expenses	4,130	4,844
Other current assets	16,606	14,938
Total current assets	209,448	234,107
Property and equipment, net	366,236	384,590
Goodwill	151,038	155,205
Intangible assets	29,678	32,129
Other assets	4,567	5,541
Total assets	$ 760,967	$ 811,572
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	$ 28,000	$ —
Accounts payable	35,184	53,076
Accrued expenses	77,155	83,139
Current maturities of long-term debt	23,740	39,687
Total current liabilities	164,079	175,902
Long-term debt, net of current maturities	557,596	577,270
Deferred and long-term taxes	10,900	13,358
Pension, other postretirement and postemployment obligations	63,621	67,029
Other long-term liabilities	4,885	5,594
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, $0.01 par value, 1,000,000 shares authorized; no shares outstanding as of March 31, 2009 and December 31, 2008	—	—
Common stock, $0.01 par value, 150,000,000 shares authorized; 48,876,182 and 46,257,772 shares outstanding as of March 31, 2009 and December 31, 2008, respectively	489	463
Paid-in capital	219,690	220,370
Accumulated deficit	(228,363)	(218,915)
Accumulated other comprehensive loss	(31,930)	(29,499)
Total stockholders' deficit	(40,114)	(27,581)
Total liabilities and stockholders' deficit	$ 760,967	$ 811,572

See accompanying notes.

Xerium Technologies, Inc.
Condensed Consolidated Statements of Operations—(Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2009	2008
Net sales	$ 116,503	$ 158,987
Costs and expenses:		
Cost of products sold	72,211	95,655
Selling	16,508	20,465
General and administrative	13,208	18,690
Restructuring and impairments	114	532
Research and development	2,720	3,003
	104,761	138,345
Income from operations	11,742	20,642
Interest expense	(16,314)	(25,415)
Interest income	357	194
Foreign exchange gain (loss)	(1,341)	3,509
Loss before provision for income taxes	(5,556)	(1,070)
Provision for income taxes	3,892	3,639
Net loss	$ (9,448)	$ (4,709)
Net loss per share:		
Basic and diluted	$ (0.19)	$ (0.10)
Shares used in computing net loss per share:		
Basic and diluted	48,863,512	46,048,667

See accompanying notes.

Xerium Technologies, Inc.
Condensed Consolidated Statements of Cash Flows—(Unaudited)
(dollars in thousands)

	Three Months Ended March 31,	
	2009	2008
Operating activities		
Net loss	$ (9,448)	$ (4,709)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock-based compensation	161	471
Depreciation	9,205	10,889
Amortization of intangibles	583	1,114
Deferred financing cost amortization	1,536	1,095
Unrealized foreign exchange gain on revaluation of debt	(482)	(1,985)
Deferred taxes	633	(761)
Gain on disposition of property and equipment	(1,233)	—
Change in the fair value of interest rate swaps	398	12,156
Provision for bad debt expense	(1,634)	108
Change in assets and liabilities which provided (used) cash:		
Accounts receivable	16,354	5,500
Inventories	(1,909)	(537)
Prepaid expenses	567	1,317
Other current assets	(34)	(2,170)
Accounts payable and accrued expenses	(21,292)	7,547
Deferred and other long term liabilities	(1,247)	(261)
Net cash (used in) provided by operating activities	(7,842)	29,774
Investing activities		
Capital expenditures, gross	(6,983)	(12,103)
Proceeds from disposals of property and equipment	1,924	(33)
Net cash used in investing activities	(5,059)	(12,136)
Financing activities		
Net increase (decrease) in borrowings (maturities of 90 days or less)	28,000	(837)
Principal payments on debt	(21,547)	(11,204)
Other	—	(108)
Net cash provided by (used in) financing activities	6,453	(12,149)
Effect of exchange rate changes on cash flows	(787)	1,313
Net (decrease) increase in cash	(7,235)	6,802
Cash and cash equivalents at beginning of period	34,733	24,218
Cash and cash equivalents at end of period	$ 27,498	$ 31,020

See accompanying notes.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

1. Company History

Xerium Technologies, Inc. (the "Company") is a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper – clothing and roll covers. Operations are strategically located in the major paper-making regions of the world, including North America, Europe, South America and Asia-Pacific.

2. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements at March 31, 2009 and for the three months ended March 31, 2009 and 2008 include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, such financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. The interim results presented herein are not necessarily indicative of the results to be expected for the entire year. In management's opinion, these unaudited condensed consolidated interim financial statements contain all adjustments of a normal recurring nature necessary for a fair presentation of the financial statements for the interim periods presented. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008 as reported on Form 10-K filed on March 12, 2009.

3. Accounting Policies

Derivatives and Hedging

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement No. 133 ("SFAS No. 133") with the intent 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 under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 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.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

Derivatives and Hedging—(continued)

As required by SFAS No. 133, 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 transactions 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 SFAS No. 133.

Goodwill

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). SFAS No. 142 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. As a result of the tests as of December 31, 2008, the Company determined that no goodwill impairment exists. At March 31, 2009, the Company evaluated goodwill and intangible assets for impairment indicators and determined that no impairment exists.

Net Loss Per Common Share

Net loss per common share has been computed and presented pursuant to the provisions of SFAS No. 128, *Earnings per Share* ("SFAS No. 128"). Net loss per share is based on the weighted-average number of shares outstanding during the period. As of March 31, 2009 and 2008, the Company had outstanding restricted stock units ("RSUs") (see Note 14). For the three months ended March 31, 2009 and 2008, respectively, the Company excluded the dilutive impact of potential future issuances of common stock underlying the Company's RSUs from the calculation of diluted average shares outstanding because their effect would have been antidilutive as the Company had a net loss for those periods.

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Weighted-average common shares outstanding—basic	48,863,512	46,048,667
Dilutive effect of stock-based compensation awards outstanding	—	—
Weighted-average common shares outstanding—diluted	48,863,512	46,048,667

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

New Accounting Standards

Effective January 1, 2008, the Company partially adopted SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), for measuring its derivative assets and liabilities. See further discussion at Note 4 "Derivatives and Hedging". Financial Accounting Standards Board (FASB) Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, permits the Company to defer the recognition and measurement of its nonfinancial assets and nonfinancial liabilities until January 1, 2009. At January 1, 2009, the Company did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

Effective January 1, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS No. 161. See "Derivatives and Hedging" above. The Company's adoption of SFAS No. 161 did not have a material effect on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. SFAS No. 141R amends SFAS No. 109, *Accounting for Income Taxes*, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. On January 1, 2009, the Company adopted SFAS No. 141R, which is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 141R had no impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS No. 160"), an amendment of Accounting Research Bulletin ("ARB") No. 51 ("ARB No. 51"). SFAS No. 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for, and reporting of, transactions between the reporting entity and holders of such noncontrolling interests. On January 1, 2009, the Company adopted SFAS No. 160, which is effective for the first annual reporting period beginning on or after December 15, 2008. SFAS No. 160 is required to be adopted prospectively, except for reclassifying noncontrolling interests to equity, separate from the parent's shareholders' equity, in the consolidated statement of financial position and recasting consolidated net income (loss) to include net income (loss) attributable to both the controlling and noncontrolling interests, both of which are required to be adopted retrospectively. Since essentially all of the Company's subsidiaries are 100% owned, the adoption of SFAS No. 160 did not have a significant impact to its financial statements.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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4. 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. 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. Specifically, the Company has entered into interest rate swaps to hedge variable interest related to its senior debt and foreign exchange contracts to protect the value of certain assets and obligations.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in 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 primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

Based on interest rates as of March 31, 2009, amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the twelve months ended March 31, 2010, the Company estimates, based on interest rates as of March 31, 2009, that $12,700 will be reclassified as a charge to interest expense. As of March 31, 2009, the Company effectively fixed the variable interest rate on approximately 85% of the term loan portion of the Company's senior credit facility at 9.74%.

As of March 31, 2009, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Swaps – Canadian dollar instruments	2	$ 49,462
Interest Rate Swaps – Euro instruments	2	$174,111
Interest Rate Swaps – U.S. dollar instruments	2	$261,896

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Notes to Unaudited Condensed Consolidated Financial Statements
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4. Derivatives and Hedging—(continued)

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 SFAS No. 133. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

The Company, from time to time, enters 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 currency (cash flow hedges). Additionally, to manage its exposure to fluctuations in foreign currency on intercompany balances and certain purchase commitments, the Company uses foreign exchange forward contracts (fair value hedges).

As of March 31, 2009, the Company had the following 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. The change in fair value of these contracts is included in foreign exchange gain/(loss).

Foreign Currency Derivative	Notional Sold	Notional Purchased
Cash flow hedges	$ —	$ 3,259
Fair value hedges	$ (35,914)	$ 45,744

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of March 31, 2009.

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives As of March 31, 2009		Liability Derivatives As of March 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133:				
Interest Rate Swaps	Other current assets	$ —	Accrued expenses	$ 16,451
Total derivatives designated as hedging instruments under SFAS 133		$ —		$ 16,451
Derivatives not designated as hedging instruments under SFAS 133:				
Foreign Currency Hedges	Other current assets	$ 1,162	Accrued expenses	$ 4,763
Total derivatives not designated as hedging instruments under SFAS 133		$ 1,162		$ 4,763

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4. Derivatives and Hedging—(continued)

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statements of Operations for the three months ended March 31, 2009.

Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three Months Ended March 31, 2009

Derivatives in SFAS 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion), net of tax	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest Rate Swaps	$ (3,156)	Interest expense	$ (2,803)	Interest expense	$ (398)

Derivatives Not Designated as Hedging Instruments Under SFAS 133	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Foreign Currency Hedges	Foreign exchange gain (loss)	(224)
Total		$ (224)

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

As of March 31, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $26,604. Included in this amount are certain derivative liabilities of $12,163 that are related to counterparties that are also lenders under the Company's senior credit facility. Liabilities to these counterparties for derivatives and borrowings made under the senior credit facility are secured by substantially all of the Company's assets. The Company has not posted any collateral related to other derivative agreements.

Fair Value of Derivatives Under SFAS No. 157

Effective January 1, 2008, the Company adopted SFAS No. 157 for measuring its derivative assets and liabilities. SFAS No. 157 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, SFAS No. 157 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).

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Notes to Unaudited Condensed Consolidated Financial Statements
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4. Derivatives and Hedging—(continued)

Fair Value of Derivatives Under SFAS No. 157—(continued)

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 for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related 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 considers factors specific to the asset or liability.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty'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 utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2009, the Company has 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 are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of March 31, 2009.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observables Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Derivatives	$ 1,162	$ —	$ 1,162	$ —
Total	$ 1,162	$ —	$ 1,162	$ —
Liabilities				
Derivatives	$(21,214)	$ —	$ (21,214)	$ —
Total	$(21,214)	$ —	$ (21,214)	$ —

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Notes to Unaudited Condensed Consolidated Financial Statements
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5. Inventories

The components of inventories are as follows at:

	March 31, 2009	December 31, 2008
Raw materials	$ 17,752	$ 17,357
Work in process	28,190	29,385
Finished units	38,623	38,801
	$ 84,565	$ 85,543

6. Debt

As of March 31, 2009, the Company was in compliance with the covenants under its senior credit facility agreement.

The Company was not in compliance with certain financial covenants for the period ended March 31, 2008 under its then existing credit facility and on April 8, 2008 and May 30, 2008, the Company amended its senior credit facility agreement with the lenders thereunder. Under the amended senior credit facility agreement, borrowings under the revolving credit facility and the term loans bear interest at the sum of, as applicable, LIBOR, the Euribor rate or CDOR plus, in each case, the applicable margin. The applicable margin increased from 2.75% to 5.50% through December 31, 2008 with three identified step downs (i.e., to 4.25%, 3.75% and 2.75%) that are contingent upon future improvements in the Company's credit rating levels beginning January 1, 2009. As a result, as of March 31, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 6.79%.

In March 2009 and 2008, the Company made mandatory debt repayments of approximately $16,100 and $9,400, respectively, based on the difference between its "pre-dividend free cash flow", as defined in its credit facility agreement, and cash dividends paid in the prior year, multiplied by the applicable percentage. Beginning in 2009, the sum of voluntary and scheduled debt payments made in the previous year is subtracted from this result to determine the mandatory debt repayment. The Company also made scheduled quarterly debt payments of approximately $4,700 and $1,800 during the first quarters of 2009 and 2008, respectively. During the first quarter of 2009, the Company made borrowings under its revolver of $28,000.

7. Income Taxes

The Company utilizes the asset and liability method for accounting for income taxes in accordance with SFAS No. 109. 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 laws that will be in effect when the differences are expected to reverse. The Company reduces the 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. Information evaluated includes the Company's financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years. Because of the Company's accumulated loss position in certain tax jurisdictions (including the United States and Canada) on March 31, 2009, and the uncertainty of profitability in such jurisdictions in future periods, the Company has valuation allowances for deferred tax assets primarily related to net operating loss carryforwards in such jurisdictions.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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7. Income Taxes—(continued)

For the three months ended March 31, 2009 and 2008, the provision for income taxes was $3,892 and $3,639, respectively. The effective tax rate increased for the first quarter of 2009 principally due to the establishment of a valuation allowance in Canada of $2,850 and to actual operating losses incurred by certain of our foreign subsidiaries and those in the U.S. that had established valuation allowances. The effective tax rate increased for the first quarter of 2008 primarily due to (i) minimal tax benefit recognition on the change in the fair value of our interest rate swaps because of our tax loss carryforward position, (ii) increased profitability in certain of our foreign tax-paying subsidiaries and (iii) actual operating losses incurred by certain of our foreign subsidiaries and those in the U.S. that had established valuation allowances.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”) on January 1, 2007. As of December 31, 2008, the Company had a gross unrecognized tax benefit of $4,831. During the three months ended March 31, 2009, the Company’s unrecognized tax benefit decreased by approximately $200 based principally on the outcome of a foreign tax audit.

The Company’s policy is to recognize interest and penalties related to income tax matters as income tax expense, which were immaterial for the three months ended March 31, 2009 and 2008, respectively. The tax years 2000 through 2008 remain open to examination by the major taxing jurisdictions to which the Company and its subsidiaries are subject.

8. Pensions, Other Postretirement and Postemployment Benefits

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 also sponsors various unfunded defined contribution plans that provide for retirement benefits to employees, some in accordance with local government requirements.

Also, through December 31, 2008, the Company sponsored an unfunded plan that offered the opportunity to obtain health care benefits to a majority of all retired U.S. employees and their covered dependents and beneficiaries. A portion of this plan was contributory, with retiree contributions adjusted periodically. Eligibility varied according to date of hire, age and length of service. As of December 31, 2008, the Company no longer sponsors or funds its U.S. retiree health insurance program. Certain retirees have a life insurance benefit provided at no cost.

Effective December 31, 2008, the Company froze benefit pension accruals under its Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the “Pension Plan”) so that future service beyond December 31, 2008 will not be credited under the Pension Plan. Employees who are vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008. Current employees who were not vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008 upon five years of continuous employment from date of hire.

Additionally, during the first quarter of 2009 the Company suspended its 401(k) plan match in the United States until further notice.

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Notes to Unaudited Condensed Consolidated Financial Statements
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8. Pensions, Other Postretirement and Postemployment Benefits—(continued)

As required by SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88, and 106*, the following tables summarize the components of net periodic benefit cost:

Defined Benefit Plans

	Three Months Ended	
	March 31, 2009	March 31, 2008
Service cost	$ 709	$ 1,520
Interest cost	1,479	1,690
Expected return on plan assets	(759)	(1,201)
Amortization of prior service cost	21	30
Amortization of net loss	245	133
Net periodic benefit cost	$ 1,695	$ 2,172

Other Postretirement Benefit Plans

	Three Months Ended	
	March 31, 2009	March 31, 2008
Service cost	$ —	$ 132
Interest cost	9	453
Amortization of prior service cost	—	(140)
Amortization of net loss	(1)	(17)
Net periodic benefit cost	$ 8	$ 428

9. Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Comprehensive income(loss) for the periods ended March 31, 2009 and 2008 is as follows:

	Three Months Ended	
	March 31, 2009	March 31, 2008
Net loss	$ (9,448)	$ (4,709)
Foreign currency translation adjustments	(2,451)	5,705
Minimum pension liability/SFAS No. 158 Liability	69	93
Change in value of derivative instruments	(49)	—
Comprehensive income (loss)	$(11,879)	$ 1,089

The components of accumulated other comprehensive income (loss) are as follows:

	Foreign Currency Translation Adjustment	Minimum Pension Liability/SFAS No. 158 Liability	Change in Value of Derivative Instruments (Note 4)	Accumulated Other Comprehensive Loss
Balance at December 31, 2008	$ 5,891	$ (21,531)	$ (13,859)	$ (29,499)
Current period change, net of tax	(2,451)	69	(49)	(2,431)
Balance at March 31, 2009	$ 3,440	$ (21,462)	$ (13,908)	$ (31,930)

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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10. Warranties

The Company offers warranties on certain 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. Changes in the Company's combined short-term and long-term warranty liabilities during the three months ended March 31, 2009 are as follows:

Balance at December 31, 2008	$2,424
Warranties provided during period	654
Settlements made during period	(419)
Changes in liability estimates, including expirations and currency effects	(339)
Balance at March 31, 2009	$2,320

11. Restructuring and Impairments Expense

Restructuring and impairments expense included in the Company's income statements 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 shifting production from one facility to another. 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 the first quarter of 2009, the Company continued its program of streamlining its operating structure and recorded restructuring expenses of approximately $700 in connection therewith. Additionally during 2009, the Company sold its rolls manufacturing facility in Sweden at a gain of approximately $1,200, which was partially offset by approximately $600 of costs incurred to continue with actions related to the closure of manufacturing facilities previously announced prior to the first quarter of 2009. The Company expects to incur restructuring expenses of approximately $4,000 during the remainder of 2009, primarily related to headcount reductions resulting from the integration of the regional management structure in North America and similar actions in Europe.

The table below sets forth for the three months ended March 31, 2009, the significant components and activity under restructuring programs and asset impairments:

	Balance at December 31, 2008	Charges	Write-offs	Currency Effects	Cash Payments	Balance at March 31, 2009
Severance	$ 5,422	$ 844	$ —	$ (5)	$ (4,437)	$ 1,824
Asset impairment	—	—	—	—	—	—
Facility costs and other	2,455	(730)	—	(96)	504	2,133
Total	$ 7,877	$ 114	$ —	$ (101)	$ (3,933)	$ 3,957

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements – (Continued)
(dollars in thousands, except per share data)

11. Restructuring and Impairments Expense—(continued)

Restructuring and impairments expense by segment, which is not included in Segment Earnings (Loss) in Note 12, is as follows:

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
Clothing	$ 69	$ —
Roll Covers	(629)	434
Corporate	674	98
Total	$ 114	$ 532

12. Business Segment Information

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

Management evaluates segment performance based on earnings before interest, taxes, depreciation and amortization and before allocation of corporate charges. Such measure is then adjusted to exclude items that are of an unusual nature and are not used in measuring segment performance or are not segment specific ("Segment Earnings (Loss)"). The accounting policies of these segments are the same as those for the Company as a whole. Inter-segment net sales and inter-segment eliminations are not material for any of the periods presented.

Summarized financial information for the Company's reportable segments is presented in the tables that follow for the three months ended March 31, 2009 and 2008, respectively.

	Clothing	Roll Covers	Corporate	Total
Three Months Ended March 31, 2009:				
Net sales	$ 77,815	$38,688	$ —	$116,503
Segment Earnings (Loss)	17,612	7,898	(5,046)	
Three Months Ended March 31, 2008:				
Net sales	$103,579	$55,408	$ —	$158,987
Segment Earnings (Loss)	23,942	13,987	(4,883)	

Segment Earnings (Loss) above excludes restructuring and impairments expense.

Provided below is a reconciliation of Segment Earnings (Loss) to loss before provision for income taxes for the three months ended March 31, 2009 and 2008, respectively.

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12. Business Segment Information—(continued)

	Three Months Ended March 31, 2009	2008
Segment Earnings (Loss):		
Clothing	$ 17,612	$ 23,942
Roll Covers	7,898	13,987
Corporate	(5,046)	(4,883)
Non-cash compensation and related expenses	(161)	(471)
Net interest expense	(15,957)	(25,221)
Depreciation and amortization	(9,788)	(12,003)
Restructuring and impairments expense	(114)	(532)
Unrealized foreign exchange gain on revaluation of debt	—	1,985
Change in fair value of other derivatives	—	2,126
Loss before provision for income taxes	$ (5,556)	$ (1,070)

13. Commitments and Contingencies

Stockholder Litigation

On June 7, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of a putative class of investors who purchased shares pursuant or traceable to the Company's initial public offering on or about May 16, 2005 through November 15, 2005 against the Company, its former Chief Executive Officer and its Chief Financial Officer. An amended complaint was filed on November 3, 2006. On November 3, 2008, the Company agreed to a settlement with the plaintiffs, without admitting liability of any kind. On February 25, 2009, the Court entered a judgment granting final approval of the settlement. The settlement amount above the deductible was covered by the Company's Directors and Officers insurance and did not have a material adverse effect on the Company's financial position, results of operations or cash flow in 2008 or 2009.

The Company is involved in various legal matters, which have arisen in the ordinary course of business. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its financial position, results of operations or cash flow.

Environmental Matters

During the third quarter of 2008, the Company, while evaluating its facility in Australia, discovered the possibility of contamination at that facility. Subsequently, the Company had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to remediate this facility. Based upon this evaluation, the Company accrued $4,100 in 2008 as its best estimate of the remediation costs it expects to incur.

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.

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14. Stock-Based Compensation

Effective May 19, 2005, the Company adopted the 2005 Equity Incentive Plan (the "2005 Plan"), under which the Board of Directors authorized 2,500,000 shares for grant (subsequently increased to 7,500,000 at the Company's Annual Meeting of Stockholders on August 6, 2008).

The Company recorded compensation expense of $43 in the first quarter of 2009 related to RSUs awarded in and prior to 2009 and compensation expense of $471 for the three months ended March 31, 2008. The Company also recorded stock based compensation expense of $118 during the first quarter of 2009 related to the value of expected awards for the year ending December 31, 2009 under the Company's Performance Award Program, which was approved by the Company's Board of Directors on March 10, 2009.

As a result of adopting SFAS No. 123R on January 1, 2006, the Company has used the straight-line attribution method to recognize expense for RSUs granted after December 31, 2005. The Company used the graded attribution method to recognize expense for all RSUs granted prior to the adoption of SFAS No. 123R.

During 2005, 424,683 time-based RSUs and 801,843 performance-based RSUs were granted to officers and employees of the Company. Non-employee directors were also granted 12,500 RSUs during 2005. Each RSU represents one share of common stock.

To earn common stock under time-based RSUs granted in 2005, generally the grantee must be employed by the Company through the applicable vesting date, which occurred annually on May 19, 2006, 2007 and 2008. The final tranche of these RSUs vested on May 19, 2008.

To earn common stock under performance-based RSUs granted in 2005, generally defined shareholder return targets must be met over the four years following the completion of the Company's initial public offering on May 19, 2005 and the grantee must be employed by the Company through May 19, 2009.

On May 16, 2007, the Company granted 742,885 performance-based RSUs to certain officers and employees of the Company. Generally, to earn common stock under these performance-based RSUs, defined shareholder return targets must be met over the four years following the grant date and the grantee must be employed by the Company through May 16, 2011.

Awards to non-employee directors vest immediately under the 2005 Plan and the underlying shares will be issued to the director upon termination of service as a member of the Board or a change in control, as defined in the 2005 Plan. Annually during 2005, 2006 and 2007, the non-employee directors were granted 12,500 RSUs in the aggregate. In July 2008, they also were granted 48,820 RSUs in the aggregate. On November 30, 2008, three members of the Board retired, which resulted in an aggregate issuance of 81,351 shares of common stock to them underlying their vested RSUs.

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Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

On January 3, 2008, the Compensation Committee of the Company's Board of Directors approved 433,000 performance-based RSU awards (based on shareholder return targets) and 433,000 time-based RSU awards for certain of the Company's officers under the 2005 Plan, which were made contingent upon the approval by the Company's stockholders at or before the Company's 2008 annual meeting of stockholders of an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 5,000,000. On August 6, 2008, at the Company's 2008 annual meeting of stockholders, the stockholders approved an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 7,500,000. The shareholder return based awards will generally only vest if the share price of the Company's common stock plus dividends paid on the common stock from January 3, 2008 satisfies annual targets that the Compensation Committee has established in respect of the three years following January 3, 2008 and the named officer continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the awards) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price. The time-based restricted stock unit awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008, provided that the named officer continues to be employed by the Company on such dates. Dividends, if any, on such time based restricted stock units will be paid at the same rate as dividends on the Company's common stock, but only in the form of additional restricted stock units. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the awards) and/or termination of employment under the circumstances set forth in the restricted stock unit awards. During the first quarter of 2009, 54,299 shares of common stock underlying 87,000 time-based RSUs were issued; the remaining 32,701 shares underlying the RSUs werewithheld from issuance in connection with minimum tax withholding requirements related to the issuance of such shares to the recipients.

On March 10, 2009, in accordance with the employment agreement between the Company and Mr. Stephen Light, the Company's Chairman, President and Chief Executive Officer, the Compensation Committee of the Company's Board of Directors approved RSU grants to Mr. Light as follows: (i) 341,761 time-based RSUs; (ii) 605,209 time-based RSUs that are contingent on shareholder approval of an increase in the maximum number of shares that may be granted as stock awards to any one person in any calendar year under the 2005 Plan; and (iii) 946,969 performance-based RSUs that are contingent on shareholder approval of the same increase. Mr. Light's employment agreement provides that he was to have been granted RSUs having a fair market value of $1,250 on January 1, 2009, or 1,893,939 RSUs, and that half of these are to vest based on his service over time while the other half vest based on the Company's performance. The 2005 Plan imposes a limit on the maximum number of shares that may be granted as stock awards to any one person in any calendar year. Those of the RSUs being granted to Mr. Light that are in excess of that limit have been granted contingent on shareholder approval of an amendment to the 2005 Plan that will increase the limit to enable these grants. The contingent awards are not considered outstanding until approved by the shareholders.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

On March 10 2009, the Company granted to certain employees 39,000 time-based restricted stock units and 39,000 performance-based restricted stock units. The time-based restricted stock unit awards are scheduled to vest completely, in nearly equal installments on the first and second anniversaries of January 3, 2009, provided that the employee continues to be employed by the Company on such dates. Dividends, if any, on such time based restricted stock units will be paid at the same rate as dividends on the Company's common stock, but only in the form of additional restricted stock units. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the awards) and/or termination of employment under the circumstances set forth in the restricted stock unit awards. The shareholder return based awards will generally only vest if the share price of the Company's common stock plus dividends paid on the common stock from January 3, 2009 satisfies annual targets that the Compensation Committee has established in respect of the two years following January 3, 2009 and the named employee continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the awards) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price.

Certain time-based RSUs and all non-employee director RSUs automatically adjust to reflect awards of additional RSUs upon payment of dividends by the Company. During the year ended December 31 2008 and the first quarter of 2009, no RSUs were awarded in connection with the payment of dividends as no dividends were declared by the Company during any of those periods.

RSU activity during the three months ended March 31, 2009 is presented below.

	Number of RSUs(2)	Price Range of Grant-Date Fair Value Price Per RSU	Weighted Average Grant-Date Fair Value Price Per RSU
Outstanding, December 31, 2008	1,358,585	$ 3.77 -12.01	$ 7.50
Granted	419,761	0.54 - 0.66	0.64
Forfeited	—	—	—
Issued or withheld for tax withholding purposes	(87,000)	5.40	5.40
Outstanding, March 31, 2009	1,691,346	$ 0.54 -12.01	$ 5.91
Vested, March 31, 2009 (1)	36,539	$ 3.77 -12.01	$ 6.42

(1) Vested RSUs at March 31, 2009 consist entirely of non-employee director RSUs. The common stock underlying these RSUs will be issued to the directors upon termination of their service as members of the Board and/or a change in control, as defined in the 2005 Plan.

(2) Excludes 605,209 time-based RSUs and 946,969 performance-based RSUs awarded to Mr. Light that are contingent on shareholder approval of an increase in the maximum number of shares that may be granted as stock awards to any one person in any calendar year under the 2005 Plan.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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14. Stock-Based Compensation—(continued)

A summary of RSUs outstanding as of March 31, 2009 and their vesting dates is as follows:

	Vesting Dates	Number of RSUs (1)
Time-based RSUs granted February 26, 2008	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	50,000
Time-based RSUs granted June 13, 2008	With respect to 37,500 RSUs — annually in equal installments on June 13, 2009, June 13, 2010 and June 13, 2011; with respect to 60,000 RSUs—June 13, 2011	97,500
Time-based RSUs granted August 6, 2008 (contingently awarded on January 3, 2008)	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	124,000
Time-based RSUs granted during various dates in 2008	Annually in equal installments over three or four years, as applicable.	55,175
Time-based RSUs granted January 1, 2009	Annually in equal installments on January 1, 2010 and January 1, 2011	341,761
Time-based RSUs granted March 9, 2009	Annually in equal installments on January 1, 2010 and January 1, 2011	39,000
Performance-based RSUs granted May 19, 2005 (based on shareholder return targets)	May 19, 2009, assuming performance criteria are achieved	269,171
Performance-based RSUs granted May 16, 2007 (based on shareholder return targets)	May 16, 2011, assuming performance criteria are achieved	453,200
Performance-based RSUs granted August 6, 2008 (based on shareholder return targets) (contingently awarded on January 3, 2008)	January 3, 2011, assuming performance criteria are achieved	186,000
Performance-based RSUs granted March 9, 2009 (based on shareholder return targets)	January 3, 2011, assuming performance criteria are achieved	39,000
Non-employee directors' RSUs	Date of grant	36,539
Total RSUs outstanding		1,691,346

(1) Excludes 605,209 time-based RSUs and 946,969 performance-based RSUs awarded to Mr. Light that are contingent on shareholder approval of an increase in the maximum number of shares that may be granted as stock awards to any one person in any calendar year under the 2005 Plan.

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14. Stock-Based Compensation—(continued)

Assumptions

Under SFAS No. 123R, 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 and non-employee directors' RSUs based on the closing price of the Company's common stock on the date of grant.

For the performance-based RSUs granted in 2008, 2007 and 2005 (none granted in 2006), the Company calculated the grant-date fair value of performance-based RSUs by using a Monte Carlo pricing model and the following assumptions:

	For Performance-Based RSUs Granted August 6, 2008 (contingently awarded January 3, 2008)	For Performance-Based RSUs Granted May 16, 2007	For Performance-Based RSUs Granted May 19, 2005
Expected term	Three years	Four years	Four years
Expected volatility	44%	39%	37%
Expected dividends	None	$0.45 per year ($0.1125 per quarter)	$0.90 per year ($0.225 per quarter)
Risk-free interest rate	2.64%	4.32%	3.73%

(i) *Expected term*. Performance-based RSUs expire three years after the grant date for the 2008 awards and four years after the grant date for the 2007 and 2005 awards.

(ii) *Expected volatility*. The Company is responsible for estimating the volatility of the price of its common stock and has considered a number of factors, including third party estimates, to determine its expected volatility. For the 2008, 2007 and 2005 awards, the Company performed a peer group analysis of historical and implied volatility measures rather than using its own historical volatility because it had been a public company for a relatively short period of time (i.e., since its initial public offering on May 19, 2005). Based upon the peer group analysis, the Company determined to use a 44%, 39% and 37% volatility assumption for performance-based RSUs granted in 2008, 2007 and 2005, respectively, which is the midpoint of the range developed by looking at the peer group.

(iii) *Expected dividends*. Based on the Company's dividend policy in place at the time of the performance-based RSU grants on May 19, 2005, an assumed continuation of quarterly dividends at the rate of $0.225 per share of common stock was used for the purposes of the application of the Monte Carlo pricing model. On May 2, 2007, the Company modified its credit agreement to limit the amount of any quarterly dividends payable on its common stock to not more than $0.1125 per share. Accordingly, for the performance-based RSUs that were granted on May 16, 2007, the Company assumed continuation of quarterly dividends at the rate of $0.1125 per share of common stock for the purposes of the application of the Monte Carlo pricing model. On May 30, 2008, the Company amended its credit facility. No dividends are permitted to be paid on the Company's common stock through May 2012, the maturity date of the term loans under the amended senior credit facility. Accordingly no dividends were assumed for the 2008 awards for purposes of the application of the Monte Carlo pricing model.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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14. Stock-Based Compensation—(continued)

Assumptions—(continued)

(iv) *Risk-free interest rate*. The yield on zero-coupon U.S. Treasury securities for the period that is commensurate with the expected term assumption (i.e., three years and four years, respectively).

The Company also granted time-based restricted stock unit awards to its new chief executive officer with respect to 75,000 shares on February 26, 2008 and 37,500 shares on June 13, 2008. These awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008 and June 13, 2008, respectively, provided that the Company's chief executive officer continues to be employed by the Company on such dates. Additionally, on June 13, 2008, the Company granted a time-based restricted stock unit award to certain of its executive officers with respect to an aggregate 60,000 shares, which are scheduled to vest on the third anniversary of June 13, 2008, provided that the named officers continue to be employed by the Company on that date. During 2008, the Company granted to certain employees 55,175 time-based restricted stock units that vest equally in annual installments from the grant date over a period of three to four years.

Forfeitures

As the time-based and performance-based RSUs require continued employment up to the time of vesting, the amount of stock-based compensation recognized during a period is required to include an estimate of forfeitures. SFAS No. 123R 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. The Company estimated its forfeiture rates as of March 31, 2009 to be as follows:

Description of Award	Forfeiture Rates
Time-based RSUs granted on various dates in 2008 and in 2009 (and contingently granted on January 1, 2009), other than those on August 6, 2008	10%
Time-based RSUs granted on August 6, 2008	55%
Performance-based RSUs granted May 19, 2005 (based on shareholder return targets)	74%
Performance-based RSUs granted May 19, 2007 (based on shareholder return targets)	65%
Performance-based RSUs granted August 6, 2008 (based on shareholder return targets)	70%
Performance-based RSUs granted in 2009 (and contingently granted on January 1, 2009 (based on shareholder return targets)	10%
Non-employee directors' RSUs	Vest immediately upon grant so no forfeiture rate required.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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14. Stock-Based Compensation—(continued)

As of March 31, 2009, there was approximately $2,600 of total unrecognized compensation expense related to unvested share-based awards which is expected to be recognized over a weighted average period of 1.9 years.

Certain Material Equity Awards

On March 10, 2009, the Company's Board of Directors approved the issuance of 4,034,819 shares of common stock to eligible participants under the Company's performance award program for 2008. After withholding shares of common stock to satisfy minimum tax withholding requirements, a net number of 2,564,111 shares was issued to the eligible participants on March 11, 2009.

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

Forward Looking Statements

The following discussion of our financial condition and results of operations should be read together with our unaudited condensed consolidated interim financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The discussion included in this section, as well as other sections of this Quarterly Report on Form 10-Q contains forward-looking statements. 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, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of these terms or 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:

- we are subject to the risk of weaker economic conditions in the locations around the world where we conduct business, including without limitation the current turmoil in the global paper markets and the impact of the current global economic crisis on the paper industry and our customers;
- we may be unable to maintain compliance with the restrictive covenants in our credit facility. Our ability to maintain compliance depends on our ability to achieve our financial forecasts, which are based on certain assumptions that may or may not materialize as we expect regarding (i) demand for paper products, (ii) the level of paper production and inventories, (iii) the number of mills producing paper, (iv) the financial health of our customers, (v) the stability of product prices, (vi) the strength of market acceptance of new products, (vii) the absence of dramatic increases in commodity prices, (viii) our ability to maintain hedge accounting for our interest rate swaps, (ix) the beginning of an economic recovery in the global paper market in mid-2009, with the effect of increasing our revenues and profits, (x) the value of the Euro relative to the US dollar increasing from its current level and (xi) our ability to implement planned cost reductions, including postponing deliveries of ordered equipment;
- our strategies and plans, including, but not limited to, those relating to the decrease in our financial leverage, developing new products and enhancing our operational efficiencies, may not result in the anticipated benefits;
- we may not achieve compliance with the NYSE continued listing standards;
- our profitability could be adversely affected by fluctuations in currency exchange and interest rates;
- we may not be able to develop and market new products successfully;
- we may not be successful in competing against new technologies developed by competitors;
- we may have insufficient cash to fund growth and unexpected cash needs after satisfying our debt service obligations due to our high degree of leverage and significant debt service obligations;
- we may not have sufficient cash to fund our operations; should the current conditions in the global paper market continue or worsen over time;
- there can be no assurance that in future periods we will be able to assert that the hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting;
- we may be required to incur significant costs to reorganize our operations in response to market changes in the paper industry;

- we are subject to the risk of terrorist attacks or an outbreak or escalation of any insurrection or armed conflict involving the United States or any other country in which we conduct business, or any other national or international calamity;
- we are subject to any future changes in government regulation; and
- we are subject to any changes in U.S. or foreign government policies, laws and practices regarding the repatriation of funds or taxes.

Many of these risks are discussed elsewhere in this Form 10-Q, including in the sections below: "Recent Developments," "Overview," "Industry Trends and Outlook," "Liquidity and Capital Resources" and "Credit Facility." Other factors that could materially affect actual results, levels of activity, performance, or achievements can be found in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission on March 12, 2009. 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 projected. Any forward-looking statement in this Quarterly Report on Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.

Recent Developments

New York Stock Exchange ("NYSE")

On December 29, 2008, we were notified by the NYSE that we were not in compliance with two NYSE standards for continued listing of our common stock on the exchange because the average closing price of our common stock was less than $1.00 per share over a consecutive 30 trading day period, and our average total market capitalization was less than $75 million over the same period and our most recently reported stockholders' equity was less than $75 million.

On March 27, 2009, we were notified by the NYSE that it has accepted our plan for continued listing on the NYSE. As a result, our common stock will continue to be listed on the NYSE during the compliance period, subject to quarterly reviews by the NYSE to monitor our progress against the plan.

As a result of the NYSE's acceptance of the plan, we have 18 months from the original notification date of December 29, 2008 in which to regain compliance with the average market capitalization standard, subject to its compliance with the NYSE's other continued listing requirements. With respect to the $1.00 minimum price standard, we initially had six months from the date of receipt of the notification from the NYSE to bring our share price and average share price over $1.00. However, the NYSE has suspended the $1.00 minimum price requirement through June 30, 2009. Once the NYSE reinstitutes the average share price standard, our six-month compliance period will recommence, and we will have the remainder of the period in which to regain compliance with the standard. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards could result in our common stock being delisted from the NYSE.

Global Economic Environment

Our business is 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 continue to decline if paper manufacturers are unable to obtain required financing or if the economic crisis causes additional mill closures or extends current capacity curtailments.

During 2008, especially the latter part of the year, the global paper industry experienced a sharp reduction in production levels, caused by the general slowdown in economic activity and the related paper consumption decline during the same period. The slowdown of production was across all grades of paper production, but most notably in the packaging grades and newsprint. For packaging grades, demand is directly related to broad manufacturing and transportation activity reduction, while newsprint demand has been increasingly declining over a number of years due to the greater prevalence of electronic media, exacerbated in recent months by a reduction in print advertising. One of the results of the recent reduction in demand for paper products is that the inventory of paper at the paper-makers has increased significantly and production slowdowns, curtailments and idling of

paper-making machines have been occurring at a sharply increasing rate since October 2008 and are continuing into 2009. Regionally, North America and Europe have seen the most significant production declines. Paper production in those regions decreased in 2008 and is expected to decrease further in 2009. South America and Asia, while experiencing slowdowns, are still expected to increase tons of paper and pulp produced in 2009 compared to 2008. While we were successful in reducing the rate of price decrease in 2008 for the products we sell to the paper-makers, there continues to be price pressure due to our competitors pursuing market growth with slower overall demand for our products.

In the quarters ended September 30, 2008 and December 31, 2008, due to the global economic crisis and the lack of credit availability that may affect our customers' demand for products and their ability to pay their debts, we assessed the impact of this crisis on our customers and our industry, and changed our estimates of net realizable value of receivables and inventories. For example, two of our major customers, who collectively represent approximately 5% of 2008 revenues, have experienced recent financial difficulties and filed for bankruptcy protection in 2009. We have fully reserved for amounts due from these customers, however, decreases in orders from these customers or future payment problems from these or other customers could have a material adverse effect on our sales and profitability, which in turn could impact our ability to satisfy the covenant requirements in our credit facility.

Overview

We are a leading global manufacturer and supplier of two categories of consumable products used primarily in the production of paper—clothing and roll covers. Our operations are strategically located in the major paper-producing regions of North America, Europe, South America and Asia-Pacific.

Our products play key roles in the formation and processing of paper along the length of a paper-making machine. Paper producers rely on our products and services to help improve the quality of their paper, differentiate their paper products, operate their paper-making machines more efficiently and reduce production costs. Our products and services typically represent only a small fraction of a paper producer's overall production costs, yet they can reduce costs by permitting the use of lower-cost raw materials and reducing energy consumption. Paper producers must replace clothing and refurbish or replace roll covers regularly as these products wear down during the paper production process. Our products are designed to withstand extreme temperature, chemical and 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: clothing and roll covers. In our clothing segment, we manufacture and sell highly engineered synthetic textile belts that transport paper as it is processed on a paper-making machine. Clothing plays a significant role in the forming, pressing and drying stages of paper production. Because paper-making processes and machine specifications vary widely, the clothing size, form, material and function is selected to fit each individual paper-making machine and process. For the three months ended March 31, 2009, our clothing segment represented 67% 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. Roll covers are tailored to each individual paper-making machine and process, using different materials, treatments and finishings. In addition to manufacturing and selling new roll covers, we also provide refurbishment services for previously installed roll covers and manufacture spreader rolls. For the three months ended March 31, 2009, our roll covers segment represented 33% of our net sales.

Industry Trends and Outlook

Historically, demand for our products has been driven primarily by the volume of paper produced on a worldwide basis. According to the Food and Agriculture Organization of the United Nations, the volume of paper productions between 1980 and 2007 increased at a compound annual growth rate of approximately 3.07%. There can be no assurance that the industry will continue to grow at a similar rate and it is possible that paper production may decline in any specific period compared to prior periods. Generally, and over time, we expect growth in paper production to be greater in Asia, South America and Eastern Europe than in the more mature North American and Western European regions.

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. A sustained downturn in the paper industry, either globally or in a particular region, can cause paper manufacturers to reduce production or cease operations, which could adversely affect our revenues and profitability. Since 2000, paper producers have taken actions that seek to structurally 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. Between 2001 and 2004 the bulk of these closures occurred in North America. Announcements by paper producers concerning temporary and permanent shutdowns of paper-making machines in both North America and Europe have continued. During 2005 through 2008, the sales and profitability of our North American and European operations were adversely affected by these shutdowns. Papermakers continue to experience low levels of profitability, and we believe that further consolidation among papermakers, reducing the number of paper producers, and shutdowns of paper-making machines will occur 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. This rebalancing will be accelerated during the current global economic recession. Over a number of years, consumption growth of paper is expected to drive an increase in the global production rates required to maintain balance between supply and demand although it is highly likely that a consumption slow-down and related effect on global paper production will continue in the near term, exacerbated by the global economic crisis. Also affecting machine curtailments are structural productivity gains from improved products that we and our competitors supply.

Global paper production growth that does occur would be moderated by the level of industry consolidation and paper-machine shutdown activity that is a continuing underlying trend in North America and Western Europe. We also believe that, in addition to industry consolidation and paper machine shutdown activity in North America and Western Europe, the trend towards new paper machine designs which have fewer rolls and market recognition of extended life of our roll cover products has been and will continue to negatively impact demand for these products and that the volume potential for the roll covers business in North America and Western Europe will slowly diminish. Additionally, we are seeing a trend that paper producers are placing an increasing emphasis on maintenance cost reduction and, as a result, are extending the life of roll covers through additional maintenance cycles before replacing them. Accordingly, in November, 2007 we acquired two roll cover manufacturing plants in China to expand our served market, and are now focused on adding related products and services to our offerings in this new territory.

We anticipate that pricing pressure for our products will continue with the consolidation among paper producers and as the shift of paper production growth in Asia develops. In response to this pricing pressure, we expect to increase our expenditure levels on research and development expenses and continue to develop our value added selling approach as part of our strategy to differentiate our products, while at the same time remaining focused on cost reduction and efficiency programs.

The negative paper industry trends described above are likely to be accelerated by the general global economic crisis discussed in the section "Global Economic Environment." For example, we believe that in the current economic environment, the paper industry will experience reduced demand, increased emphasis on cost reduction, and increased paper-machine shutdown activity than would have been the case in the absence of the economic crisis.

Sales and Expenses

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

- The volume of worldwide paper production;
- Advances in the technology of our products, which can provide value to our customers by improving the efficiency of paper-making machines;
- Our ability to provide products and services which reduce paper-making machine downtime, while at the same time allowing the manufacture of high quality paper products; and
- Impact of currency fluctuations.

Sales in our roll covers segment include our mechanical services business. We have expanded this business in response to demand from paper producers that we perform work on the internal mechanisms of a roll while we refurbish or replace a roll cover. In our

clothing segment, a portion of our business has been conducted pursuant to consignment arrangements under which 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. We are striving to reduce the number of consignment arrangements and increase the use of standard terms of sale under which we recognize a sale upon product shipment. We made progress with this initiative in 2008. We expect this effort to be successful over several years.

Our operating costs are driven primarily by our total sales volume, the impact of inflation and currency and the level and impact of cost reduction programs.

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

The level of research and development spending is driven by market demand for technology enhancements, including both specific customer needs and general market requirements, as well as by our own analysis of applied technology opportunities. With the exception of purchases of equipment and similar capital items used in our research and development activities, all research and development is expensed as incurred. Research and development expenses were $2.7 million and $3.0 million for the three months ended March 31, 2009 and 2008, respectively.

Foreign Exchange

We have a geographically diverse customer base. For the three months ended March 31, 2009, approximately 36% of our sales was in Europe, 35% was in North America, 17% was in Asia-Pacific, 10% was in South America and 2% was in the rest of the world.

A substantial portion of our 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 revenues and profitability as the results are translated into U.S. Dollars for reporting purposes. In particular, increases in the value of the U.S. Dollar relative to the value of the Euro and these other currencies negatively 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 fewer U.S. Dollars.

For certain transactions, our sales are denominated in U.S. Dollars or Euros 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 consist of transactions in which the sales are denominated in or indexed to U.S. Dollars and all or a substantial portion of the associated costs are denominated in Euros, Reals or other currencies.

Currency fluctuations have a greater effect on the level of our net sales than on the level of our income from operations. For example, for the three months ended March 31, 2009 as compared with the three months ended March 31, 2008, the change in the value of the U.S. Dollar against the currencies in which we conduct our business resulted in currency translation decreases in net sales and income from operations of $18.2 million and $2.6 million, respectively. Although the results for the three months ended March 31, 2009 reflect a period in which the value of the U.S. Dollar increased against most of the currencies in which we conduct the majority of our non-U.S. Dollar denominated business as compared to the three months ended March 31, 2008, we would expect a similar but opposite effect in a period in which the value of the U.S. Dollar decreases. For any period in which the value of the U.S. Dollar changes relative to other currencies, we would expect our income from operations to be proportionately affected less than our net sales.

During the three months ended March 31, 2009 we conducted business in 11 foreign currencies. The following table provides the average exchange rate for the three months ended March 31, 2009 and 2008, respectively, of the U.S. Dollar against each of the four foreign currencies in which we conduct the largest portion of our operations and indicates the percentage of our net sales for the three months ended March 31, 2009 denominated in such foreign currency.

Currency	Average exchange rate of the U.S. Dollar for the three months ended March 31, 2009	Average exchange rate of the U.S. Dollar for the three months ended March 31, 2008	Percentage of net sales for the three months ended March 31, 2009 denominated in such currency
Euro	$1.30 = 1 Euro	$1.50 = 1 Euro	41.8%
Canadian Dollar	$0.80 = 1 Canadian Dollar	$1.00 = 1 Canadian Dollar	6.1%
Brazilian Real	$0.43 = 1 Brazilian Real	$0.58 = 1 Brazilian Real	10.4%
Australian Dollar	$0.66 = 1 Australian Dollar	$0.91 = 1 Australian Dollar	6.2%

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 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.

Cost Reduction Programs

An important part of our long-term operating strategy is to seek to reduce our overall costs and improve our competitiveness. As a part of this effort, we have engaged in a series of cost reduction programs since 2002, which were 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 have rationalized production among our facilities to better enable us to meet customer demands.

During the first quarter of 2009, we continued our program of streamlining our operating structure and recorded restructuring expenses of approximately $0.7 million in connection therewith. Additionally, during 2009 we sold our rolls manufacturing facility in Sweden at a gain of approximately $1.2 million, which was partially offset by approximately $0.6 million of costs incurred to continue with actions related to the closure of manufacturing facilities announced prior to the first quarter of 2009. We expect to incur restructuring expenses of approximately $4.0 million during the remainder of 2009, primarily related to headcount reductions resulting from the integration of the regional management structure in North America and similar actions in Europe.

During the first quarter of 2009, we also froze one of our U.S. employee pension plans, terminated our retiree medical plan, suspended contributions to our U.S. 401K program, froze salaries, delayed union contract wage increases, curtailed travel and halted work on our Vietnam project.

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Results of Operations

The tables that follow set forth for the periods presented certain consolidated operating results and the percentage of net sales they represent:

(in millions)	Three Months Ended March 31,	
	2009	2008
Net sales	$ 116.5	$ 159.0
Cost of products sold	72.2	95.7
Selling expenses	16.5	20.5
General and administrative expenses	13.2	18.7
Restructuring and impairments expenses	0.1	0.5
Research and development expenses	2.7	3.0
Income from operations	11.7	20.6
Interest expense, net	(16.0)	(25.2)
Foreign exchange gain (loss)	(1.3)	3.5
Loss before provision for income taxes	(5.6)	(1.1)
Provision for income taxes	3.9	3.6
Net loss	$ (9.5)	$ (4.7)

Percentage of Sales

	Three Months Ended March 31,	
	2009	2008
Net sales	100.0%	100.0%
Cost of products sold	62.0	60.2
Selling expenses	14.2	12.9
General and administrative expenses	11.3	11.7
Restructuring and impairments expenses	0.1	0.3
Research and development expenses	2.3	1.9
Income from operations	10.0	13.0
Interest expense, net	(13.7)	(15.8)
Foreign exchange gain (loss)	(1.1)	2.2
Loss before provision for income taxes	(4.8)	(0.6)
Provision for income taxes	3.3	2.3
Net income (loss)	(8.1)%	(2.9)%

Three Months Ended March 31, 2009 Compared to the Three Months Ended March 31, 2008.

Net Sales. Net sales for the three months ended March 31, 2009 decreased by $42.5 million, or 26.7%, to $116.5 million from $159.0 million for the three months ended March 31, 2008. For the three months ended March 31, 2009, 67% of our net sales was in our clothing segment and 33% was in our roll covers segment.

In our clothing segment, net sales for the three months ended March 31, 2009 decreased by $25.8 million, or 24.9%, to $77.8 million from $103.6 million for the three months ended March 31, 2008 primarily due to (i) unfavorable currency effects on net sales of $13.6 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and (ii) decreased sales volume, primarily in Europe and North and South America, partially offset by increased sales volume in Asia-Pacific. The decrease was partially offset by favorable currency effects on pricing related to sales prices indexed in U.S. Dollars by certain non-U.S. operations of $4.8 million. Overall pricing levels in our clothing segment decreased approximately 1% during the three months ended March 31, 2009 as compared with the three months ended March 31, 2008.

In our roll covers segment, net sales for the three months ended March 31, 2009 decreased by $16.7 million or 30.2%, to 38.7 million from $55.4 million for the three months ended March 31, 2008. The decrease was primarily due to (i) decreased sales volumes in

Europe and North America and (ii) unfavorable currency effects on net sales of $4.6 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. Overall pricing levels in our roll covers segment increased by approximately 1% during the three months ended March 31, 2009 as compared with the three months ended March 31, 2008.

Cost of Products Sold. Cost of products sold for the three months ended March 31, 2009 decreased by $23.5 million, or 24.6%, to $72.2 million from $95.7 million for the three months ended March 31, 2008.

In our clothing segment, cost of products sold decreased by $15.6 million, or 25.0%, to $47.4 million for the three months ended March 31, 2009 from $62.4 million for the three months ended March 31, 2008 primarily due to favorable currency effects of $8.2 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and to lower sales volumes during the three months ended March 31, 2009.

In our roll covers segment, cost of products sold decreased by $7.9 million, or 23.4%, to $25.4 million for the three months ended March 31, 2009 from $33.3 million for the three months ended March 31, 2008 primarily due to lower sales volumes during the three months ended March 31, 2009 and favorable currency effects of $2.8 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes.

Selling Expenses. For the three months ended March 31, 2009, selling expenses decreased by $4.0 million, or 19.5%, to $16.5 million from $20.5 million for the three months ended March 31, 2008. The decrease was primarily due to favorable currency effects of $2.5 million and the impact of a reduction in salaried sales positions and travel expenses during the three months ended March 31, 2009 as compared with the three months ended March 31, 2008.

General and Administrative Expenses. For the three months ended March 31, 2009, general and administrative expenses decreased by $5.5 million, or 29.4%, to $13.2 million from $18.7 million for the three months ended March 31, 2008. The decrease was primarily due (i) favorable currency translation effects of $2.0 million, (ii) decreased provisions for bad debts of approximately $1.7 million, and (iii) decreased salaries, travel, stock based compensation and other costs as a result of cost reduction efforts during the three months ended March 31, 2009 as compared with the three months ended March 31, 2008.

Restructuring and Impairments Expenses. For the three months ended March 31, 2009, restructuring and impairments expenses decreased by $0.4 million to $0.1 million from $0.5 million for the three months ended March 31, 2008. Restructuring expenses result from our long-term strategy to reduce production costs and improve long-term competitiveness as described above under “Cost Reduction Programs” by closing and/or transferring production from certain of our manufacturing facilities and through headcount reductions. For the three months ended March 31, 2009, restructuring expenses include a gain of $1.2 million on the sale of our Swedish roll covers facility on March 31, 2009, entirely offset by severance costs of $0.8 million and facility and other costs of $0.5 million.

Research and Development Expenses. For the three months ended March 31, 2009, research and development expenses decreased by $0.3 million, or 10.0%, to $2.7 million from $3.0 million for the three months ended March 31, 2008 primarily due favorable currency effects for the three months ended March 31, 2009 as compared with the three months ended March 31, 2008.

Interest Expense, Net. Net interest expense for the three months ended March 31, 2009 decreased by $9.2 million, or 36.5%, to $16.0 million from $25.2 million for the three months ended March 31, 2008. The decrease is primarily attributable to (i) the $12 million charge in 2008 in connection with the change in the fair value of our interest rate swaps due to the loss of hedge accounting for the first six months of 2008 and (ii) favorable currency effects of $1.1 million. These decreases were offset by increased interest rates during the three months ended March 31, 2009 as compared with the three months ended March 31, 2008 resulting from the amendment of our senior credit facility on May 30, 2008.

Foreign Exchange Gain (Loss). For the three months ended March 31, 2009 and 2008, we had a foreign exchange loss of $1.3 million and a foreign exchange gain of $3.5 million, respectively. The gain in 2008 was primarily attributable to mark-to-market gains on fair value hedges, including gains on hedges for which the underlying foreign exchange exposure on certain intercompany debt no longer

existed in the first quarter of 2008, and gains on hedges on future purchases of equipment. Foreign exchange gains and losses during the first quarter of 2009 were primarily the result of hedging and intercompany activities.

Provision for Income Taxes. For the three months ended March 31, 2009 and 2008, the provision for income taxes was $3.9 million and $3.6 million, respectively. The effective tax rate increased for the first quarter of 2009 principally due to the establishment of a valuation allowance in Canada of $2.9 million and to actual operating losses incurred by certain of our foreign subsidiaries and those in the U.S. that had established valuation allowances. The effective tax rate increased for the first quarter of 2008 primarily due to (i) minimal tax benefit recognition on the change in the fair value of our interest rate swaps because of our tax loss carryforward position, (ii) increased profitability in certain of our foreign tax-paying subsidiaries and (iii) actual operating losses incurred by certain of our foreign subsidiaries and those in the U.S. that had established valuation allowances.

LIQUIDITY AND CAPITAL RESOURCES

The Company's 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 continue to decline if paper manufacturers are unable to obtain required financing or if the economic slowdown causes additional mill closures. In addition, the global economic crisis and the ensuing lack of credit availability may affect our customers' ability to pay their debts which could have a negative impact on our Company. These factors would impact our liquidity and our ability to satisfy the covenant requirements of our credit facility.

Our principal liquidity requirements are for debt service, working capital and capital expenditures. We plan to use cash generated by operations as our primary source of liquidity as well as borrowings, if necessary, under the revolving portion of the credit facility to meet normal operating requirements for at least the next twelve months. If expected revenue and profits are not realized, we may not be able to generate enough cash to meet our obligations. In addition, should the current conditions in the global paper market continue or worsen over time, we may not have sufficient cash to fund our operations or meet our other liquidity requirements.

Net cash used in operating activities was $7.8 million for the three months ended March 31, 2009 compared with net cash provided by operating activities of $29.8 million for the three months ended March 31, 2008. The $37.6 million decrease is due to a decrease in the volume of business as a result of the global economic crisis and an increase in working capital during the first quarter of 2009 as compared with the first quarter of 2008 principally due to the level of payment of payables and accruals since December 31, 2008.

Net cash used in investing activities was $5.1 million for the three months ended March 31, 2009 and $12.1 million for the three months ended March 31, 2008. The decrease of $7.0 million was primarily due to a decrease in capital equipment spending of $5.1 million in the three months ended March 31, 2009 as compared with the three months ended March 31, 2008 and the proceeds of $1.9 million from the sale of our Swedish roll covers facility on March 31, 2009.

Net cash provided by financing activities was $6.5 million for the three months ended March 31, 2009 and net cash used in financing activities was $12.1 million for the three months ended March 31, 2008. The fluctuation of $18.6 million was primarily the result of borrowings under our revolver of $28.0 million during the three months ended March 31, 2009, partially offset by higher debt payments of approximately $10 million during the three months ended March 31, 2009 as compared with the three months ended March 31, 2008. We made a mandatory principal repayment of $16.1 million in the first quarter of 2009 as compared with $9.4 million in the first quarter of 2008. The increase is due to the loan agreement requiring us to make such excess payments based on the prior year's Adjusted EBITDA, which during 2008 was impacted by gains of approximately $52 million related to the freezing one of our U.S. pension plans, terminating our U.S. retiree medical plan and the mark to market changes in the fair value of our interest rate swaps, partially offset by approximately $30 million related to increased restructuring expenses and increased noncash reserves. Because none of these events generated any cash, the effect of these actions reduced our available cash.

As of March 31, 2009, there was a $572.0 million balance of term loans outstanding under our senior credit facility. During the first quarter of 2009, we made scheduled principal payments of $4.7 million and a mandatory principal repayment of $16.1 million. In addition, as of March 31, 2009, we had an aggregate of $28.0 million outstanding under our current revolving lines of credit, including the revolving credit facility under our senior credit facility and lines of credit in various foreign countries that are used to facilitate local short-term operating needs and an aggregate of $20.0 million available for additional borrowings under these revolving lines of credit. Our liquidity is substantially affected by the covenant requirements of our credit agreement. See "Credit Facility" below. We had cash and cash equivalents of $27.5 million at March 31, 2009 compared to $34.7 million at December 31, 2008.

CAPITAL EXPENDITURES

For the three months ended March 31, 2009, we had capital expenditures of $7.0 million consisting of growth capital expenditures of $5.0 million and maintenance capital expenditures of $2.0 million. Growth capital expenditures consist of items that are intended to increase the manufacturing, production and/or distribution capacity or efficiencies of our operations in conjunction with the execution of our business strategies. Maintenance capital expenditures are designed to sustain the current capacity or efficiency of our operations and include items relating to the renovation of existing manufacturing or service facilities, the purchase of machinery and equipment for safety and environmental needs and information technology. For the three months ended March 31, 2008, capital expenditures were $12.1 million, consisting of growth capital expenditures of $9.8 million and maintenance capital expenditures of $2.3 million.

In the first quarter of 2008 we began an effort to reduce our planned capital expenditures. As part of this effort, we determined to delay the planned capital expenditures for the Vietnam facility and cancelled or rescheduled certain other previously planned capital expenditures. These cancellations did not result in any substantial penalties for us. In December 2008, we discontinued the construction of the Vietnam facility. While construction of the Vietnam facility has been discontinued, we continue to have contractual obligations with respect to certain equipment which was previously ordered for the facility. We are currently evaluating the possibility of redeploying this equipment to other locations and/or postponing the delivery of the equipment. Due to our assessment of the impact of the global economic crisis and the potential effect on our customers and our industry, we are currently evaluating additional capital expenditures reductions and cost reduction actions to improve long-term operating efficiencies and to better match our production with demand. 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 these amounts. We target capital expenditures for 2009 to be approximately $30 million, and that capital expenditure levels in 2010 will be comparable to those in 2009.

We will require the agreement of our equipment suppliers to postpone delivery of contracted machines to achieve our reduced capital expenditure targets, and there can be no assurance that we will be successful in obtaining such agreements.

See "—Credit Facility" below for a description on limitations on capital expenditures imposed by our credit facility.

CREDIT FACILITY

Upon the completion of the initial public offering of our common stock on May 19, 2005, we and certain of our subsidiaries entered into a senior secured credit facility. The credit facility was amended four times: on February 8, 2006, December 22, 2006, May 2, 2007 and April 8, 2008. The credit facility was amended and restated on May 30, 2008.

The description of the credit facility below describes the facility as amended and restated.

Our credit facility provides for a $50 million senior secured revolving credit facility and for term loans that had a total principal amount of $650 million as of May 2005. Because the term loans include portions denominated in Euros and Canadian dollars, in addition to a U.S. Dollar denominated portion, the aggregate outstanding principal on our term loans is affected by our currency exchange rates as well as principal repayments. The revolving credit facility matures on November 19, 2011, and the term loans mature on May 19, 2012. The credit facility is secured by substantially all of our assets and the assets of most of our subsidiaries, subject to legal and tax considerations and requirements.

Borrowings under the revolving credit facility and the term loans bear interest at the sum of, as applicable, LIBOR, the Euribor rate or CDOR plus, in each case, the applicable margin. The applicable margin was set at 5.50% through December 31, 2008. Beginning January 1, 2009, the applicable margin depends upon our credit rating level: it will be 2.75% if our credit rating is Ba3 or higher by Moody's and BB- or higher by S&P, 3.75% if our credit rating is B1 by Moody's or B+ by S&P, 4.25% if our credit rating is B3 or higher but lower than B1 by Moody's and 'B-' or higher but lower than 'B+' by S&P, and 5.50% if our credit rating is lower than B3 by Moody's or lower than B- by S&P. In order to qualify at each level the rating must be with a stable outlook. Our current credit rating is Caa1 by Moody's and 'B-' by S&P. On September 29, 2008, Standard & Poor's Ratings Services raised its ratings on the Company, including raising the long-term corporate credit rating, from 'CCC+' to 'B-'.

On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. The interest rate swap arrangements effectively fixed the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. These interest rate swaps initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12 million was recorded as a non-cash charge to interest expense in the first quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $0.4 million on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion of $0.4 million was charged to interest expense during the three months ended March 31, 2009. There can be no assurance that in future periods we will be able to assert that the hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting. The new interest rate swaps effectively fix the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. As of March 31, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 6.79%.

The credit facility provides for scheduled quarterly principal payments of the term loans as set out below:

Currency:	USD	Euro	CAD
2009	2,458,174	1,392,040	584,489
2010	3,318,535	1,879,254	789,059
2011	4,055,987	2,296,865	964,406
2012 (first quarter only)	4,916,348	2,784,080	1,168,976

The credit facility provides, that for the purposes of computing debt, which is a part of the calculation of the leverage ratio, indebtedness which is payable in Canadian Dollars or Euros shall be converted into U.S. Dollars using the average exchange rate for the period of four consecutive fiscal quarters ended March 31, 2008. Accordingly, if the value of the U.S. Dollar increases relative to the Euro or the Canadian Dollar and our Adjusted EBITDA declines as a result of this currency effect, there would not be a corresponding decrease in the amount of our debt for purposes of the maximum leverage ratio covenant calculation.

The credit facility also requires us to make additional prepayments of the term loans under the following circumstances:

- with 100% of the net cash proceeds received by us from any sale, transfer or other disposition of any assets (excluding inventory and certain discontinued manufacturing facilities), subject to an exemption for the reinvestment of up to $3 million of such proceeds within a year of our receipt thereof in long-term productive assets of the general type used in our business;
- with 100% of the net cash proceeds received by us from any insurance recovery or condemnation events, subject to certain exceptions and reinvestment rights and exempting the first $2 million;
- with 75% of the net cash proceeds from the issuance of any common stock, subject to customary exceptions and exempting the first $100,000;
- with 100% of the net cash proceeds from the incurrence of any indebtedness by us (excluding indebtedness permitted under the credit facility, but including any subordinated indebtedness), subject to customary exceptions; and
- with 75% of our excess cash on an annual basis; that is, our Adjusted EBITDA minus consolidated interest expense, cash income tax expense, consolidated capital expenditures (subject to certain exceptions), consolidated restructuring costs, cash payments of withholding taxes from proceeds of the repurchase, redemption or retention of common stock and the aggregate amount of scheduled and voluntary payments made during the past fiscal year.

Prior to the effectiveness of the amendment and restatement of our credit facility, the percentage of our annual excess cash required to be prepaid was 40% for 2007, 27.5% for 2008 and 50% for each fiscal year thereafter. We made mandatory principal prepayments from excess cash of $16.1 million and $9.4 million in the first quarters of 2009 and 2008, respectively.

Our credit facility requires that we observe and perform numerous affirmative and negative covenants, including certain financial covenants. The financial covenants per the amended credit facility are now as follows:

Minimum Interest Coverage Ratio:	Four Fiscal Quarters Ending	Ratio
The ratio of four quarter Adjusted EBITDA to interest expense.	March 31, 2009 to March 31, 2010	2.00:1.00
	June 30, 2010 to March 31, 2011	2.25:1.00
	June 30, 2011 to December 31, 2011	2.50:1.00
	March 31, 2012	2.75:1.00

Minimum Fixed Charge Coverage Ratio:	Four Fiscal Quarters Ending	Ratio
The ratio of four quarter Adjusted EBITDA to fixed charges (interest expense, scheduled principal payments, and cash taxes).	March 31, 2009	1.40:1.00
	June 30, 2009 to March 31, 2012	1.20:1.00

Maximum Leverage Ratio:	Four Fiscal Quarters Ending	Ratio
The ratio of outstanding debt to four quarter Adjusted EBITDA.	March 31, 2009	5.50:1.00
	June 30, 2009 and September 30, 2009	5.25:1.00
	December 31, 2009	5.00:1.00
	March 31, 2010 and June 30, 2010	4.75:1.00
	September 30, 2010	4.50:1.00
	December 31, 2010 and March 31, 2011	4.25:1.00
	June 30, 2011 to March 31, 2012	4.00:1.00

For the four fiscal quarters ended March 31, 2009 our interest coverage ratio was 2.67:1, our fixed charge coverage ratio was 1.71:1 and our leverage ratio was 4.27:1.

Our credit facility defines consolidated capital expenditures for a particular fiscal year as all expenditures required under GAAP to be included in "purchase of property and equipment" or similar items. The credit facility limits the amount of our consolidated capital expenditures in any given fiscal year to an amount not exceeding $50 million for fiscal year 2008 and $35 million for each of fiscal years 2009, 2010 and 2011, exclusive of capital expenditures paid with net insurance and condemnation proceeds; provided that the maximum amount of consolidated capital expenditures permitted in each fiscal year shall be increased by 50% of the amount below the maximum not spent in the prior fiscal year (determined without reference to any carryover amount); and provided, further, that solely for fiscal year 2008, the maximum amount that may be carried forward to fiscal year 2009 shall equal 100% of the first $10 million of any permitted consolidated expenditures not expended in fiscal year 2008 plus 50% of any remaining expenditures not expended in fiscal year 2008.

Our credit facility also prohibits the payment of dividends on our common stock.

Our ability to satisfy the covenants required by our credit facility is contingent on our ability to achieve our financial forecasts. These forecasts are based on certain assumptions regarding demand for paper products, the level of paper production and inventories, the number of mills producing paper and the financial health and access to capital of the paper producers. Our forecasts also assume, among other things, (i) that there will be no additional customer bankruptcies other than those for which we have already fully reserved for amounts due, (ii) that product prices will remain substantially stable, (iii) that there will be strong market acceptance of our new products, (iv) that no dramatic commodity price increases will occur, (v) that we will be able to maintain hedge accounting for our interest rate swaps, (vi) that an economic recovery will begin to occur in our primary markets in mid-2009, with the effect of increasing our revenue and profits, (vii) that the value of the Euro relative to the U.S. Dollar increases from its present levels, and (viii) that we will be successful in implementing cost reduction programs, including obtaining agreements from our equipment suppliers to postpone deliveries of contracted equipment.

The paper industry has been hard hit by the global economic downturn, and our forecasts incorporate our expectation that economic conditions in the paper industry will begin to recover in mid-2009. Should conditions in the paper industry fail to improve when we expect, or if the rate of improvement is slower than we anticipate, our business and financial results would be negatively impacted and we may not be able to satisfy the covenant requirements in our credit agreement.

Our failure to comply with the covenants in our credit agreement could result in an event of default, which, if not cured or waived, could result in our being required to repay the amounts outstanding under the credit agreement, together with accrued interest, before their scheduled due date. There can be no assurance that we will be successful in obtaining covenant relief, forbearance or a standstill agreement in the event of non-compliance with the then existing covenants. In light of this risk, and as part of our ongoing focus on enterprise risk management, we are continuing to evaluate market conditions and plan for contingencies, including, without limitation, the potential pursuit of modifications to our credit agreement. There can be no assurance that we will be successful in obtaining any modification of our credit agreement that we may seek to obtain. Any event of default under our credit facility also could cause our interest rate swaps to be terminated or to fail to qualify for hedge accounting and could trigger defaults under our other material agreements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. We have formal accounting policies in place including those that address critical and complex accounting

areas. Note 3 to the consolidated financial statements included elsewhere in this Quarterly 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. On January 1, 2009, we adopted Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No, 161 amends and expands the disclosure requirements of FASB Statement No. 133 ("SFAS No. 133") with the intent 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 under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 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 SFAS No. 133, 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 its risk, even though hedge accounting does not apply or if we elect not to apply hedge accounting under SFAS No. 133.

There are two types of hedges into which we enter: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset or liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction or the variability of cash flows to be paid related to a recognized liability. Changes in derivative fair values are recognized in earnings as offsets to the changes in fair value of the related hedged assets and liabilities. Changes in the derivative fair values that are designated as cash flow hedges which meet the criteria for hedge accounting are recorded in other comprehensive income. On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. These interest rate swaps initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12 million was recorded as a non-cash charge to interest expense in the first quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $0.4 million on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion of $0.4 million was charged to interest expense during the three months ended March 31, 2009. These interest rate swaps effectively fixed the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. As of March 31, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 6.79%. There can be no assurance that in future periods we will be able to assert that the hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting.

Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157") for measuring our derivative assets and liabilities. We have classified our interest rate swaps in Level 2 of the SFAS No. 157 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 trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment.

To comply with the provisions of SFAS No. 157, we incorporated 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. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty's credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty's credit spread is applied to our exposure to the counterparty, and our own credit spread is applied to the counterparty's exposure to us, and the net credit valuation adjustment is reflected in our derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from its publicly-traded debt. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for any significant changes.

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 Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of March 31, 2009, we have assessed the net significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments reduced the settlement values of our derivative liabilities by $6.5 million. Various factors impact changes in the credit are not significant to the overall valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors were deemed immaterial by us as of March 31, 2009. 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 March 31, 2009.

Goodwill. We account for acquired goodwill and intangible assets in accordance with SFAS No. 141, *Business Combinations* ("SFAS No. 141"). Purchase accounting required by SFAS No. 141 involves judgment with respect to the valuation of the acquired assets and liabilities in order to determine the amount of goodwill. We believe that the estimates that we have used to record prior acquisitions are reasonable and in accordance with SFAS No. 141.

Impairment of Goodwill and Indefinite-Lived Intangible Assets. We account for acquired goodwill and goodwill impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). This pronouncement requires considerable judgment in the valuation of acquired goodwill and the ongoing evaluation of goodwill impairment. SFAS No. 142 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.

We perform an annual test for goodwill impairment as of December 31st at the business segment level. We have two business segments: clothing and roll covers. When our business was acquired in 1999, more than 80% of the goodwill was assigned to the roll covers segment 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 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 all tangible and intangible assets, excluding goodwill, 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 business segments based upon the percentage of each segment's revenue to total revenue. Shared expenses are allocated to each segment 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 proprietary information to determine measures that are used to value our business segments. The income approach is a present value technique used to measure the fair value of future cash flows produced by each business segment. Determining the fair value of a business segment 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 SFAS No. 142 are reasonable, but inherently uncertain.

Based on these assessments performed as of December 31, 2008, we determined that no impairment of goodwill exists. The excess of the fair value over the carrying value for our clothing and roll covers segment as of December 31, 2008, the annual test date, was approximately $134 million and $30 million, respectively. In order to evaluate the sensitivity of the analysis performed, we applied a hypothetical 5% decrease to the fair value of these business segments, which resulted in a fair value in excess of carrying value of approximately $110 million and $13 million for the clothing segment and roll covers segment, respectively.

At March 31, 2009, the Company evaluated goodwill and intangible assets for impairment indicators and determined that no impairment exists.

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 SFAS No. 5, *Accounting for 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. During the third quarter of 2008, while evaluating one of our foreign facilities, we discovered the possibility of contamination at the facility. Subsequently we had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to clean up the facility. Based upon this evaluation, we recorded $4.1 million in 2008 as our best estimate of the remediation costs we expect to incur. No expenditures have been made in the first quarter of 2009.

Income Taxes. We utilize the asset and liability method for accounting for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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 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. Relevant evidence, both positive and negative, is considered in determining the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years. In light of our accumulated loss position in certain tax jurisdictions, and the uncertainty of profitability in future periods, we recorded valuation allowances for deferred tax assets primarily related to net operating loss carryforwards in certain tax jurisdictions including the United States and Canada.

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. 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. There are currently no U.S. Federal or state audits or examinations underway. We are currently concluding an audit relating to our German subsidiaries for tax years 1999 through 2002. There are various minor adjustments proposed for which we have established reserves in amounts sufficient to meet any assessment. The Canadian Federal tax authorities contacted us in October of 2008 and have initiated an audit of our Canadian companies. The audit is still in the initial information gathering stages and no issues or assessments have been raised. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS No. 109. FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. 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.

NON-GAAP LIQUIDITY MEASURES

We use EBITDA and Adjusted EBITDA 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. Our credit facility includes covenants based on Adjusted EBITDA. If our Adjusted EBITDA declines below certain levels, we will violate covenants resulting in a default condition under the credit facility or be required to prepay the credit facility. Neither EBITDA nor Adjusted EBITDA should be considered in isolation or as a substitute for net cash provided by operating activities (as determined in accordance with GAAP) or income (loss) from operations (as determined in accordance with GAAP).

EBITDA is defined as net income (loss) before interest expense, income tax provision (benefit) and depreciation and amortization. Adjusted EBITDA is defined in our credit facility and is EBITDA plus (i) restructuring or related impairment costs (not to exceed $5.0 million in the aggregate for 2008 and in each year thereafter, (ii) reserves for inventory in connection with plant closings, (iii) stock-based and other non-cash compensation charges, charges from forgiveness of loans made to employees in connection with the purchase of equity and any tax gross-up payments made in respect of such loan forgiveness in connection with or prior to the completion of our initial public offering, (iv) certain transaction costs, including costs incurred in connection with our initial public offering and the related debt financing, the legal reorganization of Brazilian subsidiaries and the preparation and closing of the existing credit agreement, (v) consolidated amendment/termination costs, which consist of costs incurred in connection with the consummation of the fourth and fifth amendments to the senior credit facility and the termination of the employment contract of the former Chief Executive Officer and transition to the new Chief Executive Officer, not to exceed $8.0 million in the aggregate,

(vi) costs associated with payments to management prior to the completion of our initial public offering in connection with the termination of incentive plans, (vii) non-cash charges resulting from the application of purchase accounting, (viii) non-cash expenses resulting from the granting of stock options, restricted stock or restricted stock unit awards under equity compensation programs solely with respect to our common stock and (ix) expenses incurred not exceeding $7 million per year as a result of the repurchase, redemption or retention of our own common stock earned under equity compensation programs solely in order to make withholding tax payments. For certain historical periods, the amended credit agreement specified Adjusted EBITDA is $35,610, $36,514 and $38,431 for the quarters ended March 31, 2008, December 31, 2007 and September 30, 2007, respectively. For the quarter ended March 31, 2008, the amount reflects an increase of $800 over the originally disclosed amount in the first quarter of 2008, related to the transition to the new Chief Executive Officer. Adjusted EBITDA, as defined in the credit facility and calculated below, may not be comparable to similarly titled measurements used by other companies.

The following table provides a reconciliation from net income (loss), which is the most directly comparable GAAP financial measure, to EBITDA and Adjusted EBITDA.

	Three Months Ended March 31,	
(in thousands)	**2009**	**2008**
Net loss	$ (9,448)	$ (4,709)
Income tax provision	3,892	3,639
Interest expense, net	15,957	25,221
Depreciation and amortization	9,788	12,003
EBITDA	**20,189**	**36,154**
Unrealized foreign exchange gain on indebtedness, net (B)	—	(1,985)
Amendment/termination costs (D)	—	800
Change in fair value of interest rate swaps (C)	(398)	—
Change in fair value of other derivatives	—	(2,126)
Restructuring expenses	114	532
Growth program costs (A)	—	1,764
Inventory write-offs under restructuring programs	103	—
Non-cash compensation and related expenses	161	471
Adjusted EBITDA	**$20,169**	**$35,610**

(A) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 2, 2007, growth programs are those intended to increase productivity and economic efficiency or the market share capacity of the Company, reduce cost structure, improve equipment utilization or provide additional regional capacity to better serve growth markets. These growth program costs for the three months ended March 31, 2008 include expenses incurred for the Company's lean manufacturing initiatives, expansion into Vietnam and other such programs.

(B) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, unrealized foreign exchange gains and losses on indebtedness are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008.

(C) In accordance with the definition of Adjusted EBITDA in our credit facility agreement, as amended on May 30, 2008, interest expense added back to calculate Adjusted EBITDA excludes, for periods beginning after the quarter ended March 31, 2008, the effect of any non-cash gains and losses resulting from the marking to market of hedging obligations that has been charged to interest expense. Had this amended definition been in place for all periods presented, Adjusted EBITDA would have been $12,000 lower for the three months ended March 31, 2008.

(D) Amendment/termination costs include an $800 increase to Adjusted EBITDA for the first quarter of 2008, in accordance with the agreement with our lenders.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 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 $3.6 million at March 31, 2009. These contracts mature at various dates through March 2010.

Relative to foreign currency exposures existing at March 31, 2009, a 10% unfavorable movement in foreign currency exchange rates would not expose us to significant losses in earnings or cash flows because we hedge substantially all of our exposures against fluctuations in foreign currency exchange rates. As of March 31, 2009, we had open foreign currency exchange contracts maturing through March 2010 with total net notional amounts of approximately $5.7 million. At March 31, 2009, we prepared an analysis to determine the sensitivity of our forward foreign exchange contracts to changes in exchange rates. A hypothetical adverse exchange rate movement of 10% against our forward foreign exchange contracts would have resulted in potential net loss in fair value of these contracts of approximately $0.6 million. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar. In addition to the direct effects of changes in exchange rates, such changes typically 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. Our senior credit facility has a variable interest rate. On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. These interest rate swaps initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12 million was recorded as a non-cash charge to interest expense in the first quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. As a result, the mark to market changes of $0.4 million on these interest rate swaps were charged to accumulated other comprehensive income and the related ineffective portion of $0.4 million was charged to interest expense during the three months ended March 31, 2009. The interest rate swaps effectively fix the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. As of March 31, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 6.79%. There can be no assurance that in future periods we will be able to assert that the hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting.

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As a result of the amendment of our senior credit facility agreement on May 30, 2008, the applicable margin for LIBOR term loans, LIBOR revolving loans, Euribor loans and CDOR loans under our senior credit facility increased from 2.75% to 5.50%. We estimate that a 1% increase in the LIBOR rate would increase our interest expense on the term debt by approximately $0.9 million on an annual basis through December 31, 2010, the period covered by the interest rate swap agreements.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures*. We have carried out an evaluation, as of March 31, 2009, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Act”). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms; and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. No evaluation of disclosure controls and procedures can provide absolute assurance that these controls and procedures will operate effectively under all circumstances. However, the Company’s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures are effective at the reasonable assurance level as set forth above.

(b) *Changes in Internal Control over Financial Reporting*. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On June 7, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of a putative class of investors who purchased shares pursuant or traceable to our initial public offering on or about May 16, 2005 through November 15, 2005 against the us, our former Chief Executive Officer and our Chief Financial Officer. An amended complaint was filed on November 3, 2006. On November 3, 2008, we agreed to a settlement with the plaintiffs, without admitting liability of any kind. On February 25, 2009, the Court entered a judgment granting final approval of the settlement. The settlement amount above the deductible was covered by our Directors and Officers insurance and did not have a material adverse effect on our financial position, results of operations or cash flow in 2008 or 2009.

We are involved in various legal matters, which have arisen in the ordinary course of business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our financial position, results of operations or cash flow.

ITEM 1A. RISK FACTORS

The risks described in the risk factors included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 have not materially changed. However, our served market has deteriorated substantially from the decline in paper demand related to slowing global economic activity, which may substantially reduce our revenue, Adjusted EBITDA and cash flows and increase the potential of a loan covenant default.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Restrictions on Payment of Dividends

For a description on restrictions imposed by Delaware law and our credit agreement on our payment of dividends, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Credit Facility.”

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility.”

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 5. OTHER INFORMATION.

On May 5, 2009, the Board of Directors of Xerium Technologies, Inc. (the “Company”) appointed Stephen R. Light, the Company’s President, Chief Executive Officer and Chairman, to serve as the Company’s interim principal financial officer while the Company continues its search for a permanent Chief Financial Officer.

Biographical and other information regarding Mr. Light can be found in the Company’s proxy statement for the 2009 Annual Meeting of Stockholders, filed with the Securities and Exchange Commission on April 29, 2009.

ITEM 6. EXHIBITS

See the exhibit index following the signature page to this quarterly report.

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SIGNATURES

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

XERIUM TECHNOLOGIES, INC.
(Registrant)

Date: May 7, 2009

By: /s/ Stephen R. Light
Stephen R. Light
President, Chief Executive Officer and Chairman
(Principal Executive Officer, Interim Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
10.1	Settlement Agreement with Josef Mayer, dated January 15, 2009.
10.2	Description of Compensation for Non-Management Directors.
31.1	Certification Statement of Chief Executive Officer and Interim Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Statement of the Chief Executive Officer and Interim Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.1

ABWICKLUNGSVEREINBARUNG

Zwischen

Xerium Germany Holding GmbH
Föhrstraße 39, 72760 Reutlingen

- „Gesellschaft" -

und

Josef Mayer
Hölderlinstrasse 20, 89134 Blaustein

- „Geschäftsführer" -

wird folgende Vereinbarung geschlossen:

1. Die Gesellschaft hat das Dienstverhältnis des Geschäftsführers mit Schreiben vom 16. Juni 2008 zum 30. Juni 2009 ordentlich gekündigt.

2. Der Geschäftsführer hat den ihm zustehenden Resturlaub im Zeitraum seit dem 1. Juli 2008 genommen. Die Parteien sind sich einig, dass der Geschäftsführer damit seinen gesamten ihm bis zum 15. Januar 2009 zustehenden Urlaub genommen hat. Ferner wurde der Geschäftsführer von seiner Dienstverpflichtung freigestellt.

SETTLEMENT AGREEMENT

Between

- "Company" -

and

-"Managing Director"-

the following Agreement is made:

1. The Company has terminated with regular notice of termination dated June 16, 2008 the Managing Director's service relationship effective as of June 30, 2009.

2. The Managing Director has taken his outstanding vacation since July 1, 2008. The parties agree that with this the Managing Director has taken all vacation due to him until January 15, 2009. Furthermore, the Managing Director has been released from his obligation to work.

3. Der Geschäftsführer wurde mit Gesellschafterbeschluss vom 16. Juni 2008 mit sofortiger Wirkung von seinem Amt abberufen. Ebenso hat er seine Ämter als Vice-President von Xerium Technologies, Inc., und Mitglied des Aufsichtsrats der Huyck.Wangner Austria GmbH niedergelegt. Sein Amt als Mitglied des Aufsichtsrats der Stowe Woodward AG hat er bereits am 9. Juli 2008 niedergelegt. Der Geschäftsführer wird auch alle sonstigen Positionen und Ämter in der Xerium-Gruppe niederlegen, sofern noch nicht geschehen.

4. Die Parteien kommen nunmehr überein, dass das Dienstverhältnis vorzeitig mit Wirkung zum 15. Januar 2009 aufgehoben wird.

5. Die Parteien sind sich einig, dass das vereinbarte nachvertragliche Wettbewerbsverbot nur noch bis zum 30. Juni 2009 Gültigkeit hat, danach aufgehoben wird, der Geschäftsführer nach dem 30. Juni 2009 in Wettbewerb zur Gesellschaft treten darf und die Gesellschaft für die Zeit nach dem 30. Juni 2009 keine Karenzentschädigung zu zahlen hat.

   Die Parteien sind sich jedoch ebenfalls darüber einig, dass eine Wettbewerbstätigkeit im Sinne des aufgehobenen Wettbewerbsverbots jedenfalls bis zum 30. Juni 2009 nicht

3. The Managing Director's appointment was revoked by shareholder resolution dated June 16, 2008 with immediate effect. He has also resigned from his offices Vice President of Xerium Technologies, Inc., and member of the supervisory board of Huyck.Wangner Austria GmbH. He also resigned from his office as member of the supervisory board of Stowe Woodward AG on July 9, 2008. The Managing Director will, furthermore, resign from any other position or post he may hold within the Xerium Group, if this has not yet been made.

4. The Parties now agree that the service agreement shall end at the lapse of January 15, 2009.

5. The parties agree that the agreed post-contractual non-compete obligation shall be valid only until June 30, 2009, is waived after that date, that the Managing Director may unfold activities competing with the Company after June 30, 2009 and the Company is not obliged to pay compensation for the time after June 30, 2009.

   The parties also agree, however, that at any rate any competing activity in the meaning of the waived post-contractual non-compete obligation shall not be permissible until June 30, 2009.

zulässig ist. Für die Zeit vom 16. Januar 2009 bis zum 30. Juni 2009 wird ihm zum Ausgleich für den Verzicht auf Wettbewerbstätigkeit eine monatliche Karenzentschädigung in Höhe von 80% (achtzig Prozent) (= EUR 18.333,34) brutto seines letzten Bruttogehaltes gezahlt. Die Gesamtsumme von (5,5 x EUR 18.333,34 =) EUR 100.833,34 brutto wird als Einmalzahlung gezahlt; der sich ergebende Nettobetrag wird zum Ende April 2009 fällig.

6. Bis zum Beendigungsdatum (15. Januar 2009) erhält der Geschäftsführer seine vertragliche Vergütung in Höhe von EUR 22.916,67 brutto pro Kalendermonat.

Für das ganze Kalenderjahr 2008 nimmt der Geschäftsführer gemäß seinem Dienstvertrag am „MIC Bonus Program 2008" (= „Executive Incentice Plan") teil. Eine Auszahlung, sofern sie vorzunehmen ist, wird nach den Regelungen des „MIC Bonus Program 2008" vorgenommen. Für 2009 steht dem Geschäftsführer kein Bonus zu.

Gemäß den Regelungen des MIC Bonus Plan 2008 wird die Gesellschaft den Geschäftsführer über seine Ansprüche nach diesem Executive Incentive Plan informieren, sobald diese

For the time period from January 16, 2009 until June 30, 2009, he shall receive as compensation for abstaining from competing activities a monthly compensation in the amount of 80% (eighty percent) (= EUR 18,333.34) gross of his last gross salary. The overall sum of (5.5 x EUR 18,333.34 =) EUR 100,833.34 gross shall be paid as lump sum; the resulting net amount shall be due at the end of April 2009.

6. Until Termination Date (January 15, 2009) the Managing Director shall receive his contractual base salary in the amount of EUR 22,916.67 gross per calendar month.

For the full calendar year 2008 the Managing Director shall participate in accordance with this Service Contract in the "MIC Bonus Program 2008" (= "Executive Incentice Plan"). A payment, if any, will be made in accordance with the "MIC Bonus Program 2008. For 2009 the Managing Director shall not be entitled to a bonus.

In accordance with the provisions of the MIC Bonus Program 2008 the company undertakes to inform the Managing Director about his entitlement under the Executive Incentive Plan as soon as the

Vergünstigungen an die anderen Berechtigten ausgezahlt oder gewährt werden. Die Berechnungsgrundlagen für die Berechnung der dem Geschäftsführer zustehenden Ansprüche müssen identisch sein mit den Berechnungsgrundlagen für die anderen Berechtigten in vergleichbarer Stellung.

7. Der Geschäftsführer wird unverzüglich eine abschließende Reisekostenabrechnung einreichen. Unter Anrechnung etwaig gezahlter Vorschüsse wird die Gesellschaft sodann abrechnen. Überzahlte Vorschüsse sind umgehend an die Gesellschaft zu erstatten.

8. Der Geschäftsführer gibt alle der Gesellschaft oder einem mit ihr verbundenen Unternehmen zustehenden Gegenstände unverzüglich nach Abschluss dieser Vereinbarung an deren Geschäftssitz zu Händen Jutta Gonell zurück, insbesondere:

- Kreditkarten,
- Büroschlüssel,
- sämtliche Geschäftsunterlagen und Kopien hiervon, gleich auf welchem Datenträger

Den Dienstwagen kann der Geschäftsführer jedoch noch bis zum Beendigungsdatum (15. Januar 2009) im bisherigen Umfang privat nutzen. Zum Beendigungsdatum hat er ihn

incentives are paid or granted to the other executives. The metrics that are used for the calculation of the entitlement of the Managing Director under the Executive Incentive Plan must be identical than those metrics used for the determination of the bonus of the other executives in a comparable position.

7. The Managing Director shall immediately submit a complete final travel expense report. The Company shall then settle the accounts upon crediting any advances which may have been paid. Overpaid advances are to be paid back to the Company immediately.

8. The Managing Director shall return all items pertaining to the Company or any of its affiliates at the location of its business offices without delay after conclusion of this Agreement to the attention of Jutta Gonell, in particular:

- credit cards,
- office keys,
- all business documents and copies thereof, irrespective of the data carrier

The Managing Director may, however, continue to use the company car privately to the previous extent until Termination Date (January 15, 2009). By Termination Date he will return it in

dann zu Händen von Jutta Gonell in ordnungsgemäßem Zustand nebst sämtlichen Papieren und Schlüsseln zurückzugeben.

Ein Zurückbehaltungsrecht an vorgenannten Gegenständen steht dem Geschäftsführer nicht zu.

9. Die Gesellschaft erteilt dem Geschäftsführer ein wohlwollendes, qualifiziertes Zeugnis.

10. Der Geschäftsführer ist auch über das Beendigungsdatum hinaus verpflichtet, alle ihm anvertrauten oder sonst bekannt gewordenen geschäftlichen, betrieblichen, technischen oder sonstigen Informationen, die sich auf die Gesellschaft oder verbundene Gesellschaften beziehen und vertraulichen Charakter haben, Dritten nicht zu offenbaren. Er sichert zu, Stillschweigen über den Inhalt dieser Vereinbarung gegenüber jedermann zu wahren, es sei denn, dass er gesetzlich zur Auskunft verpflichtet oder die Auskunft aus steuerlichen oder sozialversicherungsrechtlichen Gründen erforderlich ist.

11. Dem Geschäftsführer ist bekannt, dass die Gesellschaft keine verbindlichen Auskünfte über sozialversicherungs- oder steuerrechtliche Konsequenzen dieser Vereinbarung geben kann, sondern die zuständigen Behörden hierzu berufen und verpflichtet sind.

proper condition, including all documents and keys to the attention of Jutta Gonell.

The Managing Director shall have no right of retention to the above-mentioned items.

9. The Company shall provide the Managing Director with a favorable, qualified reference.

10. The Managing Director is obliged, even after the Termination Date, not to disclose to any third party any confidential business, company, technical or other information relating to the Company or its affiliates which has become known to him or with which he was entrusted during the term of his employment. The Managing Director shall keep confidential the contents of this Agreement unless he is obliged by statutory laws to divulge such information or the information is required for tax or social security purposes.

11. The Managing Director is aware that the Company is not competent to give binding information about the legal consequences of this Agreement under social or tax law, but that the appropriate authorities are competent and obliged to give such information.

Die Gesellschaft weist den Geschäftsführer auf seine Verpflichtung hin, sich unverzüglich bei der für ihn zuständigen Agentur für Arbeit arbeitssuchend zu melden sowie sich frühzeitig vor Beendigung des Dienstverhältnisses eigenverantwortlich um neue Beschäftigung zu bemühen.

The Company points out to the Managing Director that he is obliged to immediately register as a job-seeker with the appropriate Labor Authority and to look at his own responsibility for a new occupation in good time prior to the end of his service relationship.

12. Mit dieser Vereinbarung möchten die Parteien ihre gesamten Rechtsbeziehungen regeln. Sie sind sich darüber einig, dass mit Ausnahme der vorgenannten Ansprüche wechselseitig aus und im Zusammenhang mit dem Anstellungsverhältnis und seiner Beendigung keine weiteren Ansprüche mehr bestehen, gleich aus welchem Rechtsgrund, ob bekannt oder unbekannt und unabhängig vom Zeitpunkt des Entstehens. Hiervon ausgenommen sind unverzichtbare Rechte.

12. With this Agreement, the Parties intend to regulate their entire legal relationship. The parties agree that, with the exception of the above-mentioned claims, neither party hereto shall have any further rights or claims against the other party resulting from and in connection with the employment relationship and its termination, be they known or unknown, of whatever kind and irrespective of the date on which they originate. Not included hereunder are non-forfeitable rights.

13. Hinsichtlich dem Geschäftsführer gewährten Anteilen, RSUs oder ähnlichen Rechten sind sich die Parteien einig, dass sich mögliche Ansprüche des Geschäftsführers in diesem Zusammenhang ausschließlich gegen Xerium Technologies, Inc. („Xerium”) richten und dass die Gesellschaft dafür nicht haftet. Diese Ansprüche bleiben von dieser Aufhebungsvereinbarung unberührt. Dieser Aufhebungsvertrag enthält keinerlei Verzichte auf Ansprüche , die der Geschäftsführer im Hinblick auf die vorgenannten RSU hat.

13. With respect to equity, RSUs or similar rights granted to the Managing Director the parties agree that possible entitlements in this context would exclusively be directed against Xerium Technologies, Inc. (“Xerium”) and that the Company is not in any way liable. These rights remain unaffected and nothing in this agreement shall be interpreted as a waiver of any rights that the Managing Director has in respect of the afore mentioned RSU.

Zu solchen Rechten gilt folgendes:

a. 3.333 Einheiten nach der zeitabhängigen Anteilseinheiten-Vereinbarung vom 3. Januar 2008 zwischen Xerium und dem Geschäftsführer, die sich ursprünglich auf 20.000 Einheiten bezog (die „GF 2008 Zeitabhängige RSU") werden unverfallbar („vested") mit Abschluss dieser Vereinbarung, und alle übrigen Einheiten nach der GF 2008 Zeitabhängige RSU werden mit Abschluss dieser Vereinbarung aufgehoben; vorausgesetzt, dass die Ausgabe von Anteilen für diesen unverfallbaren Teil aufgeschoben wird, bis dass die Anteilseigner von Xerium der Planänderung (definiert gemäß GF 2008 Zeitabhängige RSU) zugestimmt haben, und weiterhin vorausgesetzt, dass keine Ausgabe von Anteilen für den unverfallbaren Teil stattfindet, wenn die Zustimmung nicht im oder vor der jährlichen Hauptversammlung der Anteilseigner für 2008 erteilt wird.

With respect to such rights the following shall apply:

a. 3,333 units under that certain time based restricted stock units agreement dated January 3, 2008 by and between Xerium and the Managing Director which originally related to 20,000 units (the "MD 2008 Time Based RSU"), shall become vested as of the date hereof and all other units under the MD 2008 Time Based RSU are cancelled as of the date hereof; provided that the issuance of shares in respect of such vested portion shall be delayed until the stockholders of Xerium have approved the Plan Amendment (as defined in the MD 2008 Time Based RSU) and provided further that there shall be no issuance of shares in respect of such vested portion if such approval is not obtained at or before Xerium's 2008 annual meeting of stockholders.

b. Alle 20.000 Einheiten nach der Vereinbarung über Anteilseigner-renditeabhängige beschränkte Anteilseinheiten vom 3. Januar 2008 zwischen Xerium und dem Geschäftsführer sind mit Abschluss dieser Vereinbarung verfallen und aufgehoben.

c. Alle 41.500 Einheiten nach der Vereinbarung über Anteilseigner-renditeabhängige beschränkte Anteilseinheiten vom 16. Mai 2007 bleiben nach ihren Regelungen bis zum 30. Juni 2009 ausstehend und verfallen und sind aufgehoben ab dem 30. Juni 2009, insoweit sie nicht am oder bis zum 30. Juni 2009 unverfallbar (wie in der Zuteilung definiert) sind (wobei vorausgesetzt wird, dass ohne den Eintritt einer Covered Transaction (wie sie in der Zusage definiert wird) vor dem 30. Juni 2009 und unter Erfüllung weiterer Bedingungen kein Teil der Zuteilung zum 30. Juni 2009 unverfallbar wird).

d. Alle 62.500 Einheiten nach der Vereinbarung über Anteilseigner-renditeabhängige

b. All 20,000 units under that certain shareholder return based restricted stock units agreement dated January 3, 2008 by and between Xerium and the Managing Director are forfeited and cancelled as of the date hereof.

c. All 41,250 units under that certain shareholder return based restricted stock units agreement dated May 16, 2007 shall remain outstanding in accordance with its terms until June 30, 2009 and shall be forfeited and cancelled effective June 30, 2009 to the extent not Vested (as defined in such award) as of or prior to June 30, 2009 (it being understood that absent the occurrence of a Covered Transaction (as defined in such award) prior to June 30, 2009 and the satisfaction of certain other conditions, no portion of such award will be Vested as of June 30, 2009).

d. All 62,500 units under that certain shareholder return based restricted stock units

beschränkte Anteilseinheiten vom 19. Mai 2005 bleiben nach ihren Regelungen bis zum 19. Mai 2009 ausstehend, und sie verfallen und sind aufgehoben mit Wirkung zum 19. Mai 2009, soweit sie nicht am oder bis zum 19. Mai 2009 unverfallbar (wie in der Zuteilung definiert) sind.

agreement dated May 19, 2005 shall remain outstanding in accordance with its terms until May 19, 2009 and shall be forfeited and cancelled effective May 19, 2009 to the extent not Vested (as defined in such award) as of or prior to May 19, 2009.

Soweit in dieser Ziffer 13 nicht anders vorgesehen, hat der Geschäftsführer keine weiteren Ansprüche gegen Xerium oder eine verbundene Gesellschaft im Zusammenhang mit Anteilsgewährungen nach dem 2005 Equity Incentive Plan oder aus anderen Gründen.

Except as set forth in this clause 13, the Managing Director shall have no further rights against Xerium or an affiliated entity with respect to equity awards of Xerium under its 2005 Equity Incentive Plan or otherwise.

14. Der Geschäftsführer nimmt seine Klage vor dem Landgericht Tübingen zum Az. 2 O 191/08 zurück. Beide Parteien tragen ihre Anwaltskosten selbst; die Gerichtskosten werden hälftig geteilt.

14. The Managing Director will abandon the lawsuit brought before the Regional Court Tübingen (docket no 2 O 191/08). Each party shall bear the cost of its lawyer itself; the court fees shall be shared equally by each party.

15. Im Zweifelsfall hat die deutsche Fassung Vorrang

15. In case of doubt, the German version shall prevail.

1-19-09

Ort, Datum/Place, Date

/s/ Stephen R. Light

Gesellschaft/Company
Xerium Technologies Limited,
represented by Stephen R. Light, director

Blaustein 15.01.09

Ort, Datum/Place, Date

/s/ Josef Mayer

Geschäftsführer/Managing Director

Bezüglich Ziffern 3, 6 und 13 zugestimmt und einverstanden:	**With respect to clause 3, 6 and 13 agreed and accepted:**

____

Ort, Datum/Place, Date

/s/ Stephen R. Light

____

Xerium Technologies, Inc.
vertreten durch/represented by
Stephen R. Light, Chief Exectuive Officer

Exhibit 10.2

Xerium Technologies, Inc.
Description of Compensation for Non-Management Directors

Effective March 2009

Cash Compensation

Non-management directors receive an annual cash retainer of $30,000. The chairman of the Audit Committee also receives additional cash compensation at an annual rate of $10,000 per year, and the chairman of the Compensation Committee and the chairman of the Nominating and Governance Committee each receive additional cash compensation at an annual rate of $5,000 per year. These amounts are payable quarterly in arrears promptly following the end of the quarter. Directors are also reimbursed for out-of-pocket expenses for attending board and committee meetings.

Equity Compensation

Non-management directors also receive equity-based compensation in the form of a grant of restricted stock units following the annual meeting to stockholders in recognition of their services for the ensuing year. The number of restricted stock units granted to each non-management director is calculated by dividing $40,000 by the average closing price per share of the Company's common stock over the 20 trading days prior the annual meeting of stockholders. The restricted stock units shall be granted promptly after the 20-trading day period runs.

Dividends, if any, in respect of these restricted stock units are paid at the same rate as dividends on the Company's common stock but are paid only in the form of additional restricted stock units. The restricted stock units are fully vested at grant. Upon the termination of the director's service on the Company's board, such director is entitled to receive the number of shares of common stock that equals the number of restricted stock units the director has earned.

Exhibit 31.1

I, Stephen R. Light, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerium Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

/s/ Stephen R. Light

Stephen R. Light
President, Chief Executive Officer and Chairman
(Principal Executive Officer, Interim Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal executive officer and interim principal financial officer of Xerium Technologies, Inc. (the "Company"), does hereby certify that, to his knowledge:

1) the Company's Form 10-Q for the period ended March 31, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the period ended March 31, 2009, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen R. Light

Stephen R. Light
President, Chief Executive Officer and Chairman
(Principal Executive Officer, Interim Principal Financial Officer)

Dated: May 7, 2009

<u>EXHIBIT D</u>

XERIUM'S FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the Quarterly Period Ended June 30, 2009

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.)**
8537 Six Forks Road Suite 300 Raleigh, North Carolina	**27615**
(Address of principal executive offices)	**(Zip Code)**

(919) 526-1400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of August 3, 2009 was 48,934,820.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Xerium Technologies, Inc.
Condensed Consolidated Balance Sheets—(Unaudited)
(dollars in thousands, except per share data)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,396	$ 34,733
Accounts receivable (net of allowance for doubtful accounts of $11,730 at June 30, 2009 and $14,937 at December 31, 2008)	77,331	94,049
Inventories	86,259	85,543
Prepaid expenses	6,879	4,844
Other current assets	10,782	14,938
Total current assets	201,647	234,107
Property and equipment, net	383,222	384,590
Goodwill	153,604	155,205
Intangible assets	28,309	32,129
Other assets	5,061	5,541
Total assets	$ 771,843	$ 811,572
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	$ 28,000	$ —
Accounts payable	30,172	53,076
Accrued expenses	65,268	83,139
Current maturities of long-term debt	27,444	39,687
Total current liabilities	150,884	175,902
Long-term debt, net of current maturities	563,308	577,270
Deferred and long-term taxes	13,028	13,358
Pension, other postretirement and postemployment obligations	66,361	67,029
Other long-term liabilities	4,625	5,594
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, $0.01 par value, 1,000,000 shares authorized; no shares outstanding as of June 30, 2009 and December 31, 2008	—	—
Common stock, $0.01 par value, 150,000,000 shares authorized; 48,934,820 and 46,257,772 shares outstanding as of June 30, 2009 and December 31, 2008, respectively	489	463
Paid-in capital	220,621	220,370
Accumulated deficit	(226,762)	(218,915)
Accumulated other comprehensive loss	(20,711)	(29,499)
Total stockholders' deficit	(26,363)	(27,581)
Total liabilities and stockholders' deficit	$ 771,843	$ 811,572

See accompanying notes.

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Xerium Technologies, Inc.
Condensed Consolidated Statements of Operations – (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	$ 120,843	$ 170,393	$ 237,346	$ 329,380
Costs and expenses:				
Cost of products sold	75,225	101,595	147,436	197,250
Selling	16,075	21,847	32,583	42,312
General and administrative	6,464	23,367	19,672	42,057
Restructuring and impairments	1,026	2,718	1,140	3,250
Research and development	2,740	3,196	5,460	6,199
	101,530	152,723	206,291	291,068
Income from operations	19,313	17,670	31,055	38,312
Interest expense	(15,934)	(1,135)	(32,248)	(26,550)
Interest income	364	369	721	563
Foreign exchange gain (loss)	555	(875)	(786)	2,634
Income (loss) before provision for income taxes	4,298	16,029	(1,258)	14,959
Provision for income taxes	2,697	1,911	6,589	5,550
Net income (loss)	$ 1,601	$ 14,118	$ (7,847)	$ 9,409
Net income (loss) per share:				
Basic	$ 0.03	$ 0.31	$ (0.16)	$ 0.20
Diluted	$ 0.03	$ 0.31	$ (0.16)	$ 0.20
Shares used in computing net income (loss) per share:				
Basic	48,882,979	46,121,323	48,879,669	46,084,995
Diluted	48,971,375	46,211,012	48,879,669	46,189,813

See accompanying notes.

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Xerium Technologies, Inc.
Condensed Consolidated Statements of Cash Flows—(Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2009	**2008**
Operating activities		
Net income (loss)	$ (7,847)	$ 9,409
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Stock-based compensation	1,046	274
Depreciation	18,752	22,152
Amortization of intangibles	1,166	1,807
Deferred financing cost amortization	2,694	2,344
Unrealized foreign exchange gain on revaluation of debt	(570)	(1,476)
Deferred taxes	1,439	(3,012)
Asset impairment	—	67
Gain on disposition of property and equipment	(2,016)	(269)
Change in fair value of interest rate swaps	794	(1,548)
Provision for bad debt expense	(3,209)	(71)
Change in assets and liabilities which provided (used) cash:		
Accounts receivable	21,336	7,642
Inventories	1,294	859
Prepaid expenses	(1,963)	(2,891)
Other current assets	3,841	(4,722)
Accounts payable and accrued expenses	(42,607)	11,459
Deferred and other long-term liabilities	(1,668)	(1,012)
Net cash (used in) provided by operating activities	(7,518)	41,012
Investing activities		
Capital expenditures, gross	(11,115)	(20,886)
Proceeds from disposals of property and equipment	4,001	1,033
Proceeds from acquisition, net of cash acquired	—	144
Other	1,100	—
Net cash used in investing activities	(6,014)	(19,709)
Financing activities		
Net increase in borrowings (maturities of 90 days or less)	28,000	168
Proceeds from borrowings (maturities longer than 90 days)	—	349
Principal payments on debt	(29,057)	(13,500)
Other	—	(8,744)
Net cash used in financing activities	(1,057)	(21,727)
Effect of exchange rate changes on cash flows	252	1,594
Net (decrease) increase in cash	(14,337)	1,170
Cash and cash equivalents at beginning of period	34,733	24,218
Cash and cash equivalents at end of period	$ 20,396	$ 25,388

See accompanying notes.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

1. Company History

Xerium Technologies, Inc. (the "Company") is a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper – clothing and roll covers. Operations are strategically located in the major paper-making regions of the world, including North America, Europe, South America and Asia-Pacific.

2. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, such financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. The interim results presented herein are not necessarily indicative of the results to be expected for the entire year. In management's opinion, these unaudited condensed consolidated interim financial statements contain all adjustments of a normal recurring nature necessary for a fair presentation of the financial statements for the interim periods presented. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008 as reported on Form 10-K filed on March 12, 2009.

3. Accounting Policies

Derivatives and Hedging

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement No. 133 ("SFAS No. 133") with the intent 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 under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 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 SFAS No. 133, 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 transactions in a cash flow hedge.

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3. Accounting Policies—(continued)

Derivatives and Hedging—(continued)

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 SFAS No. 133.

Goodwill

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). SFAS No. 142 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. As a result of the tests as of December 31, 2008, the Company determined that no goodwill impairment existed. As of June 30, 2009, the Company evaluated events and circumstances which may have indicated an impairment of goodwill and other intangible assets and determined that no impairment exists.

Net Income (Loss) Per Common Share

Net income (loss) per common share has been computed and presented pursuant to the provisions of SFAS No. 128, *Earnings per Share* ("SFAS No. 128"). Net income (loss) per share is based on the weighted-average number of shares outstanding during the period. As of June 30, 2009 and 2008, the Company had outstanding restricted stock units ("RSUs") (see Note 14).

For the three months ended June 30, 2008, the diluted average shares outstanding were computed using the average market price for time-based RSUs granted in 2005 and certain time-based RSUs granted in 2008 and the actual grant date market price for non-employee director RSUs. The calculation of earnings per share for the three and six months ended June 30, 2008 also excludes time-based and performance-based RSUs that were approved on January 3, 2008 as these awards were made contingent upon the approval by the Company's stockholders at or before the Company's 2008 annual meeting of stockholders of an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 5,000,000. On August 6, 2008, at the Company's 2008 annual meeting of stockholders, the stockholders approved an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 7,500,000. The calculation of diluted earnings per share for 2008 also excludes the Company's performance-based RSUs granted in 2005 and 2007 that are based on shareholder return targets because the performance criteria have not been contingently achieved and therefore the RSUs are not contingently issuable.

For the three months ended June 30, 2009, the diluted average shares outstanding were computed using the average market price for time-based RSUs granted in 2008 and 2009 and the actual grant date market price for non-employee director RSUs. The calculation of diluted earnings per share for the three and six months ended June 30, 2009 excludes the Company's performance-based RSUs granted in 2005, 2007, 2008 and 2009 that are based on shareholder return targets because the performance criteria have not been contingently achieved and therefore the RSUs are not contingently issuable. For the six months ended June 30, 2009, the Company excluded the dilutive impact of potential future issuances of common stock underlying the Company's RSUs from the calculation of diluted average shares outstanding because their effect would have been antidilutive as the Company had a net loss for this period.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

Net Income (Loss) Per Common Share—(continued)

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Weighted-average common shares outstanding—basic	48,882,979	46,121,323	48,879,669	46,084,995
Dilutive effect of stock-based compensation awards outstanding	88,396	89,689	—	104,818
Weighted-average common shares outstanding—diluted	48,971,375	46,211,012	48,879,669	46,189,813

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

New Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* ("SFAS No. 168"). SFAS No. 168 is effective for interim periods ending after September 15, 2009 and identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The objective of this statement is to replace SFAS No. 162 and to establish the FASB Accounting Standards Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Company believes that the adoption of SFAS No. 168 will have no material impact on its results of operations, financial position or cash flows.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS No. 167"), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). SFAS No. 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and the Company believes that the adoption of SFAS No. 167 will have no material impact on its results of operations, financial position or cash flows.

In June 2009, the FASB issued FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140* ("SFAS No. 166"). SFAS No. 166 is intended to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. SFAS No. 166 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company believes that the adoption of SFAS No. 166 will have no material impact on its results of operations, financial position or cash flows.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

New Accounting Standards—(continued)

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS No. 165"). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. The adoption of SFAS No. 165 had no material impact on its results of operations, financial position or cash flows. The Company has evaluated subsequent events through August 6, 2009, which represents the date the Company's Form 10-Q for the quarter ended June 30, 2009 was filed with the Securities and Exchange Commission.

In April 2009, the FASB issued Staff Position SFAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP FAS 107-1"). FSP 107-1 requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP 107-1 had no material impact on the Company's results of operations, financial position or cash flows. See Note 6 for further discussion.

Effective January 1, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS No. 161). See "Derivatives and Hedging" above. The Company's adoption of SFAS No. 161 did not have a material effect on its financial position or results of operations.

Effective January 1, 2008, the Company partially adopted SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), for measuring its derivative assets and liabilities. See further discussion at Note 4 "Derivatives and Hedging". FASB Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, permits the Company to defer the recognition and measurement of its nonfinancial assets and nonfinancial liabilities until January 1, 2009. At January 1, 2009, the Company did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. SFAS No. 141R amends SFAS No. 109, *Accounting for Income Taxes*, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. On January 1, 2009, the Company adopted SFAS No. 141R, which is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 141R had no impact on the Company's financial statements.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

New Accounting Standards—(continued)

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS No. 160"), an amendment of Accounting Research Bulletin ("ARB") No. 51 ("ARB No. 51"). SFAS No. 160 clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for, and reporting of, transactions between the reporting entity and holders of such noncontrolling interests. On January 1, 2009, the Company adopted SFAS No. 160, which is effective for the first annual reporting period beginning on or after December 15, 2008. SFAS No. 160 is required to be adopted prospectively, except for reclassifying noncontrolling interests to equity, separate from the parent's shareholders' equity, in the consolidated statement of financial position and recasting consolidated net income (loss) to include net income (loss) attributable to both the controlling and noncontrolling interests, both of which are required to be adopted retrospectively. Since essentially all of the Company's subsidiaries are 100% owned, the adoption of SFAS No. 160 did not have a significant impact to its financial statements.

4. 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. 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. Specifically, the Company has entered into interest rate swaps to hedge variable interest related to its senior debt and foreign exchange contracts to protect the value of certain assets and obligations.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in 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 primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

Based on interest rates as of June 30, 2009, amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the twelve months ended June 30, 2010, the Company estimates, based on interest rates as of June 30, 2009, that $13,595 will be reclassified as a charge to interest expense. As of June 30, 2009, the Company effectively fixed the variable interest rate on approximately 84% of the term loan portion of the Company's senior credit facility at 9.74%.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

4. Derivatives and Hedging—(continued)

Cash Flow Hedges of Interest Rate Risk—(continued)

As of June 30, 2009, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Swaps – Canadian dollar instruments	2	$ 53,479
Interest Rate Swaps – Euro instruments	2	$173,994
Interest Rate Swaps – U.S. dollar instruments	2	$261,152

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 SFAS No. 133. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

The Company, from time to time, enters 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 currency (cash flow hedges). Additionally, to manage its exposure to fluctuations in foreign currency on intercompany balances and certain purchase commitments, the Company uses foreign exchange forward contracts (fair value hedges).

As of June 30, 2009, the Company had the following 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. The change in fair value of these contracts is included in foreign exchange gain/(loss).

Foreign Currency Derivative	Notional Sold	Notional Purchased
Cash flow hedges	$ —	$ 1,540
Fair value hedges	$ (13,831)	$ 13,635

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

As of June 30, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $21,388. Included in this amount are certain derivative liabilities of $8,071 that are related to counterparties that are also lenders under the Company's senior credit facility. Liabilities to these counterparties for derivatives and borrowings made under the senior credit facility are secured by substantially all of the Company's assets. The Company has not posted any collateral related to other derivative agreements.

Due to reduced credit limits at some of its banks, the Company has been entering into fewer foreign currency hedging arrangements and may not be able to enter into as many hedging arrangements in the future. As a result, the Company could be more exposed to the effects of currency fluctuations, both favorable and unfavorable, which could have a material impact on its results of operations.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

4. Derivatives and Hedging—(continued)

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheet as of June 30, 2009.

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives As of June 30, 2009		Liability Derivatives As of June 30, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133				
Interest Rate Swaps	Other current assets	$ —	Accrued expenses	$ 16,792
Total derivatives designated as hedging instruments under SFAS 133		$ —		$ 16,792
Derivatives not designated as hedging instruments under SFAS 133				
Foreign Currency Hedges	Other current assets	$ 281	Accrued expenses	$ 1,141
Total derivatives not designated as hedging instruments under SFAS 133		$ 281		$ 1,141

The tables below present the effect of the Company's derivative financial instruments on the consolidated statements of operations for the three months ended June 30, 2009.

Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three Months Ended June 30, 2009

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion), net of tax	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest Rate Swaps	$ (3,211)	Interest expense	$ (3,699)	Interest expense	$ (397)

Derivatives Not Designated as Hedging Instruments Under SFAS No. 133	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Foreign Currency Hedges	Foreign exchange gain	$ 1,505
		$ 1,505

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

4. Derivatives and Hedging—(continued)

Fair Value of Derivatives Under SFAS No. 157

Effective January 1, 2008, the Company adopted SFAS No. 157 for measuring its derivative assets and liabilities. SFAS No. 157 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, SFAS No. 157 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 for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related 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 considers factors specific to the asset or liability.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty'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 utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2009, the Company has 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 are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2009.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observables Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives	$ 281	$ —	$ 281	$ —
Total	$ 281	$ —	$ 281	$ —
Liabilities				
Derivatives	$(17,933)	$ —	$ (17,933)	$ —
Total	$(17,933)	$ —	$ (17,933)	$ —

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Xerium Technologies, Inc.

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(dollars in thousands, except per share data)

5. Inventories

The components of inventories are as follows at:

	June 30, 2009	December 31, 2008
Raw materials	$18,305	$ 17,357
Work in process	29,611	29,385
Finished units	38,343	38,801
	$86,259	$ 85,543

6. Debt

The Company was in compliance with the covenants under its senior credit facility at June 30, 2009. Based on information available as of the date of this report, the Company anticipates it will not be in compliance with certain financial covenants for the period ending September 30, 2009. Failing to satisfy financial covenants under the senior credit facility would constitute an event of default, upon which the lenders could terminate the revolving credit facility and accelerate the payment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable. The Company intends to seek an amendment to its senior credit facility agreement with the lenders thereunder prior to the date upon which an event of default would occur due to its failure to demonstrate compliance with certain financial covenants for the period ending September 30, 2009. No assurances can be given that the Company will successfully obtain the lenders' consent to amend the credit facility on this timetable, or at all, or amend covenants in a manner sufficient to adequately reduce the risk of default. In connection with any such amendments, the lenders are likely to condition their consent on increases in the fees and interest rate payable under the credit facility, among other things, and no assurance can be given that such fees and increased interest will be sustainable by the Company. Additionally, if the Company does not successfully amend the senior credit facility or if the lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 would no longer be applicable for these interest rate swaps. Accordingly, the cumulative mark to market changes in their fair value that have been recorded in accumulated other comprehensive income (loss) through September 30, 2009 in addition to the credit valuation adjustments recorded under SFAS No. 157 would be charged to the statement of operations during the third quarter of 2009. As of June 30, 2009 this amount was $18,079. Additionally, mark to market changes subsequent to September 30, 2009 would be recorded as charges or credits to interest expense prospectively.

Previously, the Company was not in compliance with certain financial covenants for the period ended March 31, 2008 under its then existing credit facility and on April 8, 2008 and May 30, 2008, the Company amended its then existing senior credit facility agreement with the lenders thereunder. Under the amended senior credit facility agreement dated May 30, 2008, borrowings under the revolving credit facility and the term loans bear interest at the sum of, as applicable, LIBOR, the Euribor rate or CDOR plus, in each case, the applicable margin. The applicable margin increased from 2.75% to 5.50% through December 31, 2008 with three identified step downs (i.e., to 4.25%, 3.75% and 2.75%) that are contingent upon future improvements in the Company's credit rating levels beginning January 1, 2009. Based on the 90-day LIBOR, as of June 30, 2009, approximately 84% of the Company's long-term debt under its senior credit facility was effectively fixed by interest rate swap contracts at 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed was 6.32%.

FSP 107-1 requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. Accordingly, the carrying value of the debt under the senior credit facility of $581,402 exceeds its fair value of approximately $385,000 as of June 30, 2009.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

6. Debt—(continued)

During the first quarters of 2009 and 2008, the Company made mandatory debt repayments of approximately $16,100 and $9,400, respectively, based on the difference between its "pre-dividend free cash flow", as defined in its credit facility agreement, and cash dividends paid in the prior year, multiplied by the applicable percentage. The Company also made mandatory payments of $2,600 during the second quarter of 2009. Beginning in 2009, the sum of voluntary and scheduled debt payments made in the previous year is subtracted from this result to determine the mandatory debt repayment. The Company also made scheduled quarterly debt payments of its senior debt of approximately $4,700 and $1,800 during the first quarters of 2009 and 2008, respectively and $4,700 and $2,000 during the second quarters of 2009 and 2008, respectively. During the first quarter of 2009, the Company made borrowings under its revolver of $28,000.

7. Income Taxes

The Company utilizes the asset and liability method for accounting for income taxes in accordance with SFAS No. 109. 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 laws that will be in effect when the differences are expected to reverse. The Company reduces the 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. Information evaluated includes the Company's financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years.

Because of the Company's accumulated loss position and the uncertainty around the future profitability in certain tax jurisdictions, on June 30, 2009, the Company has valuation allowances for deferred tax assets primarily related to net operating loss carry forwards in the United States, the United Kingdom, Canada, Germany, Sweden and Australia.

For the three months ended June 30, 2009 and 2008, the provision for income taxes was $2,697 and $1,911, respectively. The effective tax rate was higher than the statutory rate in all periods presented due to the impact of losses incurred in certain of the Company's U.S. and foreign subsidiaries with previously established valuation allowances in relation to the level of profitability in tax-paying subsidiaries. In addition, the effective tax rate increased for the second quarter of 2009 as compared with the second quarter of 2008 principally due to the minimal tax provision being recognized on the increase in income before income taxes in 2008 resulting from the $13,704 increase in the fair value of the Company's interest rate swaps which occurred principally in subsidiaries with valuation allowances. For the six months ended June 30, 2009 and 2008, the provision for income taxes was $6,589 and $5,550, respectively. The increase in tax for the six months ended June 30, 2009 was primarily due to the establishment of a valuation allowance in Canada of approximately $2,850 in the first quarter of 2009.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48") on January 1, 2007. As of December 31, 2008, the Company had a gross unrecognized tax benefit of $4,831. During the six months ended June 30, 2009, the Company's unrecognized tax benefit decreased by approximately $688 based principally on the outcome of a foreign tax audit.

The Company's policy is to recognize interest and penalties related to income tax matters as income tax expense, which were immaterial for the six months ended June 30, 2009 and 2008, respectively. The tax years 2000 through 2008 remain open to examination by the major taxing jurisdictions to which the Company and its subsidiaries are subject.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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8. Pensions, Other Postretirement and Postemployment Benefits

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 also sponsors various unfunded defined contribution plans that provide for retirement benefits to employees, some in accordance with local government requirements.

Also, through December 31, 2008, the Company sponsored an unfunded plan that offered the opportunity to obtain health care benefits to a majority of all retired U.S. employees and their covered dependents and beneficiaries. A portion of this plan was contributory, with retiree contributions adjusted periodically. Eligibility varied according to date of hire, age and length of service. As of December 31, 2008, the Company no longer sponsors or funds its U.S. retiree health insurance program. Certain retirees also have a life insurance benefit provided at no cost.

Effective December 31, 2008, the Company froze benefit pension accruals under its Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "Pension Plan") so that service beyond December 31, 2008 is not credited under the Pension Plan. Employees who were vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008. Current employees who were not vested as of December 31, 2008 will be entitled to their benefit earned as of December 31, 2008 upon five years of continuous employment from date of hire.

Additionally, during the first quarter of 2009 the Company suspended its 401(k) plan match in the United States until further notice.

As required by SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88, and 106*, the following tables summarize the components of net periodic benefit cost:

Defined Benefit Plans

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Service cost	$ 689	$ 1,505	$ 1,397	$ 3,026
Interest cost	1,500	1,665	2,979	3,355
Expected return on plan assets	(788)	(1,200)	(1,547)	(2,402)
Amortization of prior service cost	22	30	43	59
Amortization of net loss	275	125	519	258
Net periodic benefit cost	$ 1,698	$ 2,125	$ 3,391	$ 4,296

Other Postretirement Benefit Plans

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Service cost	$ —	$ 132	$ —	$ 264
Interest cost	9	453	18	906
Amortization of prior service cost	—	(140)	—	(279)
Amortization of net gain	(1)	(17)	(2)	(35)
Net periodic benefit cost	$ 8	$ 428	$ 16	$ 856

Xerium Technologies, Inc.

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9. Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Comprehensive income for the periods ended June 30, 2009 and 2008 is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net income (loss)	$ 1,601	$14,118	$(7,847)	$ 9,409
Foreign currency translation adjustments	12,132	6,649	9,681	12,353
Minimum pension liability/SFAS No. 158 Liability	(973)	(158)	(904)	(65)
Change in value of derivative instruments	60	—	11	—
Comprehensive income	$12,820	$20,609	$ 941	$21,697

The components of accumulated other comprehensive income (loss) are as follows:

	Foreign Currency Translation Adjustment	Minimum Pension Liability/SFAS No. 158 Liability	Value of Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2008	$ 5,891	$ (21,531)	$ (13,859)	$ (29,499)
Current period change, net of tax	9,681	(904)	11	8,788
Balance at June 30, 2009	$ 15,572	$ (22,435)	$ (13,848)	$ (20,711)

10. Warranties

The Company offers warranties on certain 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. Changes in the Company’s combined short-term and long-term warranty liabilities during the six months ended June 30, 2009 are as follows:

Balance at December 31, 2008	$ 2,424
Warranties provided during period	1,183
Settlements made during period	(1,061)
Changes in liability estimates, including expirations and currency effects	(274)
Balance at June 30, 2009	$ 2,272

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11. Restructuring and Impairments Expense

Restructuring and impairments 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 shifting production from one facility to another. 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 the first quarter of 2009, the Company continued its program of streamlining its operating structure and recorded restructuring expenses of approximately $700 in connection therewith. Additionally during the first quarter of 2009, the Company sold its rolls manufacturing facility in Sweden at a gain of approximately $1,200, which was partially offset by approximately $600 of costs incurred to continue with actions related to the closure of manufacturing facilities previously announced prior to the first quarter of 2009.

During the second quarter of 2009, essentially all of the Company's restructuring expenses of approximately $1,000 were related to the streamlining of its operating structure. The Company expects to incur restructuring expenses of approximately $3,000 during the remainder of 2009, primarily related to a continuation of streamlining its operating structure.

The table below sets forth for the six months ended June 30, 2009, the significant components and activity under restructuring programs and asset impairments:

	Balance at December 31, 2008	Charges	Currency Effects	Cash Payments	Balance at June 30, 2009
Severance	$ 5,422	$ 2,136	$ 15	$ (6,326)	$ 1,247
Facility costs and other	2,455	(996)	66	419	1,944
Total	$ 7,877	$ 1,140	$ 81	$ (5,907)	$ 3,191

Restructuring and impairments expense by segment, which is not included in Segment Earnings (Loss) in Note 11, is as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Clothing	$ (198)	$ 115	$ (130)	$ 115
Roll Covers	673	1,287	44	1,721
Corporate	551	1,316	1,226	1,414
Total	$ 1,026	$ 2,718	$ 1,140	$ 3,250

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12. Business Segment Information

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

Management evaluates segment performance based on earnings before interest, taxes, depreciation and amortization and before allocation of corporate charges. Such measure is then adjusted to exclude items that are of an unusual nature and are not used in measuring segment performance or are not segment specific ("Segment Earnings (Loss)"). The accounting policies of these segments are the same as those for the Company as a whole. Inter-segment net sales and inter-segment eliminations are not material for any of the periods presented.

Summarized financial information for the Company's reportable segments is presented in the tables that follow for the three and six months ended June 30, 2009 and 2008, respectively.

	Clothing	Roll Covers	Corporate	Total
Three Months Ended June 30, 2009:				
Net sales	$ 80,033	$40,810	$ —	$120,843
Segment Earnings (Loss)	25,955	8,421	(2,467)	
Three Months Ended June 30, 2008:				
Net sales	$109,275	$61,118	$ —	$170,393
Segment Earnings (Loss)	27,901	15,522	(6,953)	

	Clothing	Roll Covers	Corporate	Total
Six Months Ended June 30, 2009:				
Net sales	$157,848	$ 79,498	$ —	$237,346
Segment Earnings (Loss)	42,831	16,319	(6,777)	
Six Months Ended June 30, 2008:				
Net sales	$212,854	$116,526	$ —	$329,380
Segment Earnings (Loss)	51,957	29,669	(9,984)	

Segment Earnings (Loss) above excludes restructuring and impairments expense.

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Xerium Technologies, Inc.

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12. Business Segment Information—(continued)

Provided below is a reconciliation of Segment Earnings (Loss) to income before provision for income taxes for the three and six months ended June 30, 2009 and 2008, respectively.

	Three Months Ended June 30,	
	2009	2008
Segment Earnings (Loss):		
Clothing	$ 25,955	$ 27,901
Roll Covers	8,421	15,522
Corporate	(2,467)	(6,953)
Non-cash compensation and related expenses	(885)	197
Net interest expense	(15,570)	(766)
Depreciation and amortization	(10,130)	(11,956)
Restructuring and impairments expense	(1,026)	(2,718)
Expenses related to debt financing	—	(5,198)
Income before provision for income taxes	$ 4,298	$ 16,029

	Six Months Ended June 30,	
	2009	2008
Segment Earnings (Loss):		
Clothing	$ 42,831	$ 51,957
Roll Covers	16,319	29,669
Corporate	(6,777)	(9,984)
Non-cash compensation and related expenses	(1,046)	(274)
Net interest expense	(31,527)	(25,987)
Depreciation and amortization	(19,918)	(23,959)
Restructuring charges	(1,140)	(3,250)
Unrealized foreign exchange gain on revaluation of debt	—	1,985
Expenses related to debt financing	—	(5,198)
Income (loss) before provision for income taxes	$ (1,258)	$ 14,959

13. Commitments and Contingencies

The Company is involved in various legal matters, which have arisen in the ordinary course of business. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its financial position, results of operations or cash flow.

Environmental Matters

During the third quarter of 2008, the Company, while evaluating its facility in Australia, discovered the possibility of contamination at that facility. Subsequently, the Company had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to remediate this facility. Based upon this evaluation, the Company accrued $4,100 in 2008 as its best estimate of the remediation costs it expected to incur. A Phase II assessment of the groundwater contamination performed for the Company during the second quarter of 2009 indicated the costs to remediate the contamination would be significantly less than originally estimated and accordingly, the Company reduced the accrual by $3,400 during the second quarter of 2009 based on this assessment.

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.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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14. Stock-Based Compensation

Effective May 19, 2005, the Company adopted the 2005 Equity Incentive Plan (the “2005 Plan”), under which the Board of Directors authorized 2,500,000 shares for grant (subsequently increased to 7,500,000 at the Company’s Annual Meeting of Stockholders on August 6, 2008).

The Company recorded stock-based compensation expense (income) during the three and six months ended June 30, 2009 and 2008, respectively, with respect to the following programs:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
RSU Awards (1)	$ 733	$ (193)	$ 776	$ 274
2009 Performance Award Program (2)	152	—	270	—
Stock Awards (3)	94	—	94	—
Total	$ 979	$ (193)	$ 1,140	$ 274

(1) Related to restricted stock units awarded in and prior to 2009. See further discussion below.
(2) Related to the value of expected awards for the year ending December 31, 2009 under the Company’s Performance Award Program, which was approved by the Company’s Board of Directors on March 10, 2009.
(3) Represents the value of 60,000 shares of the Company’s common stock awarded to Mr. Maffucci on June 8, 2009 in connection with his appointment as the Company’s Executive Vice President and Chief Financial Officer.

As a result of adopting SFAS No. 123R on January 1, 2006, the Company has used the straight-line attribution method to recognize expense for time-based RSUs granted after December 31, 2005. The Company used the graded attribution method to recognize expense for all RSUs granted prior to the adoption of SFAS No. 123R.

During 2005, 424,683 time-based RSUs and 801,843 performance-based RSUs were granted to officers and employees of the Company. Non-employee directors were also granted 12,500 RSUs during 2005. Each RSU represents one share of common stock.

To earn common stock under time-based RSUs granted in 2005, generally the grantee must be employed by the Company through the applicable vesting date, which occurred annually on May 19, 2006, 2007 and 2008. The final tranche of these RSUs vested on May 19, 2008.

To earn common stock under performance-based RSUs granted in 2005, generally defined shareholder return targets must be met over the four years following the completion of the Company’s initial public offering on May 19, 2005 and the grantee must be employed by the Company through May 19, 2009. On May 19, 2009, all of the remaining 269,171of these RSUs were forfeited because the defined shareholder return targets had not been achieved.

On May 16, 2007, the Company granted 742,885 performance-based RSUs to certain officers and employees of the Company. Generally, to earn common stock under these performance-based RSUs, defined shareholder return targets must be met over the four years following the grant date and the grantee must be employed by the Company through May 16, 2011.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
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14. Stock-Based Compensation—(continued)

Awards to non-employee directors vest immediately under the 2005 Plan and the underlying shares will be issued to the director upon termination of service as a member of the Board or a change in control, as defined in the 2005 Plan. Annually during 2005, 2006 and 2007, the non-employee directors were granted 12,500 RSUs in the aggregate. In July 2008, they also were granted 48,820 RSUs in the aggregate. On November 30, 2008, three members of the Board retired, which resulted in an aggregate issuance of 81,351 shares of common stock to them underlying their vested RSUs. On June 9, 2009 the non-employee directors were granted 224,715 RSUs in the aggregate.

On January 3, 2008, the Compensation Committee of the Company's Board of Directors approved 433,000 performance-based RSU awards (based on shareholder return targets) and 433,000 time-based RSU awards for certain of the Company's officers under the 2005 Plan, which were made contingent upon the approval by the Company's stockholders at or before the Company's 2008 annual meeting of stockholders of an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 5,000,000. On August 6, 2008, at the Company's 2008 annual meeting of stockholders, the stockholders approved an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 7,500,000. The shareholder return based awards will generally only vest if the share price of the Company's common stock plus dividends paid on the common stock from January 3, 2008 satisfies annual targets that the Compensation Committee has established in respect of the three years following January 3, 2008 and the named officer continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the awards) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price. The time-based restricted stock unit awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008, provided that the named officer continues to be employed by the Company on such dates. Dividends, if any, on such time based restricted stock units will be paid at the same rate as dividends on the Company's common stock, but only in the form of additional restricted stock units. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the awards) and/or termination of employment under the circumstances set forth in the restricted stock unit awards.

The Company also granted time-based restricted stock unit awards to its new chief executive officer with respect to 75,000 shares on February 26, 2008 and 37,500 shares on June 13, 2008. These awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008 and June 13, 2008, respectively, provided that the Company's chief executive officer continues to be employed by the Company on such dates. Additionally, on June 13, 2008, the Company granted a time-based restricted stock unit award to certain of its executive officers with respect to an aggregate 60,000 shares, which are scheduled to vest on the third anniversary of June 13, 2008, provided that the named officers continue to be employed by the Company on that date. During 2008, the Company granted to certain employees 55,175 time-based restricted stock units that vest equally in annual installments from the grant date over a period of three to four years.

During the first quarter of 2009, 54,299 shares of common stock underlying 87,000 time-based RSUs were issued; the remaining 32,701 shares underlying the RSUs were withheld from issuance in connection with minimum tax withholding requirements related to the issuance of such shares to the recipients. During the second quarter of 2009, 21,828 shares of common stock underlying 32,377 time-based RSUs were issued; the remaining 10,549 shares underlying the RSUs werewithheld from issuance in connection with minimum tax withholding requirements related to the issuance of such shares to the recipients.

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14. Stock-Based Compensation—(continued)

On March 10 2009, the Company granted to certain employees 39,000 time-based restricted stock units and 39,000 performance-based restricted stock units. The time-based restricted stock unit awards are scheduled to vest completely, in nearly equal installments on the first and second anniversaries of January 3, 2009, provided that the employee continues to be employed by the Company on such dates. Dividends, if any, on such time based restricted stock units will be paid at the same rate as dividends on the Company’s common stock, but only in the form of additional restricted stock units. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the awards) and/or termination of employment under the circumstances set forth in the restricted stock unit awards. The shareholder return based awards will generally only vest if the share price of the Company’s common stock plus dividends paid on the common stock from January 3, 2009 satisfies annual targets that the Compensation Committee has established in respect of the two years following January 3, 2009 and the named employee continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the awards) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price.

On March 10, 2009, in accordance with the employment agreement between the Company and Mr. Stephen Light, the Company’s Chairman, President and Chief Executive Officer, the Compensation Committee of the Company's Board of Directors approved RSU grants to Mr. Light as follows: (i) 341,761 time-based RSUs; (ii) 605,209 time-based RSUs that were contingent on shareholder approval of an increase in the maximum number of shares that may be granted as stock awards to any one person in any calendar year under the 2005 Plan; and (iii) 946,969 performance-based RSUs that were contingent on shareholder approval of the same increase. Mr. Light’s employment agreement provides that he was to have been granted RSUs having a fair market value of $1,250 on January 1, 2009, or 1,893,939 RSUs, and that half of these are to vest based on his service over time while the other half vest based on the Company's performance. The 2005 Plan imposes a limit on the maximum number of shares that may be granted as stock awards to any one person in any calendar year. Those of the RSUs granted to Mr. Light that were in excess of that limit were granted contingent on shareholder approval of an amendment to the 2005 Plan to increase the limit to enable these grants. The contingent awards were not considered outstanding until approved by the shareholders. The shareholders approved the amendment on June 9, 2009.

On June 8, 2009, in connection with the appointment of Mr. David G. Maffucci as Executive Vice President and Chief Financial Officer, the Company granted to Mr. Maffucci 112,500 time-based RSUs and 37,500 performance-based RSUs. With respect to 75,000 of the time-based RSUs, the awards will vest in nearly equal installments on the first, second, and third anniversaries of the date of grant. With respect to 37,500 of the time-based RSUs, 12,500 will vest on January 3, 2010 and the remaining 25,000 will vest on January 3, 2011. Mr. Maffucci’s time-based restricted stock unit awards will vest as long as he continues to be employed by the Company on the applicable vesting dates. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the RSU agreement) and/or termination of employment under the circumstances set forth in the restricted stock unit awards. The shareholder return based awards will generally only vest if the share price of the Company’s common stock plus dividends paid on the common stock satisfies annual targets that the Compensation Committee has established in respect of January 3, 2010 and 2011 and Mr. Maffucci continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the RSU agreement) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price.

Certain time-based RSUs and all non-employee director RSUs automatically adjust to reflect awards of additional RSUs upon payment of dividends by the Company. During the year ended December 31 2008 and the first six months of 2009, no RSUs were awarded in connection with the payment of dividends as no dividends were declared by the Company during any of those periods.

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14. Stock-Based Compensation—(continued)

A summary of RSUs outstanding as of June 30, 2009 and their vesting dates is as follows:

	Vesting Dates	Number of RSUs
Time-based RSUs granted February 26, 2008	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	50,000
Time-based RSUs granted June 13, 2008	With respect to 37,500 RSUs — annually in equal installments on June 13, 2009,	
	June 13, 2010 and June 13, 2011; with respect to 60,000 RSUs—June 13, 2011	85,000
Time-based RSUs granted August 6, 2008 (contingently awarded on January 3, 2008)	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	91,334
Time-based RSUs granted at various dates during 2008	Annually in equal installments over three years	32,334
Time-based RSUs granted at various dates during 2009	With respect to 1,023,470 RSUs—annually in equal installments on January 1, 2010 and January 1, 2011; with respect to 75,000 RSUs—annually in equal installments on June 8, 2010, 2011 and 2012	1,098,470
Performance-based RSUs granted May 19, 2005 (based on shareholder return targets)	Forfeited on May 19, 2009 because shareholder return targets were not achieved.	—
Performance-based RSUs granted May 16, 2007 (based on shareholder return targets)	May 16, 2011, assuming performance criteria are achieved	376,200
Performance-based RSUs granted August 6, 2008 (based on shareholder return targets) (contingently awarded on January 3, 2008)	January 3, 2011, assuming performance criteria are achieved	137,000
Performance-based RSUs granted at various dates during 2009 (based on shareholder return targets)	January 3, 2011, assuming performance criteria are achieved	1,023,469
Non-employee directors' RSUs	Date of grant	261,254
Total RSUs outstanding		3,155,061

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14. Stock-Based Compensation—(continued)

RSU activity during the six months ended June 30, 2009 is presented below.

	Number of RSUs	Price Range of Grant-Date Fair Value Price Per RSU	Weighted Average Grant-Date Fair Value Price Per RSU
Outstanding, December 31, 2008	1,358,585	$ 3.77 - 12.01	$ 7.50
Granted	2,346,654	0.54 - 1.57	1.30
Forfeited	(430,802)	5.12 -11.66	9.80
Issued or withheld for tax withholding purposes	(119,376)	3.89 - 5.40	5.22
Outstanding, June 30, 2009	3,155,061	$ 0.54 -12.01	$ 2.66
Vested, June 30, 2009 (1)	261,254	$ 1.43 -12.01	$ 2.13

(1) Vested RSUs at June 30, 2009 consist entirely of non-employee director RSUs. The common stock underlying these RSUs will be issued to the directors upon termination of their service as members of the Board and/or a change in control, as defined in the 2005 Plan. The total grant-date fair value of such non-employee directors RSUs that vested during the six months ended June 30, 2009 was $200.

Assumptions

Under SFAS No. 123R, 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 and non-employee directors' RSUs based on the closing price of the Company's common stock on the date of grant.

For the performance-based RSUs granted in 2008, 2007 and 2005 (none granted in 2006), the Company calculated the grant-date fair value of performance-based RSUs by using a Monte Carlo pricing model and the following assumptions:

	For Performance-Based RSUs Granted at various dates during 2009	For Performance-Based RSUs Granted August 6, 2008 (contingently awarded January 3, 2008)	For Performance-Based RSUs Granted May 16, 2007	For Performance-Based RSUs Granted May 19, 2005
Expected term (i)	1 1/2 to 2 years	3 years	4 years	4 years
Expected volatility (ii)	116% and 119%	44%	39%	37%
Expected dividends (iii)	None	None	$0.45 per year ($0.1125 per quarter)	$0.90 per year ($0.225 per quarter)
Risk-free interest rate (iv)	0.99% to 1.17%	2.64%	4.32%	3.73%

(i) *Expected term*. Performance-based RSUs expire three years after the grant date for the 2008 awards and four years after the grant date for the 2007 and 2005 awards. For 2009 awards, the RSUs expire after approximately 1 1/2 to 2 years.

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14. Stock-Based Compensation—(continued)

Assumptions—(continued)

(ii) *Expected volatility*. The Company is responsible for estimating the volatility of the price of its common stock and has considered a number of factors, including third party estimates, to determine its expected volatility. For the 2008, 2007 and 2005 awards, the Company performed a peer group analysis of historical and implied volatility measures rather than using its own historical volatility because it had been a public company for a relatively short period of time (i.e., since its initial public offering on May 19, 2005). Based upon the peer group analysis, the Company determined to use a 44%, 39% and 37% volatility assumption for performance-based RSUs granted in 2008, 2007 and 2005, respectively, which is the midpoint of the range developed by looking at the peer group. For the 2009 awards, after being a public company for four years, the Company determined to use its own historical volatility rather than a peer group analysis. The volatility for the 2009 awards was 116% and 119%.

(iii) *Expected dividends*. Based on the Company's dividend policy in place at the time of the performance-based RSU grants on May 19, 2005, an assumed continuation of quarterly dividends at the rate of $0.225 per share of common stock was used for the purposes of the application of the Monte Carlo pricing model. On May 2, 2007, the Company modified its credit agreement to limit the amount of any quarterly dividends payable on its common stock to not more than $0.1125 per share. Accordingly, for the performance-based RSUs that were granted on May 16, 2007, the Company assumed continuation of quarterly dividends at the rate of $0.1125 per share of common stock for the purposes of the application of the Monte Carlo pricing model. On May 30, 2008, the Company amended its credit facility. No dividends are permitted to be paid on the Company's common stock through May 2012, the maturity date of the term loans under the amended senior credit facility. Accordingly no dividends were assumed for the 2008 or 2009 awards for purposes of the application of the Monte Carlo pricing model.

(iv) *Risk-free interest rate*. The yield on zero-coupon U.S. Treasury securities for the period that is commensurate with the expected term assumptions.

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14. Stock-Based Compensation—(continued)

Assumptions—(continued)

Forfeitures

As the time-based and performance-based RSUs require continued employment up to the time of vesting, the amount of stock-based compensation recognized during a period is required to include an estimate of forfeitures. SFAS No. 123R 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. The Company estimated its forfeiture rates as of June 30, 2009 to be as follows:

Description of Award	Forfeiture Rates
Time-based RSUs granted on various dates in 2008 and in 2009 (and contingently granted on January 1, 2009), other than those on August 6, 2008	10%
Time-based RSUs granted on August 6, 2008	55%
Performance-based RSUs granted May 19, 2005 (based on shareholder return targets)	74%
Performance-based RSUs granted May 19, 2007 (based on shareholder return targets)	65%
Performance-based RSUs granted August 6, 2008 (based on shareholder return targets)	70%
Performance-based RSUs granted in 2009 (and contingently granted on January 1, 2009 (based on shareholder return targets)	10%
Non-employee directors' RSUs	Vest immediately upon grant so no forfeiture rate required.

As of June 30, 2009, there was approximately $2,800 of total unrecognized compensation expense related to unvested share-based awards which is expected to be recognized over a weighted average period of 1.7 years.

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

Forward Looking Statements

The following discussion of our financial condition and results of operations should be read together with our unaudited condensed consolidated interim financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The discussion included in this section, as well as other sections of this Quarterly Report on Form 10-Q contains forward-looking statements. 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, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," or "continue" or the negative of these terms or 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:

- based on information available as of the date of this report, we anticipate we will not be in compliance with certain financial covenants in our senior credit facility for the period ending September 30, 2009. We intend to seek an amendment to our senior credit facility agreement with the lenders thereunder prior to the date upon which an event of default would occur due to our failure to demonstrate compliance with certain financial covenants for the period ending September 30, 2009, although no assurances can be given that we will successfully obtain the lenders' consent to amend the credit facility on this timetable, or at all, or amend covenants in a manner sufficient to adequately reduce the risk of default;
- in the event that we are not in compliance with certain financial covenants in our senior credit facility for the period ending September 30, 2009, our lenders could terminate our revolving credit facility and accelerate the repayment of all of the outstanding debt under our senior credit facility, causing it to immediately become due and payable and counterparties may have the right to terminate our existing interest rate swaps if we are not able to reach agreement on amendment of our financial covenants or otherwise refinance our credit facility;
- in the event that we are not in compliance with certain financial covenants in our senior credit facility for the period ending September 30, 2009 and if we are able to reach agreement on amendment of our financial covenants or otherwise refinance our credit facility, we may be required to pay substantial fees and our borrowing costs are likely to increase, and we may not have sufficient cash to pay such increased fees and costs;
- absent an amendment to our senior credit facility agreement as discussed above, based on our current internal forecasts, we anticipate we will not be in compliance with certain financial covenants for the period ending September 30, 2009. Our ability to generate cash sufficient to service our debt also depends on our ability to achieve our financial forecasts. Our forecasts are based on certain assumptions that may or may not materialize as we expect regarding (i) demand for paper products, (ii) the level of paper production and inventories, (iii) the number of mills producing paper, (iv) the financial health of our customers, (v) the stability of product prices, (vi) the strength of market acceptance of new products, (vii) the absence of dramatic increases in commodity prices, (viii) our ability to maintain hedge accounting for our interest rate swaps, (ix) the beginning of an economic recovery in the global paper market in 2009, with the effect of increasing our revenues and profits, (x) the value of the Euro relative to the U.S. dollar from its current level and (xi) our ability to implement and continue planned cost reductions;
- we may not have sufficient cash to fund our operations should the current conditions in the global paper market continue;

- we have entered into fewer hedging arrangements due to reduced credit limits at some of our banks and may not be able to enter into as many hedging arrangements in the future. As a result, we could be more exposed to the effects of currency fluctuations, both favorable and unfavorable, which could have a material impact on our results of operations;
- we are subject to the risk of weaker economic conditions in the locations around the world where we conduct business, including without limitation the current turmoil in the global paper markets and the impact of the current global economic crisis on the paper industry and our customers;
- our strategies and plans, including, but not limited to, those relating to the decrease in our financial leverage, developing new products, enhancing our operational efficiencies and reducing costs may not result in the anticipated benefits;
- we may not achieve compliance with the NYSE continued listing standards;
- our profitability could be adversely affected by fluctuations in interest rates;
- we may not be able to develop and market new products successfully;
- we may not be successful in developing new technologies or in competing against new technologies developed by competitors;
- we may have insufficient cash to fund growth and unexpected cash needs after satisfying our debt service obligations due to our high degree of leverage and significant debt service obligations;
- there can be no assurance that in future periods we will be able to assert that our hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting;
- we may be required to incur significant costs to reorganize our operations in response to market changes in the paper industry;
- we are subject to the risk of terrorist attacks or an outbreak or escalation of any insurrection or armed conflict involving the United States or any other country in which we conduct business, or any other national or international calamity;
- we are subject to any future changes in government regulation; and
- we are subject to any changes in U.S. or foreign government policies, laws and practices regarding the repatriation of funds or taxes.

Many of these risks are discussed elsewhere in this Form 10-Q, including in the sections below: “Recent Developments,” “Overview,” “Industry Trends and Outlook,” “Liquidity and Capital Resources” and “Credit Facility.” Other factors that could materially affect actual results, levels of activity, performance, or achievements can be found in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission on March 12, 2009. 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 projected. Any forward-looking statement in this Quarterly Report on Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.

Recent Developments

Senior Credit Facility

Our senior credit facility requires that we satisfy certain operating requirements and financial covenant ratios in order to avoid a default or event of default under the facility. See “Credit Facility” below. As of June 30, 2009, the Company was in compliance with all of the covenants under its senior credit facility. Absent a significant recovery in revenue resulting from an economic revival in the paper industry, we anticipate that we will not be in compliance with certain financial covenants for the period ending September 30, 2009 and intend to seek an amendment to our senior credit facility agreement with the lenders prior to the date when an event of default would occur due to our failure to demonstrate compliance with certain financial covenants for the period ending September 30, 2009. We have begun work toward this amendment, initiating contact with our lenders, although no assurances can be

given that we will successfully obtain the lenders' consent to amend the credit facility on this timetable, or at all, or amend covenants in a manner sufficient to adequately reduce the risk of default. We have created a steering committee of our Board of Directors to lead this activity and have retained AlixPartners, LLC as our financial advisor to assist in this process. Failing to satisfy financial covenants under the senior credit facility would constitute an event of default, upon which the lenders could terminate the revolving credit facility and accelerate the repayment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable. Any such acceleration of our obligations would likely cause other lenders and contractual counterparties, including counterparties to our interest rate swap agreements and other hedge agreements to terminate and/or to accelerate our obligations under other financing and credit instruments and agreements. Should the lenders and/or other counterparties demand immediate repayment of all of our obligations, we expect that we would be unable to pay such obligations.

New York Stock Exchange ("NYSE")

On December 29, 2008, we were notified by the NYSE that we were not in compliance with two NYSE standards for continued listing of our common stock on the exchange because the average closing price of our common stock was less than $1.00 per share over a consecutive 30 trading day period, and our average total market capitalization was less than $75 million over the same period and our most recently reported stockholders' equity was less than $75 million.

On March 27, 2009, we were notified by the NYSE that it has accepted our plan for continued listing on the NYSE. As a result, our common stock will continue to be listed on the NYSE during the compliance period, subject to quarterly reviews by the NYSE to monitor our progress against the approved plan for continued listing.

With respect to the $1.00 minimum price standard, we initially had six months from the date of receipt of the notification from the NYSE to bring our share price and average share price over $1.00. However, the NYSE suspended the $1.00 minimum price requirement through June 30, 2009. On July 8, 2009, we announced that we were notified by the NYSE that because our closing price and average share price for the 30 days ended June 29, 2009 was above $1.00, we are no longer considered to be below the $1.00 continued listing criterion. However, the Company's stock price has since varied above and below $1.00 and, should we fall out of compliance again, we would have six months to regain compliance.

The Company has 18 months from the original non-compliance notification date on December 29, 2008 in which to regain compliance with the NYSE's revised $50 million market capitalization and $50 million stockholders' equity requirement. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards could result in our common stock being delisted from the NYSE.

Global Economic Environment

Our business is 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 continue to decline if paper manufacturers are unable to obtain required financing or if the economic crisis causes additional mill closures or extends current capacity curtailments.

During 2008, especially the latter part of the year, the global paper industry experienced a sharp reduction in production levels, caused by the general slowdown in economic activity and the related paper consumption decline during the same period. The slowdown of production was across all grades of paper production, but most notably in the packaging grades and newsprint. For packaging grades, demand is directly related to broad manufacturing and transportation activity reduction, while newsprint demand has been increasingly declining over a number of years due to the greater prevalence of electronic media, exacerbated in recent months by a reduction in print advertising. One of the results of the recent reduction in demand for paper products is that the inventory of paper at the paper-makers has increased significantly and production slowdowns, curtailments and idling of paper-making machines have been occurring at a sharply increasing rate since October 2008 and have continued into 2009. Regionally, North America and Europe have seen the most significant production declines. Paper production in those regions decreased in 2008 and is expected to decrease further in 2009. While we were successful in reducing the rate of price decrease in 2008 for the products we sell to the paper-makers and prices have remained relatively stable in the first half of 2009, there continues to be price pressure due to our competitors pursuing market growth at this time of lower overall demand in our market.

In the quarters ended September 30, 2008 and December 31, 2008, due to the global economic crisis and the lack of credit availability that may affect our customers' demand for products and their ability to pay their debts, we assessed the impact of this crisis on our customers and our industry, and changed our estimates of net realizable value of receivables and inventories. For example, two of our major customers, who collectively represent approximately 5% of 2008 revenues, have experienced financial difficulties and filed for bankruptcy protection in 2009. As of March 31, 2009, we had fully reserved for all amounts due from these customers. As of June 30, 2009, the Company determined it does not need to reserve for the post-bankruptcy receivables, due to the improved financial situation for these customers. The Company continues to reserve for pre-bankruptcy receivables. Decreases in orders from these customers or future payment problems from these or other customers could have a material adverse effect on our sales and profitability, which in turn could impact our ability to satisfy the covenant requirements in our credit facility.

Overview

We are a leading global manufacturer and supplier of two categories of consumable products used primarily in the production of paper—clothing and roll covers. Our operations are strategically located in the major paper-producing regions of North America, Europe, South America and Asia-Pacific.

Our products play key roles in the formation and processing of paper along the length of a paper-making machine. Paper producers rely on our products and services to help improve the quality of their paper, differentiate their paper products, operate their paper-making machines more efficiently and reduce production costs. Our products and services typically represent only a small fraction of a paper producer's overall production costs, yet they can reduce costs by permitting the use of lower-cost raw materials and reducing energy consumption. Paper producers must replace clothing and refurbish or replace roll covers regularly as these products wear down during the paper production process. Our products are designed to withstand extreme temperature, chemical and 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: clothing and roll covers. In our clothing segment, we manufacture and sell highly engineered synthetic textile belts that transport paper as it is processed on a paper-making machine. Clothing plays a significant role in the forming, pressing and drying stages of paper production. Because paper-making processes and machine specifications vary widely, the clothing size, form, material and function is selected to fit each individual paper-making machine and process. For the three months ended June 30, 2009, our clothing segment represented 66% 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. Roll covers are tailored to each individual paper-making machine and process, using different materials, treatments and finishings. In addition to manufacturing and selling new roll covers, we also provide refurbishment services for previously installed roll covers and manufacture spreader rolls. For the three months ended June 30, 2009, our roll covers segment represented 34% of our net sales.

Industry Trends and Outlook

Historically, demand for our products has been driven primarily by the volume of paper produced on a worldwide basis. According to the Food and Agriculture Organization of the United Nations, the volume of paper production between 1980 and 2007 increased at a compound annual growth rate of approximately 3.07%. There can be no assurance that the industry will continue to grow at a similar rate and it is possible that paper production may decline in any specific period compared to prior periods, as production declined globally for the latter half of 2008 and the first half of 2009. Generally, and over time, we expect growth in paper production to be greater in Asia, South America and Eastern Europe than in the more mature North American and Western European regions where demand may potentially decline.

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. A

sustained downturn in the paper industry, either globally or in a particular region, can cause paper manufacturers to reduce production or cease operations, which could adversely affect our revenues and profitability. Since 2000, paper producers have taken actions that seek to structurally 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. Between 2001 and 2004 the bulk of these closures occurred in North America. Announcements by paper producers concerning temporary and permanent shutdowns of paper-making machines in both North America and Europe have continued. During 2005 through the first half of 2009, the sales and profitability of our North American and European operations were adversely affected by these shutdowns. Papermakers continue to experience low levels of profitability, and we believe that further consolidation among papermakers, reducing the number of paper producers, and shutdowns of paper-making machines will occur 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. This rebalancing will be accelerated during the current global economic recession. Over a number of years, consumption growth of paper is expected to drive an increase in the global production rates required to maintain balance between supply and demand although it is highly likely that a consumption slow-down and related effect on global paper production will continue in the near term, exacerbated by the global economic crisis. Also affecting machine curtailments are structural productivity gains from improved products that we and our competitors supply.

Global paper production growth that does occur would be moderated by the level of industry consolidation and paper-machine shutdown activity that is a continuing underlying trend in North America and Western Europe. We also believe that, in addition to industry consolidation and paper machine shutdown activity in North America and Western Europe, the trend towards new paper machine designs which have fewer rolls and market recognition of extended life of our roll cover products has been and will continue to negatively impact demand for these products and that the volume potential for the roll covers business will slowly diminish. Additionally, we are seeing a trend that paper producers are placing an increasing emphasis on maintenance cost reduction and, as a result, are extending the life of roll covers through additional maintenance cycles before replacing them.

We anticipate that pricing pressure for our products will continue with the consolidation among paper producers and as the shift of paper production growth in Asia develops. In response to this pricing pressure, we expect to increase our expenditure levels on research and development expenses and continue to develop our value added selling approach as part of our strategy to differentiate our products, while at the same time remaining focused on cost reduction and efficiency programs.

The negative paper industry trends described above are likely to continue. We believe that in the current economic environment, the paper industry will experience reduced demand, increased emphasis on cost reduction, and sustained paper-machine shutdown activity than would have been the case in the absence of the economic crisis.

Sales and Expenses

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

- The volume of worldwide paper production;
- Advances in the technology of our products, which can provide value to our customers by improving the efficiency of paper-making machines;
- Our ability to provide products and services which reduce paper-making machine downtime, while at the same time allowing the manufacture of high quality paper products; and
- Impact of currency fluctuations.

Sales in our roll covers segment include our mechanical services business. We have expanded this business in response to demand from paper producers that we perform work on the internal mechanisms of a roll while we refurbish or replace a roll cover. In our clothing segment, a portion of our business has been conducted pursuant to consignment arrangements under which 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. We are striving to reduce the number of consignment arrangements and increase the use of standard terms of sale under which we recognize a sale upon product shipment. We made progress with this initiative in 2008 and expect this effort to be successful over several years.

Our operating costs are driven primarily by our total sales volume, the impact of inflation and currency and the level and impact of cost reduction programs.

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

The level of research and development spending is driven by market demand for technology enhancements, including both specific customer needs and general market requirements, as well as by our own analysis of applied technology opportunities. With the exception of purchases of equipment and similar capital items used in our research and development activities, all research and development is expensed as incurred. Research and development expenses were $2.7 million and $3.2 million for the three months ended June 30, 2009 and 2008, respectively.

Foreign Exchange

We have a geographically diverse customer base. For the three months ended June 30, 2009, approximately 36% of our sales was in Europe, 36% was in North America, 17% was in Asia-Pacific, 9% was in South America and 2% was in the rest of the world.

A substantial portion of our 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 revenues and profitability as the results are translated into U.S. Dollars for reporting purposes. In particular, increases in the value of the U.S. Dollar relative to the value of the Euro and these other currencies negatively 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 fewer U.S. Dollars.

For certain transactions, our sales are denominated in U.S. Dollars or Euros 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 consist of transactions in which the sales are denominated in or indexed to U.S. Dollars and all or a substantial portion of the associated costs are denominated in Euros, Reals or other currencies.

Currency fluctuations have a greater effect on the level of our net sales than on the level of our income from operations. For example, for the three months ended June 30, 2009 as compared with the three months ended June 30, 2008, the change in the value of the U.S. Dollar against the currencies we conduct our business in resulted in currency translation decreases in net sales and income from operations of $17.0 million and $2.0 million, respectively. Although the results for the three months ended June 30, 2009 reflect a period in which the value of the U.S. Dollar increased against the currencies in which we conduct the majority of our non-U.S. Dollar denominated business as compared to the three months ended June 30, 2008, we would expect a similar but opposite effect in a period in which the value of the U.S. Dollar decreases. For any period in which the value of the U.S. Dollar changes relative to other currencies, we would expect our income from operations to be proportionately affected less than our net sales.

During the three and six months ended June 30, 2009, we conducted business in 11 foreign currencies. The following table provides the average exchange rate for the three and six months ended June 30, 2009 and 2008, respectively, of the U.S. Dollar against each of the four foreign currencies in which we conduct the largest portion of our operations, and indicates the percentage of our net sales for the three and six months ended June 30, 2009 denominated in such foreign currency.

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Currency	Average exchange rate of the U.S. Dollar for the three months ended June 30, 2009	Average exchange rate of the U.S. Dollar for the three months ended June 30, 2008	Percentage of net sales for the three months ended June 30, 2009 denominated in such currency
Euro	$1.36 = 1 Euro	$1.56 = 1 Euro	41.9%
Canadian Dollar	$0.86 = 1 Canadian Dollar	$0.99 = 1 Canadian Dollar	6.7%
Brazilian Real	$0.48 = 1 Brazilian Real	$0.60 = 1 Brazilian Real	7.6%
Australian Dollar	$0.76 = 1 Australian Dollar	$0.94 = 1 Australian Dollar	7.2%

Currency	Average exchange rate of the U.S. Dollar for the six months ended June 30, 2009	Average exchange rate of the U.S. Dollar for the six months ended June 30, 2008	Percentage of net sales for the six months ended June 30, 2009 denominated in such currency
Euro	$1.33 = 1 Euro	$1.53 = 1 Euro	41.9%
Canadian Dollar	$0.83 = 1 Canadian Dollar	$0.99 = 1 Canadian Dollar	6.4%
Brazilian Real	$0.46 = 1 Brazilian Real	$0.59 = 1 Brazilian Real	8.9%
Australian Dollar	$0.71 = 1 Australian Dollar	$0.92 = 1 Australian Dollar	6.7%

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 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.

Due to reduced credit limits at some of our banks, we have been entering into fewer foreign currency hedging arrangements and may not be able to enter into as many hedging arrangements in the future. As a result, we could be more exposed to the effects of currency fluctuations, both favorable and unfavorable, which could have a material impact on our results of operations.

Cost Reduction Programs

An important part of our long-term operating strategy is to seek to reduce our overall costs and improve our competitiveness. As a part of this effort, we have engaged in a series of cost reduction programs, which were 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 have rationalized production among our facilities to better enable us to meet customer demands.

During the first quarter of 2009, we continued our program of streamlining our operating structure and recorded restructuring expenses of approximately $0.7 million in connection therewith. Additionally, during 2009 we sold our rolls manufacturing facility in Sweden at a gain of approximately $1.2 million, which was partially offset by approximately $0.6 million of costs incurred to continue with actions related to the closure of manufacturing facilities announced prior to the first quarter of 2009. During the second quarter of 2009, essentially all of the $1.0 million of restructuring expenses we recorded were related to streamlining our operating structure. We expect to incur restructuring expenses of approximately $3 million during the remainder of 2009, primarily related to continuing our program of streamlining our operating structure.

During the first quarter of 2009, we also froze one of our U.S. employee pension plans, terminated our retiree medical plan, suspended contributions to our U.S. 401(k) program, froze salaries, delayed union contract wage increases, curtailed travel and halted work on our Vietnam project.

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Results of Operations

The tables that follow set forth for the periods presented certain consolidated operating results and the percentage of net sales they represent:

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net sales	$ 120.8	$ 170.4	$ 237.3	$ 329.4
Cost of products sold	75.2	101.6	147.4	197.3
Selling expenses	16.1	21.8	32.6	42.3
General and administrative expenses	6.5	23.4	19.7	42.1
Restructuring and impairments expenses	1.0	2.7	1.1	3.2
Research and development expenses	2.7	3.2	5.4	6.2
Income from operations	19.3	17.7	31.1	38.3
Interest expense, net	(15.6)	(0.8)	(31.5)	(25.9)
Foreign exchange gain (loss)	0.6	(0.9)	(0.8)	2.6
Income (loss) before provision for income taxes	4.3	16.0	(1.2)	15.0
Provision for income taxes	2.7	1.9	6.6	5.6
Net income (loss)	$ 1.6	$ 14.1	$ (7.8)	$ 9.4

Percentage of Sales

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	62.3	59.6	62.1	59.9
Selling expenses	13.3	12.8	13.7	12.8
General and administrative expenses	5.4	13.7	8.3	12.8
Restructuring and impairments expenses	0.8	1.6	0.5	1.0
Research and development expenses	2.3	1.9	2.3	1.9
Income from operations	15.9	10.4	13.1	11.6
Interest expense, net	(12.9)	(0.5)	(13.3)	(7.9)
Foreign exchange gain (loss)	0.5	(0.5)	(0.3)	0.8
Income (loss) before provision for income taxes	3.5	9.4	(0.5)	4.5
Provision for income taxes	2.2	1.1	2.8	1.7
Net income (loss)	1.3%	8.3%	(3.3)%	2.8%

Three Months Ended June 30, 2009 Compared to the Three Months Ended June 30, 2008.

Net Sales. Net sales for the three months ended June 30, 2009 decreased by $49.6 million, or 29.1%, to $120.8 million from $170.4 million for the three months ended June 30, 2008. For the three months ended June 30, 2009, 66% of our net sales were in our clothing segment and 34% were in our roll covers segment.

In our clothing segment, net sales for the three months ended June 30, 2009 decreased by $29.3 million, or 26.8%, to $80.0 million from $109.3 million for the three months ended June 30, 2008 primarily due to (i) decreased worldwide sales volume and (ii) unfavorable currency effects on net sales of $12.4 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. The decrease was partially offset by favorable currency effects on pricing related to sales prices indexed in U.S. Dollars by certain non-U.S. operations of $1.5 million. Overall pricing levels in our clothing segment increased slightly less than 1% during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

In our roll covers segment, net sales for the three months ended June 30, 2009 decreased by $20.3 million or 33.2%, to $40.8 million from $61.1 million for the three months ended June 30, 2008. The decrease was primarily due to (i) decreased worldwide sales volumes and (ii) unfavorable currency effects on net sales of $4.6 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. Overall pricing levels in our roll covers segment increased by approximately 1% during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

Cost of Products Sold. Cost of products sold for the three months ended June 30, 2009 decreased by $26.4 million, or 26.0%, to $75.2 million from $101.6 million for the three months ended June 30, 2008.

In our clothing segment, cost of products sold decreased by $16.0 million, or 25.0%, to $48.1 million for the three months ended June 30, 2009 from $64.1 million for the three months ended June 30, 2008 primarily due to (i) lower sales volumes during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008, (ii) favorable currency effects of $7.3 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and (iii) the $1.1 million impact of a lower cost structure, resulting from our cost reduction programs, during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

In our roll covers segment, cost of products sold decreased by $10.4 million, or 27.7%, to $27.1 million for the three months ended June 30, 2009 from $37.5 million for the three months ended June 30, 2008 primarily due to (i) lower sales volumes during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008, (ii) favorable currency effects of $3.0 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and (iii) the $1.2 million impact of a lower cost structure, resulting from our cost reduction programs, during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

Selling Expenses. For the three months ended June 30, 2009, selling expenses decreased by $5.7 million, or 26.1%, to $16.1 million from $21.8 million for the three months ended June 30, 2008. The decrease was primarily due to the impact of (i) a reduction in salaried sales positions, commissions and travel expenses, (ii) favorable currency effects of $2.3 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008 and (iii) the $0.7 million impact of a lower cost structure, resulting from our cost reduction programs, during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

General and Administrative Expenses. For the three months ended June 30, 2009, general and administrative expenses decreased by $16.9 million, or 72.2%, to $6.5 million from $23.4 million for the three months ended June 30, 2008. The decrease was primarily due to (i) a decrease in consulting, legal and bank fees of $5.2 million for the three months ended June 30, 2009 as compared with the three months ended June 30, 2008, relating to the amendment of our senior credit facility on May 30, 2008, (ii) a decrease in environmental expense of $3.4 million as a result of a Phase II assessment during the second quarter of 2009 that indicated that remediation costs in Australia would be significantly less than originally estimated, (iii) a decrease in litigation accruals of $2.3 million for Brazilian labor matters and other legal matters, (iv) favorable currency translation effects of $1.9 million, (v) decreased provisions for bad debts of approximately $1.4 million and (vi) decreased salaries, travel and other costs as a result of cost reduction efforts during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

Restructuring and Impairments Expenses. For the three months ended June 30, 2009, restructuring and impairments expenses decreased by $1.7 million, or 63.0%, to $1.0 million from $2.7 million for the three months ended June 30, 2008. Restructuring expenses result from our long-term strategy to reduce production costs and improve long-term competitiveness as described above under “Cost Reduction Programs” by closing and/or transferring production from certain of our manufacturing facilities and through headcount reductions. For the three months ended June 30, 2009, restructuring expenses consisted almost entirely of severance costs.

Research and Development Expenses. For the three months ended June 30, 2009, research and development expenses decreased by $0.5 million, or 15.6%, to $2.7 million from $3.2 million for the three months ended June 30, 2008 primarily due to lower salary and supply costs and to favorable currency effects during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

Interest Expense, Net. Net interest expense for the three months ended June 30, 2009 increased by $14.8 million to $15.6 million from $0.8 million for the three months ended June 30, 2008. The increase is primarily attributable to (i) the $13.7 million credit to interest expense in 2008 in connection with the change in the fair value of our interest rate swaps due to the loss of hedge accounting for the first six months of 2008 and (ii) increased interest rates during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008 resulting from the amendment of our senior credit facility on May 30, 2008.

Foreign Exchange Gain (Loss). For the three months ended June 30, 2009 and 2008, we had a foreign exchange gain of $0.6 million and a foreign exchange loss of $0.9 million, respectively. Foreign exchange gains and losses were primarily the result of hedging and intercompany activities.

Provision for Income Taxes. For the three months ended June 30, 2009 and 2008, the provision for income taxes was $2.7 million and $1.9 million, respectively. The effective tax rate increased for the second quarter of 2009 as compared with the second quarter of 2008 principally due to (i) minimal tax provision being recognized on the increase in income before income taxes in 2008 resulting from the $13.7 million increase in the fair value of the Company's interest rate swaps in 2008 which occurred principally in subsidiaries with valuation allowances and (ii) to the impact of losses incurred in certain of the Company's U.S. and foreign subsidiaries with previously established valuation allowances in relation to the level of profitability in tax-paying subsidiaries.

Six Months Ended June 30, 2009 Compared to the Six Months Ended June 30, 2008.

Net Sales. Net sales for the six months ended June 30, 2009 decreased by $92.1 million, or 28.0%, to $237.3 million from $329.4 million for the six months ended June 30, 2008. For the six months ended June 30, 2009, 66% of our net sales were in our clothing segment and 34% were in our roll covers segment.

In our clothing segment, net sales for the six months ended June 30, 2009 decreased by $55.1 million, or 25.9%, to $157.8 million from $212.9 million for the six months ended June 30, 2008 primarily due to (i) decreased sales volume, primarily in Europe and North America and (ii) unfavorable currency effects on net sales of $26.0 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. The decrease was partially offset by favorable currency effects on pricing related to sales prices indexed in U.S. Dollars by certain non-U.S. operations of $6.3 million. Overall pricing levels in our clothing segment remained unchanged during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008.

In our roll covers segment, net sales for the six months ended June 30, 2009 decreased by $37.0 million, or 31.8%, to $79.5 million from $116.5 million for the six months ended June 30, 2008. The decrease was primarily due to (i) decreased worldwide sales volumes and (ii) unfavorable currency effects on net sales of $9.3 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. Overall pricing levels in our roll covers segment increased by approximately 1% during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008.

Cost of Products Sold. Cost of products sold for the six months ended June 30, 2009 decreased by $49.9 million, or 25.3%, to $147.4 million from $197.3 million for the six months ended June 30, 2008.

In our clothing segment, cost of products sold decreased by $31.6 million, or 25.0%, to $94.9 million for the six months ended June 30, 2009 from $126.5 million for the six months ended June 30, 2008 primarily due to (i) lower sales volumes during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008, (ii) favorable currency effects of $15.5 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008 and (iii) the $1.2 million impact of a lower cost structure, resulting from our cost reduction programs, during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008.

In our roll covers segment, cost of products sold decreased by $18.3 million, or 25.8%, to $52.5 million for the six months ended June 30, 2009 from $70.8 million for the six months ended June 30, 2008. The decrease in cost of products sold was primarily due to (i) lower worldwide sales volumes during the six months ended June 30, 2009, (ii) favorable currency effects of $5.8 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes during

the six months ended June 30, 2009 as compared with the six months ended June 30, 2008 and (iii) the $1.2 million impact of a lower cost structure, resulting from our cost reduction programs, during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008.

Selling Expenses. For the six months ended June 30, 2009, selling expenses decreased by $9.7 million, or 22.9%, to $32.6 million from $42.3 million for the six months ended June 30, 2008. The decrease was primarily due to (i) the impact of a reduction in salaried sales positions, commissions and travel expenses, (ii) favorable currency effects of $4.8 million during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008 and (iii) the $0.7 million impact of a lower cost structure, resulting from our cost reduction programs, during the three months ended June 30, 2009 as compared with the three months ended June 30, 2008.

General and Administrative Expenses. For the six months ended June 30, 2009, general and administrative expenses decreased by $22.4 million, or 53.2%, to $19.7 million from $42.1 million for the six months ended June 30, 2008. The decrease was primarily due to (i) a decrease in consulting, legal and bank fees of $5.2 million for the six months ended June 30, 2009 as compared with the six months ended June 30, 2008, which include fees relating to the amendment of our senior credit facility on May 30, 2008, (ii) a decrease in environmental expense of $3.4 million as a result of a Phase II assessment during the second quarter of 2009 that indicated that remediation costs in Australia would be significantly less than originally estimated, (iii) a decrease in litigation accruals of $2.3 million for Brazilian labor matters and other legal matters, (iv) a decrease in management incentive bonus and stock-based compensation expense of $1.1 million, (v) favorable currency translation effects of $3.9 million, (vi) decreased provisions for bad debts of approximately $3.1 million and (vii) decreased salaries, travel and other costs as a result of cost reduction efforts during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008.

Restructuring Expenses. For the six months ended June 30, 2009, restructuring expenses decreased by $2.1 million, or 65.6%, to $1.1 million from $3.2 million for the six months ended June 30, 2008. Restructuring expenses result from our long-term strategy to reduce costs and improve long-term competitiveness as described above under “Cost Reduction Programs” by closing and/or transferring production from certain of our manufacturing facilities and through headcount reductions. For the six months ended June 30, 2009, restructuring expenses consisted of severance costs and facility costs of $2.1 million and $0.2 million, respectively. These costs were offset by the $1.2 million gain on the sale of our Swedish roll covers facility on March 31, 2009.

Research and Development Expenses. For the six months ended June 30, 2009, research and development expenses decreased by $0.8 million, or 12.9%, to $5.4 million from $6.2 million for the six months ended June 30, 2008 primarily to lower material and supply costs and to favorable currency effects during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008.

Interest Expense, Net. Net interest expense for the six months ended June 30, 2009 increased by $5.6 million, or 21.6%, to $31.5 million from $25.9 million for the six months ended June 30, 2008. The increase is primarily attributable to increased interest rates during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008 resulting from the amendment of our senior credit facility on May 30, 2008. The increase was partially offset by (i) the $1.5 million credit to interest expense in 2008 in connection with the change in the fair value of our interest rate swaps due to the loss of hedge accounting for the first six months of 2008 and (ii) favorable currency effects of $1.9 million.

Foreign Exchange Gain (Loss). For the six months ended June 30, 2009, we had an unrealized foreign exchange loss of $0.8 million compared to a gain of $2.6 million for the six months ended June 30, 2008. The gain in 2008 was primarily attributable to mark-to-market gains on fair value hedges, including gains on hedges for which the underlying foreign exchange exposure on certain intercompany debt no longer existed in the first quarter of 2008, and gains on hedges on future purchases of equipment. Foreign exchange gains and losses during the first half of 2009 were primarily the result of hedging and intercompany activities.

Provision for Income Taxes. For the six months ended June 30, 2009 and 2008, the provision for income taxes was $6.6 million and $5.6 million, respectively. The increase in tax was primarily due to the establishment of a valuation allowance in Canada of $2.9 million in the first quarter of 2009 and to the impact of losses incurred in certain of our U.S. and foreign subsidiaries with previously established valuation allowances in relation to the level of profitability in tax-paying subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

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 continue to decline if paper manufacturers are unable to obtain required financing or if the economic slowdown causes additional mill closures or continued inventory build-up. In addition, the global economic crisis and the ensuing lack of credit availability may affect our customers' ability to pay their debts which could have a negative impact on our Company. These factors would impact our liquidity and our ability to satisfy the covenant requirements of our credit facility.

As of June 30, 2009, the Company was in compliance with all of the covenants under its senior credit facility. Our ability to satisfy the covenants required by our credit facility is contingent on our ability to achieve our financial forecasts. These forecasts are based on certain assumptions regarding demand for paper products, the level of paper production and inventories, the number of mills producing paper and the financial health and access to capital of the paper producers. Absent a significant recovery in revenue resulting from an economic revival in the paper industry, we anticipate that we will not be in compliance with certain financial covenants for the period ending September 30, 2009 and intend to seek an amendment to our senior credit facility agreement with the lenders prior to the date when an event of default would occur due to our failure to demonstrate compliance with certain financial covenants for the period ending September 30, 2009. We have begun work toward this amendment, initiating contact with our lenders, although no assurances can be given that we will successfully obtain the lenders' consent to amend the credit facility on this timetable, or at all, or amend covenants in a manner sufficient to adequately reduce the risk of default. We have created a steering committee of the Board of Directors to lead this activity and have retained AlixPartners, LLC as our financial advisor to assist in this process. Failing to satisfy financial covenants under the senior credit facility would constitute an event of default, upon which the lenders could terminate the revolving credit facility and accelerate the repayment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable. Any such acceleration of our obligations would likely cause other lenders and contractual counterparties, including counterparties to our interest rate swap agreements and other hedge agreements to terminate and/or to accelerate our obligations under other financing and credit instruments and agreements. Should the lenders and/or other counterparties demand immediate repayment of all of our obligations, we expect that we would be unable to pay such obligations. As of June 30, 2009, the amount of cash that would be required to settle all outstanding hedging obligations is $21.4 million. In light of this risk, and as part of our ongoing focus on enterprise risk management, we are continuing to evaluate market conditions and plan for contingencies, including, without limitation, exploring strategic initiatives to reduce our debt, which may include, among other things, an issuance of equity or other securities to repay a portion of our outstanding debt. There can be no assurance that we will be able to complete any such strategic initiatives on satisfactory terms, and any such strategic initiatives involving issuances of equity are likely to be highly dilutive to our existing stockholders.

Our principal liquidity requirements are for debt service, working capital and capital expenditures. We plan to use cash generated by operations as our primary source of liquidity as well as borrowings, if necessary, under the revolving portion of the credit facility and the utilization of certain bank overdraft facilities to meet normal operating requirements for at least the next twelve months. We may have difficulty making additional borrowings under our revolver in light of the anticipated non-compliance with certain financial covenants in our senior credit facility for the period ending September 30, 2009. If expected revenue and profits are not realized in 2009, we may not be able to generate enough cash to meet our obligations. In addition, should the current conditions in the global paper market continue, we may not have sufficient cash to fund our operations or meet our other liquidity requirements.

Net cash used in operating activities was $7.5 million for the six months ended June 30, 2009 and net cash provided by operating activities was $41.0 million for the six months ended June 30, 2008. The $48.5 million decrease is principally attributable to a decrease in the volume of business as a result of the global economic crisis and an increase in working capital during the first half of 2009 as compared with the first half of 2008 principally due to the level of payment of payables and accruals since December 31, 2008. We typically defer payments to certain vendors at the end of each quarter, which results in an increased cash position at the

end of the quarter and increased net cash from operating activities for the period then ended. Such deferrals were significant at December 31, 2008 and the absence of the extent of such deferrals at the end of June 30, 2009 contributed to the increase in working capital for the six months ended June 30, 2009. In an effort to improve working capital, in the second quarter of 2009, the Company initiated a project to accelerate accounts receivable collections and to sell excess inventories. As of June 30, 2009, the Company's efforts under this project contributed approximately $2.5 million in additional cash and increased Adjusted EBITDA by approximately $4 million.

Net cash used in investing activities was $6.0 million for the six months ended June 30, 2009 and $19.7 million for the six months ended June 30, 2008. The decrease of $13.7 million was primarily due to (i) a decrease in capital equipment spending of $9.8 million in the six months ended June 30, 2009 as compared with the six months ended June 30, 2008 and (ii) an increase in proceeds from disposals of property and equipment of $3.9 million in the six months ended June 30, 2009 as compared with the six months ended June 30, 2008, including $1.9 million from the sale of our Swedish roll covers facility on March 31, 2009 and $1.1 million from the sale of the Chief Executive Officer's former home in the second quarter of 2009, as provided in his employment agreement in connection with the Executive's relocation of his principal residence.

Net cash used in financing activities was $1.1 million for the six months ended June 30, 2009 and $21.7 million for the six months ended June 30, 2008. The decrease of $20.6 million was primarily the result of borrowings under our revolver of $28.0 million during the first quarter of 2009 and the decrease in other financing activities of $8.7 million in the six months ended June 30, 2009 as compared with the six months ended June 30, 2008 which consisted principally of expenses associated with the amendment of our credit facility on May 30, 2008, partially offset by higher debt payments of approximately $16.1 million during the six months ended June 30, 2009 as compared with the six months ended June 30, 2008. We made a mandatory principal repayment of $16.1 million in the first quarter of 2009 as compared with $9.4 million in the first quarter of 2008. The increase in the mandatory payment was due to the loan agreement requiring us to make such excess payments based on the prior year's Adjusted EBITDA, which was impacted during 2008 by gains of approximately $52 million related to the freezing of one of our U.S. pension plans, the termination of our U.S. retiree medical plan and the mark to market changes in the fair value of our interest rate swaps, partially offset by approximately $30 million related to increased restructuring expenses and increased noncash reserves. Because none of these events generated any cash but increased Adjusted EBITDA which increased the mandatory principal payment, the effect of these actions reduced our available cash.

As of June 30, 2009, there was a $581.4 million balance of term loans outstanding under our senior credit facility. During the first half of 2009, we made scheduled principal payments of $9.5 million and mandatory principal repayment of $18.7 million. In addition, as of June 30, 2009, we had an aggregate of $28.0 million outstanding under our current revolving lines of credit, including the revolving credit facility under our senior credit facility and lines of credit in various foreign countries that are used to facilitate local short-term operating needs and an aggregate of $21.8 million available for additional borrowings under these revolving lines of credit. We may have difficulty making additional borrowings under our revolver in light of the anticipated financial covenant non-compliance for the period ending September 30, 2009. Our liquidity is substantially affected by the covenant requirements of our credit agreement. See "Credit Facility" below. We had cash and cash equivalents of $20.4 million at June 30, 2009 compared to $34.7 million at December 31, 2008.

CAPITAL EXPENDITURES

For the six months ended June 30, 2009, we had capital expenditures of $11.1 million consisting of growth capital expenditures of $6.0 million and maintenance capital expenditures of $5.1 million. Growth capital expenditures consist of items that are intended to increase the manufacturing, production and/or distribution capacity or efficiencies of our operations in conjunction with the execution of our business strategies. Maintenance capital expenditures are designed to sustain the current capacity or efficiency of our operations and include items relating to the renovation of existing manufacturing or service facilities, the purchase of machinery and equipment for safety and environmental needs and information technology. For the six months ended June 30, 2008, capital expenditures were $20.9 million, consisting of growth capital expenditures of $13.8 million and maintenance capital expenditures of $7.1 million.

In the first quarter of 2008 we began an effort to reduce our planned capital expenditures. As part of this effort, we determined to delay the planned capital expenditures for the Vietnam facility and cancelled or rescheduled certain other previously planned capital expenditures. These cancellations did not result in any substantial penalties for us. In December 2008, we discontinued the construction of the Vietnam facility. While construction of the Vietnam facility has been discontinued, we continue to have contractual obligations with respect to certain equipment which was previously ordered for the facility. We are redeploying this equipment to other locations. Due to our assessment of the impact of the global economic crisis and the potential effect on our customers and our industry, we are currently evaluating additional capital expenditures reductions and cost reduction actions to improve long-term operating efficiencies and to better match our production with demand. 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 these amounts. We target capital expenditures for 2009 to be approximately $27 million, and that capital expenditure levels in 2010 will be comparable to those in 2009.

See "—Credit Facility" below for a description on limitations on capital expenditures imposed by our credit facility.

CREDIT FACILITY

Upon the completion of the initial public offering of our common stock on May 19, 2005, we and certain of our subsidiaries entered into a senior secured credit facility. The credit facility was amended four times: on February 8, 2006, December 22, 2006, May 2, 2007 and April 8, 2008. The credit facility was amended and restated on May 30, 2008.

The description of the credit facility below describes the facility as amended and restated.

Our credit facility provides for a $50 million senior secured revolving credit facility and for term loans that had a total principal amount of $650 million as of May 2005. Because the term loans include portions denominated in Euros and Canadian dollars, in addition to a U.S. Dollar denominated portion, the aggregate outstanding principal on our term loans is affected by our currency exchange rates as well as principal repayments. The revolving credit facility matures on November 19, 2011, and the term loans mature on May 19, 2012. The credit facility is secured by substantially all of our assets and the assets of most of our subsidiaries, subject to legal and tax considerations and requirements.

Borrowings under the revolving credit facility and the term loans bear interest at the sum of, as applicable, LIBOR, the Euribor rate or CDOR plus, in each case, the applicable margin. The applicable margin was set at 5.50% through December 31, 2008. Beginning January 1, 2009, the applicable margin depends upon our credit rating level: it will be 2.75% if our credit rating is Ba3 or higher by Moody's and BB- or higher by S&P, 3.75% if our credit rating is B1 by Moody's or B+ by S&P, 4.25% if our credit rating is B3 or higher but lower than B1 by Moody's and 'B-' or higher but lower than 'B+' by S&P, and 5.50% if our credit rating is lower than B3 by Moody's or lower than B- by S&P. In order to qualify at each level the rating must be with a stable outlook. Our current credit rating is Caa1 by Moody's and 'CCC+' by S&P. On September 29, 2008, Standard & Poor's Ratings Services raised its ratings on the Company, including raising the long-term corporate credit rating, from 'CCC+' to 'B-' but on July 29, 2009 lowered the rating to 'CCC+' due to our anticipated financial covenant non-compliance for the period ending September 30, 2009. Our current applicable margin is 5.50%.

On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. The interest rate swap arrangements effectively fixed the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. These interest rate swaps initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12.2 million was recorded as a non-cash charge to interest expense in the first quarter of 2008 and a non-cash credit to interest expense of $13.7 million in the second quarter of 2008. Effective July 1, 2008, we were again able to

assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. Such mark to market changes on these interest rate swaps are principally credited or charged to accumulated other comprehensive income (loss). The ineffective portion of these interest rate swaps of $0.8 million was charged to interest expense during the six months ended June 30, 2009. There can be no assurance that in future periods we will be able to assert that the hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting. The new interest rate swaps effectively fix the interest rate on approximately 84% of the term loan portion of our credit facility through December 31, 2010. As of June 30, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 6.32%.

The credit facility provides for scheduled quarterly principal payments of the term loans as set out below:

Currency:	USD	Euro	CAD
2009	2,458,174	1,392,040	584,489
2010	3,318,535	1,879,254	789,059
2011	4,055,987	2,296,865	964,406
2012 (first quarter only)	4,916,348	2,784,080	1,168,976

The credit facility provides that for the purposes of computing debt, which is a part of the calculation of the leverage ratio, indebtedness which is payable in Canadian Dollars or Euros shall be converted into U.S. Dollars using the average exchange rate for the period of four consecutive fiscal quarters ended March 31, 2008. Accordingly, if the value of the U.S. Dollar increases relative to the Euro or the Canadian Dollar and our Adjusted EBITDA declines as a result of this currency effect, there would not be a corresponding decrease in the amount of our debt for purposes of the maximum leverage ratio covenant calculation.

The credit facility also requires us to make additional prepayments of the term loans under the following circumstances:

- with 100% of the net cash proceeds received by us from any sale, transfer or other disposition of any assets (excluding inventory and certain discontinued manufacturing facilities), subject to an exemption for the reinvestment of up to $3 million of such proceeds within a year of our receipt thereof in long-term productive assets of the general type used in our business;
- with 100% of the net cash proceeds received by us from any insurance recovery or condemnation events, subject to certain exceptions and reinvestment rights and exempting the first $2 million;
- with 75% of the net cash proceeds from the issuance of any common stock, subject to customary exceptions and exempting the first $100,000;
- with 100% of the net cash proceeds from the incurrence of any indebtedness by us (excluding indebtedness permitted under the credit facility, but including any subordinated indebtedness), subject to customary exceptions; and
- with 75% of our excess cash on an annual basis; that is, our Adjusted EBITDA minus consolidated interest expense, cash income tax expense, consolidated capital expenditures (subject to certain exceptions), consolidated restructuring costs, cash payments of withholding taxes from proceeds of the repurchase, redemption or retention of common stock and the aggregate amount of scheduled and voluntary payments made during the past fiscal year.

Prior to the effectiveness of the amendment and restatement of our credit facility, the percentage of our annual excess cash required to be prepaid was 40% for 2007, 27.5% for 2008 and 50% for each fiscal year thereafter. We made mandatory principal prepayments from excess cash of $18.7 million and $9.4 million in the first half of 2009 and 2008, respectively.

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Our credit facility requires that we observe and perform numerous affirmative and negative covenants, including certain financial covenants. The financial covenants per the amended credit facility are now as follows:

Minimum Interest Coverage Ratio:	Four Fiscal Quarters Ending	Ratio
The ratio of four quarter Adjusted EBITDA to interest expense.	March 31, 2009 to March 31, 2010	2.00:1.00
	June 30, 2010 to March 31, 2011	2.25:1.00
	June 30, 2011 to December 31, 2011	2.50:1.00
	March 31, 2012	2.75:1.00

Minimum Fixed Charge Coverage Ratio:	Four Fiscal Quarters Ending	Ratio
The ratio of four quarter Adjusted EBITDA to fixed charges (interest expense, scheduled principal payments, and cash taxes).	June 30, 2009 to March 31, 2012	1.20:1.00

Maximum Leverage Ratio:	Four Fiscal Quarters Ending	Ratio
The ratio of outstanding debt to four quarter Adjusted EBITDA.	June 30, 2009 and September 30, 2009	5.25:1.00
	December 31, 2009	5.00:1.00
	March 31, 2010 and June 30, 2010	4.75:1.00
	September 30, 2010	4.50:1.00
	December 31, 2010 and March 31, 2011	4.25:1.00
	June 30, 2011 to March 31, 2012	4.00:1.00

For the four fiscal quarters ended June 30, 2009 our interest coverage ratio was 2.24:1, our fixed charge coverage ratio was 1.43:1 and our leverage ratio was 4.82:1.

Our credit facility defines consolidated capital expenditures for a particular fiscal year as all expenditures required under GAAP to be included in "purchase of property and equipment" or similar items. The credit facility limits the amount of our consolidated capital expenditures in any given fiscal year to an amount not exceeding $50 million for fiscal year 2008 and $35 million for each of fiscal years 2009, 2010 and 2011, exclusive of capital expenditures paid with net insurance and condemnation proceeds; provided that the maximum amount of consolidated capital expenditures permitted in each fiscal year shall be increased by 50% of the amount below the maximum not spent in the prior fiscal year (determined without reference to any carryover amount); and provided, further, that solely for fiscal year 2008, the maximum amount that may be carried forward to fiscal year 2009 shall equal 100% of the first $10 million of any permitted consolidated expenditures not expended in fiscal year 2008 plus 50% of any remaining expenditures not expended in fiscal year 2008.

Our credit facility also prohibits the payment of dividends on our common stock.

As of June 30, 2009, we were in compliance with all of the covenants under our senior credit facility. Our ability to satisfy the covenants required by our credit facility is contingent on our ability to achieve our financial forecasts. These forecasts are based on certain assumptions regarding demand for paper products, the level of paper production and inventories, the number of mills

producing paper and the financial health and access to capital of the paper producers. Absent a significant recovery in revenue resulting from an economic revival in the paper industry, we anticipate that we will not be in compliance with certain financial covenants for the period ending September 30, 2009 and intend to seek an amendment to our senior credit facility agreement with the lenders prior to the date when an event of default would occur due to our failure to demonstrate compliance with certain financial covenants for the period ending September 30, 2009. We have begun work toward this amendment, initiating contact with our lenders, although no assurances can be given that we will successfully obtain the lenders' consent to amend the credit facility on this timetable, or at all, or amend covenants in a manner sufficient to adequately reduce the risk of default. We have created a steering committee of our Board of Directors to lead this activity and have retained AlixPartners, LLC as our financial advisor to assist in this process. Failing to satisfy financial covenants under the senior credit facility would constitute an event of default, upon which the lenders could terminate the revolving credit facility and accelerate the repayment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable. Any such acceleration of our obligations would likely cause other lenders and contractual counterparties, including counterparties to our interest rate swap agreements and other hedge agreements to terminate and/or to accelerate our obligations under other financing and credit instruments and agreements. Should the lenders and/or other counterparties demand immediate repayment of all of our obligations, we expect that we would not be able to pay such obligations. As of June 30, 2009, the amount of cash that would be required to settle all outstanding hedging obligations is $21.4 million. In light of this risk, and as part of our ongoing focus on enterprise risk management, we are continuing to evaluate market conditions and plan for contingencies, including, without limitation, exploring strategic initiatives to reduce our debt, which may include, among other things, an issuance of equity or other securities to repay a portion of our outstanding debt. There can be no assurance that we will be able to complete any such strategic initiatives on satisfactory terms, and any such strategic initiatives involving issuances of equity are likely to be highly dilutive to our existing stockholders.

We may have difficulty making additional borrowings under our revolver in light of the anticipated financial covenant non-compliance for the period ending September 30, 2009.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. We have formal accounting policies in place including those that address critical and complex accounting areas. Note 3 to the consolidated financial statements included elsewhere in this Quarterly 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. On January 1, 2009, we adopted Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No, 161 amends and expands the disclosure requirements of FASB Statement No. 133 ("SFAS No. 133") with the intent 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 under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 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 SFAS No. 133, 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 its risk, even though hedge accounting does not apply or if we elect not to apply hedge accounting under SFAS No. 133.

There are two types of hedges into which we enter: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset or liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction or the variability of cash flows to be paid related to a recognized liability. Changes in derivative fair values are recognized in earnings as offsets to the changes in fair value of the related hedged assets and liabilities. Changes in the derivative fair values that are designated as cash flow hedges which meet the criteria for hedge accounting are recorded in other comprehensive income (loss). On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. The interest rate swap arrangements effectively fixed the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. These interest rate swaps initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12.2 million was recorded as a non-cash charge to interest expense in the first quarter of 2008 and a non-cash credit to interest expense of $13.7 million in the second quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. Such mark to market changes on these interest rate swaps are principally credited or charged to accumulated other comprehensive income (loss). The ineffective portion of these interest rate swaps of $0.8 million was charged to interest expense during the six months ended June 30, 2009.

These interest rate swaps effectively fix the interest rate on approximately 84% of the term loan portion of our credit facility through December 31, 2010. As of June 30, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 6.32%. There can be no assurance that in future periods we will be able to assert that the hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting. Specifically, if left uncured, our anticipated financial covenant non-compliance with certain covenants in our senior credit facility for the period ending September 30, 2009 would constitute an event of default, upon which the lenders could terminate the revolving credit facility and accelerate the repayment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable. If the lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 would no longer be applicable for these interest rate swaps. Accordingly, the cumulative mark to market changes in their fair value that will have been recorded in accumulated other comprehensive income (loss) through September 30, 2009 in addition to the credit valuation adjustments recorded under SFAS No. 157 , *Fair Value Measurements* (“SFAS No. 157”) would be charged to interest expense during the third quarter of 2009. As of June 30, 2009 this amount was $18.1 million. Additionally, mark to market changes subsequent to September 30, 2009 would be recorded as charges or credits to interest expense prospectively.

Effective January 1, 2008, we adopted SFAS No. 157 for measuring our derivative assets and liabilities. We have classified our interest rate swaps in Level 2 of the SFAS No. 157 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 trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment.

To comply with the provisions of SFAS No. 157, we incorporated 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. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty's credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty's credit spread is applied to our exposure to the counterparty, and our own credit spread is applied to the counterparty's exposure to us, and the net credit valuation adjustment is reflected in our derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from its publicly-traded debt. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for any significant changes.

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 Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of June 30, 2009, we have assessed the net significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments reduced the settlement values of our derivative liabilities by $3.7 million. Various factors impact changes in the credit are not significant to the overall valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors were deemed immaterial by us as of June 30, 2009. 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 June 30, 2009.

Effective January 1, 2008, we partially adopted SFAS No. 157. Financial Accounting Standards Board (FASB) Staff Position SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, permits us to defer the recognition and measurement of its nonfinancial assets and nonfinancial liabilities until January 1, 2009. At June 30, 2009, the Company did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

Goodwill. We account for acquired goodwill and intangible assets in accordance with SFAS No. 141, *Business Combinations* ("SFAS No. 141"). Purchase accounting required by SFAS No. 141 involves judgment with respect to the valuation of the acquired assets and liabilities in order to determine the amount of goodwill. We believe that the estimates that we have used to record prior acquisitions are reasonable and in accordance with SFAS No. 141.

Impairment of Goodwill and Indefinite-Lived Intangible Assets. We account for acquired goodwill and goodwill impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). This pronouncement requires considerable judgment in the valuation of acquired goodwill and the ongoing evaluation of goodwill impairment. SFAS No. 142 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.

We perform an annual test for goodwill impairment as of December 31st at the business segment level. We have two business segments: clothing and roll covers. When our business was acquired in 1999, more than 80% of the goodwill was assigned to the roll covers segment 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 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 all tangible and intangible assets, excluding goodwill, 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 business segments based upon the percentage of each segment's revenue to total revenue. Shared expenses are allocated to each segment 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 proprietary information to determine measures that are used to value our business segments. The income approach is a present value technique used to measure the fair value of future cash flows produced by each business segment. Determining the fair value of a business segment 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 SFAS No. 142 are reasonable, but inherently uncertain.

Based on these assessments performed as of December 31, 2008, we determined that no impairment of goodwill exists. The excess of the fair value over the carrying value for our clothing and roll covers segment as of December 31, 2008, the annual test date, was approximately $134 million and $30 million, respectively. In order to evaluate the sensitivity of the analysis performed, we applied a hypothetical 5% decrease to the fair value of these business segments, which resulted in a fair value in excess of carrying value of approximately $110 million and $13 million for the clothing segment and roll covers segment, respectively.

As of June 30, 2009, the Company evaluated events and circumstances which may have indicated an impairment of goodwill and other intangible assets and determined that no impairment exists.

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 SFAS No. 5, *Accounting for 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. During the third quarter of 2008, while evaluating one of our foreign facilities, we discovered the possibility of contamination at the facility. Subsequently we had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to clean up the facility. Based upon this evaluation, we recorded $4.1 million in 2008 as our best estimate of the remediation costs we expected to incur. A Phase II assessment of the ground water contamination performed for us during the second quarter of 2009 indicated the costs to remediate the contamination would be significantly less than originally estimated and accordingly, we reduced the accrual by $3.4 million during the second quarter of 2009 based on this assessment.

Income Taxes. We utilize the asset and liability method for accounting for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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 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. Relevant evidence, both positive and negative, is considered in determining the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years. In light of our accumulated loss position in certain tax jurisdictions, and the uncertainty of profitability in future periods, we recorded valuation allowances for deferred tax assets primarily related to net operating loss carryforwards in the United States, United Kingdom, Germany, Sweden, Australia and Canada.

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. 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. There are currently no U.S. Federal or state audits or examinations underway. In May 2009, we concluded an audit relating to our German subsidiaries for tax years 1999 through 2002. No further adjustments not previously recognized were required in the quarter ended June 30, 2009 as a result of this settlement. The Canadian Federal tax authorities contacted us in October of 2008 and have initiated an audit of our Canadian companies. The audit is still in the initial information gathering stages and no issues or assessments have been raised. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS No. 109. FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. 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.

NON-GAAP LIQUIDITY MEASURES

We use EBITDA and Adjusted EBITDA 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. Our credit facility includes covenants based on Adjusted EBITDA. If our Adjusted EBITDA declines below certain levels, we will violate the covenants resulting in a default condition under the credit facility or be required to prepay the credit facility. Neither EBITDA nor Adjusted EBITDA should be considered in isolation or as a substitute for net cash provided by operating activities (as determined in accordance with GAAP) or income (loss) from operations (as determined in accordance with GAAP).

EBITDA is defined as net income (loss) before interest expense, income tax provision (benefit) and depreciation and amortization. Adjusted EBITDA is defined in our credit facility and is EBITDA plus (i) restructuring or related impairment costs (not to exceed $5.0 million in the aggregate for 2008 and in each year thereafter, (ii) reserves for inventory in connection with plant closings, (iii) stock-based and other non-cash compensation charges, charges from forgiveness of loans made to employees in connection with the purchase of equity and any tax gross-up payments made in respect of such loan forgiveness in connection with or prior to the completion of our initial public offering, (iv) certain transaction costs, including costs incurred in connection with our initial public offering and the related debt financing, the legal reorganization of Brazilian subsidiaries and the preparation and closing of the existing credit agreement, (v) consolidated amendment/termination costs, which consist of costs incurred in connection with the consummation of the fourth and fifth amendments to the senior credit facility and the termination of the employment contract of the former Chief Executive Officer and transition to the new Chief Executive Officer, not to exceed $8.0 million in the aggregate, (vi) costs associated with payments to management prior to the completion of our initial public offering in connection with the termination of incentive plans, (vii) non-cash charges resulting from the application of purchase accounting, (viii) non-cash expenses

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resulting from the granting of stock options, restricted stock or restricted stock unit awards under equity compensation programs solely with respect to our common stock and (ix) expenses incurred not exceeding $7 million per year as a result of the repurchase, redemption or retention of our own common stock earned under equity compensation programs solely in order to make withholding tax payments. For certain historical periods, the amended credit agreement specified Adjusted EBITDA is $35,610, $36,514 and $38,431 for the quarters ended March 31, 2008, December 31, 2007 and September 30, 2007, respectively. For the quarter ended March 31, 2008, the amount reflects an increase of $800 over the originally disclosed amount in the first quarter of 2008, related to the transition to the new Chief Executive Officer. Adjusted EBITDA, as defined in the credit facility and calculated below, may not be comparable to similarly titled measurements used by other companies.

The following table provides a reconciliation from net income (loss), which is the most directly comparable GAAP financial measure, to EBITDA and Adjusted EBITDA.

	Three Months Ended June 30,	
(in thousands)	2009	2008
Net income	$ 1,601	$ 14,118
Income tax provision	2,697	1,911
Interest expense, net	15,570	766
Depreciation and amortization	10,130	11,956
EBITDA	**29,998**	**28,751**
Amendment/termination costs (D)	—	5,198
Change in fair value of interest rate swaps (C)	(397)	13,704
Restructuring expenses	1,026	2,651
Inventory write-offs under restructuring programs	142	—
Non-cash compensation and related expenses	885	(130)
Adjusted EBITDA	**$31,654**	**$50,174**

	Six Months Ended June 30,	
(in thousands)	2009	2008
Net income (loss)	$ (7,847)	$ 9,409
Income tax provision	6,589	5,550
Interest expense, net	31,527	25,987
Depreciation and amortization	19,918	23,959
EBITDA	**50,187**	**64,905**
Unrealized foreign exchange gain on indebtedness, net (B)	—	(1,985)
Amendment/termination costs (D)	—	5,998
Change in fair value of interest rate swaps (C)	(795)	13,704
Change in fair value of other derivatives	—	(2,126)
Restructuring expenses	1,140	3,183
Inventory write-offs under restructuring programs	245	—
Growth program costs (A)	—	1,764
Non-cash compensation and related expenses	1,046	341
Adjusted EBITDA	**$51,823**	**$85,784**

(A) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, growth program costs are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008. Growth programs costs for the three months ended March 31, 2008 included expenses incurred for our lean manufacturing initiatives, expansion into Vietnam and other growth programs.

(B) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, unrealized foreign exchange gains and losses on indebtedness are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008.

(C) In accordance with the definition of Adjusted EBITDA in our credit facility agreement, as amended on May 30, 2008, interest expense added back to calculate Adjusted EBITDA excludes, for periods beginning after the quarter ended March 31, 2008, the effect of any non-cash gains and losses resulting from the marking to market of hedging obligations that has been charged to interest expense. Had this amended definition been in place for all periods presented, Adjusted EBITDA would have been $12.2 million lower for the three and six months ended June 30, 2008, respectively.

(D) For the three and six months ended June 30, 2008, amendment/termination costs include $5,198 of costs incurred in connection with the consummation of the fourth and fifth amendments to the credit facility; and for the six months ended June 30, 2008, these costs include an $800 increase to Adjusted EBITDA for the first quarter of 2008 in accordance with the agreement with our lenders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 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 $0.9 million at June 30, 2009. These contracts mature at various dates through June 2010.

Relative to foreign currency exposures existing at June 30, 2009, a 10% unfavorable movement in foreign currency exchange rates would not expose us to significant losses in earnings or cash flows because we have hedged substantially all of our exposures against fluctuations in foreign currency exchange rates. As of June 30, 2009, we had open foreign currency exchange contracts maturing through June 2010 with total net notional amounts of approximately $1.3 million. At June 30, 2009, we prepared an analysis to determine the sensitivity of our forward foreign exchange contracts to changes in exchange rates. A hypothetical adverse exchange rate movement of 10% against our forward foreign exchange contracts would have resulted in potential net loss in fair value of these contracts of approximately $0.1 million. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar. In addition to the direct effects of changes in exchange rates, such changes typically 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.

Due to reduced credit limits at some of our banks, we have been entering into fewer foreign currency hedging arrangements and may not be able to enter into as many hedging arrangements in the future. As a result, we could be more exposed to the effects of currency fluctuations, both favorable and unfavorable, which could have a material impact on our results of operations.

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. Our senior credit facility has a variable interest rate. On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. These interest rate swaps initially qualified for hedge accounting under SFAS No. 133. As a result of the financial covenant non-compliance for the period ended March 31, 2008 as discussed in Note 6 of the Notes to Unaudited Condensed

Consolidated Financial Statements included elsewhere in this Quarterly Report, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under SFAS No. 133 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12.2 million was recorded as a non-cash charge to interest expense in the first quarter of 2008 and a non-cash credit to interest expense of $13.7 million in the second quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. Such mark to market changes on these interest rate swaps are principally credited or charged to accumulated other comprehensive income (loss). The ineffective portion of these interest rate swaps of $0.8 million was charged to interest expense during the six months ended June 30, 2009.

The interest rate swaps effectively fix the interest rate on approximately 84% of the term loan portion of our credit facility through December 31, 2010. As of June 30, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 9.74%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 6.32%. There can be no assurance that in future periods we will be able to assert that the hedge transactions are probable of occurring, and thus there can be no assurance that the interest rate swaps will continue to qualify for hedge accounting. Specifically, if left uncured, our anticipated non-compliance with certain financial covenants in our senior credit facility for the period ending September 30, 2009 would constitute an event of default, upon which the lenders could terminate the revolving credit facility and accelerate the repayment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable. If the lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 would no longer be applicable for these interest rate swaps. Accordingly, the cumulative mark to market changes in their fair value that will have been recorded in accumulated other comprehensive income (loss) through September 30, 2009 in addition to the credit valuation adjustments recorded under SFAS No. 157 would be charged to interest expense during the third quarter of 2009. As of June 30, 2009 this amount was $18.1 million. Additionally, mark to market changes subsequent to September 30, 2009 would be recorded as charges or credits to interest expense prospectively. If payment of our hedge obligations were accelerated and if we were required to pay these outstanding obligations, which as of June 30, 2009 were $21.4 million, the hedged fixed interest rate on approximately 84% of our senior debt (9.74% at June 30, 2009) would become variable (6.32% at June 30, 2009).

As a result of the amendment of our senior credit facility agreement on May 30, 2008, the applicable margin for LIBOR term loans, LIBOR revolving loans, Euribor loans and CDOR loans under our senior credit facility increased from 2.75% to 5.50%. We estimate that a 1% increase in the LIBOR rate would increase our interest expense on the term debt by approximately $0.9 million on an annual basis through December 31, 2010, the period covered by the interest rate swap agreements.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures*. We have carried out an evaluation, as of June 30, 2009, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a–15(e) and 15d–15(e) under the Securities Exchange Act of 1934, as amended (the “Act”). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms; and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. No evaluation of disclosure controls and procedures can provide absolute assurance that these controls and procedures will operate effectively under all circumstances. However, the Company’s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures are effective at the reasonable assurance level as set forth above.

(b) *Changes in Internal Control over Financial Reporting.* No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal matters, which have arisen in the ordinary course of business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our financial position, results of operations or cash flow.

ITEM 1A. RISK FACTORS

Since the date that we filed our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 the majority of our served markets have deteriorated substantially from the decline in paper demand related to slowing global economic activity, which may substantially reduce our revenue, Adjusted EBITDA and cash flows. As a result, the risks disclosed in our Form 10-K are more likely to occur. Based on information available as of the date of this report, we also anticipate that we will not be in compliance with certain financial covenants in our senior credit facility for the period ending September 30, 2009. Accordingly, we are supplementing the risk factors disclosed in our Form 10-K for the year ended December 31, 2008 with the risk factors below.

If we do not enter into an amendment to our senior credit facility prior to the date we are required to demonstrate compliance with the financial covenants in our senior credit facility for the period ending September 30, 2009, we expect to be in default of certain of these covenants, which could have a material adverse effect on our ability to continue operating.

Our senior credit facility requires us to satisfy certain operating requirements and financial ratios in order to avoid a default or event of default under the facility. These financial covenants are described above under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility.” Absent a significant recovery in revenue resulting from an economic revival in the paper industry, we anticipate that we will not be in compliance with certain of these financial covenants for the period ending September 30, 2009. Failing to meet financial covenants under the senior credit facility would constitute an event of default, upon which our lenders could terminate the revolving credit facility and accelerate the repayment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable. Any such acceleration of our obligations would likely cause other lenders and contractual counterparties, including counterparties to our interest rate swap agreements and other hedge agreements, to terminate and/or to accelerate the obligations under their financing and credit instruments and agreements with us. Should the lenders and/or other counterparties demand immediate repayment of all of our obligations, we expect that we would be unable to pay such obligations.

Additionally, if we are not able to successfully amend our senior credit facility or if the lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, hedge accounting under SFAS No. 133 would no longer be applicable for these interest rate swaps. Accordingly, the cumulative mark to market changes in their fair value that will have been recorded in accumulated other comprehensive income (loss) through September 30, 2009 in addition to the credit valuation adjustments recorded under SFAS No. 157 would be charged to interest expense during the third quarter of 2009. At June 30, 2009, this amount is $18.1 million. Additionally, mark to market changes subsequent to September 30, 2009 would be recorded as charges or credits to interest expense prospectively. If payment of our hedge obligations were accelerated and if we were required to pay these outstanding obligations, which as of June 30, 2009 were $21.4 million, the hedged fixed interest rate on approximately 84% of our senior debt (9.74% at June 30, 2009) would become variable (6.32% at June 30, 2009).

We have initiated contact with the lenders regarding the need for an amendment to our senior credit facility agreement prior to the date when an event of default would occur due to our failure to demonstrate compliance with certain financial covenants for the

period ending September 30, 2009. In conjunction with this effort, we are continuing to evaluate alternatives to allow us to reduce or restructure our debt and plan for contingencies, which may include, without limitation, issuing equity. No assurances can be given that we will be able to obtain the lenders' consent to amend the credit facility on this timetable, or at all, that we will be able to amend the covenants in a manner sufficient to adequately reduce the risk of default or that we will be able to succeed in other strategies to reduce our debt. Even if we are able to obtain amendments to our credit facility, the lenders are likely to condition agreement on substantial increases in the fees and interest rate payable under the credit facility, among other things, and no assurance can be given that we would be able to sustain such fees and increased interest.

We are subject to increased risk relating to the effects of currency fluctuations on our operations, as we are we are unable to enter into additional hedging arrangements.

Due to reduced credit limits at some of our banks, we have been entering into fewer foreign currency hedging arrangements and we may not be able to enter into as many hedging arrangements in the future. As a result we could be more exposed to the effects of currency fluctuations, both favorable and unfavorable, which could have a material impact on our results of operations.

In the event that we successfully negotiate an amendment to our credit facility or refinance our credit facility, our borrowing costs are likely to increase.

As described above, we are attempting to negotiate amendments to our credit facility. In the event that we are able to negotiate satisfactory amendments to our credit facility, and in view of current turmoil in the credit markets and our current credit ratings, the lenders are likely to require that we pay substantially higher interest and fees on our credit facility going forward. This may result in increased costs of our operations thereby adversely affecting our results of operations, and no assurance can be given that any higher interest or fees will be sustainable by us.

Our current credit facility difficulties could have an adverse impact on our business and increase our operating costs.

The fact that we may default on our credit facility is likely to cause our customers or vendors to seek financial assurances from us before they are willing to continue doing business with us or may instead choose to do business with our competitors. This may result in increased costs of our operations, thereby adversely affecting our results of operations.

We may explore strategic alternatives to amending our credit facility, including alternatives that involve the issuance of equity, which would dilute our existing stockholders.

Concurrent with pursuing an amendment of our credit facility, we are considering strategic alternatives to allow us to reduce our debt, which may include issuing equity. There can be no assurance we would be able to complete any such strategic initiative on satisfactory terms. In addition, issuance of new equity for this purpose would likely result in substantial dilution to our existing stockholders. The new investors may, through contractual provisions and/or the percentage of voting securities purchased in such transaction or transactions, be in a position to exert strong influence over our business, policies and affairs. We cannot be certain that the interests of these investors will align with the interests of other stockholders. In addition, any concentration of ownership or other contractual rights could have the effect of delaying or preventing a change in control, merger or tender offer, which would deprive shareholders of an opportunity to receive a premium for their shares of common stock and may negatively affect the market price of our common stock.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Restrictions on Payment of Dividends

For a description on restrictions imposed by Delaware law and our credit agreement on our payment of dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Credit Facility."

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) The annual meeting of shareholders of Xerium Technologies, Inc. was held on June 9, 2009.

(b) All director nominees were elected.

(c) Certain matters voted upon at the meeting and the votes cast with respect to such matters are as follows:

Management Proposals and Vote Tabulations

	Votes Cast			
	For	**Against**	**Abstain**	**Broker Non-Votes**
Approval of Amendment No. 3 to the 2005 Equity Incentive Plan	29,756,150	6,159,391	25,067	4,900,890
Ratification of appointment of independent registered public accounting firm for 2009	40,734,846	87,530	19,122	—

Amendment No. 3 to the 2005 Equity Incentive Plan increased the limit on the number of shares of common stock that may be granted as stock awards in 2009 to the Company's Chief Executive Officer to 2,302,178 shares.

Election of Directors

Director	Votes Received	Votes Withheld
Stephen R. Light	40,134,786	706,712
Jay J. Gurandiano	40,171,830	669,668
Nico Hansen	35,852,694	4,988,804
David G. Maffucci	40,174,855	666,643
Edward Paquette	40,162,738	678,760
Michael Phillips	34,357,393	6,484,105
John G. Raos	40,173,355	668,143

ITEM 5. OTHER INFORMATION.

Director Compensation

On August 4, 2009, our Board of Directors approved the following RSU awards under our 2005 Equity Incentive Plan to directors who served as non-management directors during the year prior to the 2009 Annual Meeting of Stockholders: Jay Gurandiano, 26,176 RSUs; Nico Hansen, 42,295 RSUs; David Maffucci, 26,176 RSUs; Edward Paquette, 50,561 RSUs; Michael Phillips, 50,561 RSUs; and John Raos 26,176 RSUs. While Mr. Maffucci is currently serving as a management director, he previously served as a non-management director for a portion of the year prior to our 2009 Annual Meeting of Stockholders. The RSUs awarded to Mr. Maffucci on August 4, 2009 relate solely to his prior service as a non-management director.

Also on August 4, 2009 our Board of Directors adopted a revised policy regarding compensation for non-management directors. The changes to the policy provide that: (1) the equity compensation granted to non-management directors after the Annual Meeting of Stockholders will be provided in arrears for the prior year of service, instead of in advance for the ensuing year as provided under the prior policy, (2) non-management directors who serve only a partial year of service will receive a pro-rated amount of equity compensation, and (3) for Board or Committee meetings held after March 31, 2009, non-management directors will receive $1,500 per in person meeting and $500 for telephonic meetings that last longer than one hour.

Code of Ethics Amendment

On August 4, 2009, our Board of Directors adopted an amendment to our corporate code of business conduct and ethics, which applies to all of our employees, officers and directors. The amendment provides additional detail regarding the import and export regulations applicable to us. Our corporate code of business conduct and ethics, as amended, is available free of charge on our website at www.xerium.com.

ITEM 6. EXHIBITS

See the exhibit index following the signature page to this quarterly report.

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SIGNATURES

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

XERIUM TECHNOLOGIES, INC.
(Registrant)

Date: August 6, 2009

By: /s/ David G. Maffucci
David G. Maffucci
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
10.1(1)	Amendment No. 3 to the 2005 Equity Incentive Plan.
10.2	Xerium Technologies, Inc. Performance Award Program for 2009.
10.3	Employment Agreement with David Maffucci.
10.4	Supplemental Agreement No. 1 to Management Service Contract with Peter Williamson.
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 the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Statement of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on June 11, 2009, and incorporated herein by reference.

Exhibit 10.2

XERIUM TECHNOLOGIES, INC.
PERFORMANCE AWARD PROGRAM

This Xerium Technologies, Inc. Performance Award Program (the "Program") contains rules supplemental to those set forth in the Xerium Technologies, Inc. 2005 Equity Incentive Plan (the "EIP"). The Program provides for the grant of the incentive award opportunities (each, an "Award") under and subject to the terms of the EIP, which is incorporated herein by reference. In the event of any inconsistency between the Program and applicable provisions of the EIP, the EIP shall control. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the EIP.

1. Administration; Eligibility; Features of Awards. The Program shall be administered by the Committee as described in the EIP. The Committee may in its discretion consult with outside advisors or internal Company resources for purposes of making any determinations in connection with its administration of the Program. Eligibility to participate in the Program shall be limited to individuals who are selected in accordance with the terms of the EIP to participate in the Program from among those individuals who are eligible to participate in the EIP (each, a "Participant"). Participation in any Award shall not entitle a Participant to share in any future Awards or in any other future awards of the Company or its subsidiaries. Each Award shall entitle the holder, subject to satisfaction of the performance conditions under the Award (and, to the extent the Award is intended to qualify for the performance-based compensation exception under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), to the further limitations of the EIP with respect thereto), to a benefit determined under Section 2 below and Exhibit A (the "Total Benefit Amount") that shall be payable as follows, subject to tax withholding as described in Section 5 below: (1) up to fifty (50%) of the Total Benefit Amount may be paid in cash as the Committee may decide in its sole discretion any time before payouts under the Program are made; and (2) the balance of the Total Benefit Amount shall be payable in the form of Restricted Stock Units ("RSUs"). The number of RSUs deliverable in respect of all or part of an Award shall be determined as described in Section 4 below.

2. Determination of Total Benefit Amount. The Committee may determine that a portion of each Participant's Total Benefit Amount under an Award for any calendar year or portion thereof (a "performance year") shall be earned solely by the Participant's remaining continuously employed by the Company or a subsidiary through the date Awards are paid under the Program for the performance year (the "Time-Based Portion") as indicated on Exhibit B hereto. The determination of the remainder of each Participant's Total Benefit Amount under an Award for the performance year (the "Performance-Based Portion") shall be made in accordance with the provisions of Exhibit A applicable to such Participant for such performance year. (The Performance-Based Portion of the Total Benefit Amount is referred to in Exhibit A as the Performance-Based Benefit Amount"). All payouts under the Program, whether Time-Based or Performance-Based, are conditioned on the Company's being in compliance with the financial covenants contained in Section 6.8(a) (Interest Coverage Ratio Covenant), (b) (Leverage Ratio Covenant) and (c) (Fixed Charge Coverage Ratio Covenant) (collectively the "Financial Covenants") of the Credit and Guaranty Agreement dated as of May 19, 2005,

entered into by and among the Company, certain subsidiaries of the Company, Citigroup Global Markets, Inc., CIB World Markets Corp. and other agents and banks party thereto, as amended and in effect on May 30, 2008 (the "Credit Agreement") at the end of each of the four fiscal quarters in the performance year. A breach of any of these Financial Covenants for any quarter will result in no payouts under the Program for the performance year, except as the Committee may otherwise expressly determine in its discretion.

3. Terms of RSUs. The RSUs payable under any Award shall be granted substantially in the form of the Restricted Stock Units Agreement attached as Exhibit C hereto (the "Restricted Stock Units Agreement"), which provides that the RSUs shall be fully vested at grant and payable 90 days thereafter.

4. Determination of Number of RSUs Payable. The number of RSUs payable under any Award shall be the quotient determined by dividing (x) by (y), where (x) is that portion of the Total Benefit Amount, if any, payable in RSUs and (y) is the greater of (1) three dollars ($3.00) and (2) the average of the per-share closing prices of the Stock (adjusted as appropriate to reflect any stock splits, stock dividends or similar events) for the last twenty (20) trading days of the performance year, rounded down to the nearest whole number.

5. Latest Payment Date; Tax Withholding. All payments, if any, under an Award shall be made not later than by March 31 of the calendar year following the performance year. The minimum tax withholding amount with respect to any payments being made in cash shall be withheld from such payments. The minimum tax withholding amount with respect to any payments being made in RSUs shall be satisfied by means of share withholding at the time the RSUs are settled as provided in the Restricted Stock Units Agreement.

6. Intent to be Exempt from Section 162(m). Awards for the 2009 performance year are not intended to qualify for the performance-based compensation exception under Section 162(m) of the Code. In the case of any Award for a subsequent performance year that is intended to so qualify, (i) the Exhibit A performance goals with respect to such Award shall be established by the Committee not later than ninety (90) days after the commencement of the performance year (or by such earlier date as is required by Section 1.162-27(e)(2)(i) of the Treasury Regulations), (ii) the Exhibit A performance goals, as so established, shall be consistent with the eligible performance measures, if any, approved by the shareholders of the Company for use in respect of performance awards under the EIP and shall be objectively determinable in compliance with Section 1.162-27(e)(2) of the Treasury Regulations, and (iii) no portion of the Award shall be paid unless and until the Committee has certified (as required by Section 1.162-27(e)(5) of the Treasury Regulations) that the performance goals have been achieved (or, if the performance goals are expressed in terms that admit of varying payout levels for different levels of performance, have been achieved at a level sufficient to support the payment).

7. Nature of Awards. Awards hereunder are intended to qualify as Stock Unit Awards under the EIP, with any cash portion payable pursuant to Section 9(d) of the EIP. The Program is unfunded and any cash payments by the Company hereunder shall be made from the general assets of the Company.

8. Termination of Employment. The Performance-Based Portion of an Award shall not be payable to or in respect of a Participant, except as the Committee shall otherwise expressly determine, unless the Participant is employed by the Company or a subsidiary on December 31 of the performance year. The Time-Based Portion of an Award shall not be payable to or in respect of a Participant, except as the Committee shall otherwise expressly determine, unless the Participant is employed by the Company or a subsidiary on the date Awards are paid for the performance year.

9. Availability of Stock. If, when Awards become payable in respect of any performance year, the number of shares of Stock needed to grant any RSUs under the Awards exceeds the number of shares then available under the EIP, the RSUs shall be granted conditionally so that the grant takes effect when the shareholders approve an increase in the number of shares available under the EIP. If the shareholders do not approve such an increase so that all or part of the conditional RSUs are not granted, the Company will pay out the value of any conditional RSUs that were not granted in cash and determine their value by reversing the calculation under Section 4 above used to determine the number of such RSUs.

10. Treatment of Awards Upon a Change in Control. If (a) the Company merges into or combines with any other entity and, immediately following such merger or combination, any Person or group of Persons acting in concert holds 50% or more of the voting power of the entity surviving such merger or combination (other than any Person or group of Persons which held 50% or more of the Company's voting power immediately prior to such merger or combination or any Affiliated Person of any such Person or member of such group); (b) any Person or group of Persons acting in concert acquires 50% or more of the Company's voting power; or (c) the Company sells all or substantially all of its assets or business for cash or for securities of another Person or group of Persons (other than to any Person or group of Persons which held 50% or more of the Company's total voting power immediately prior to such sale or to any Affiliated Person of any such Person or any member of such group), then, unless the Committee provides for the continuation or assumption of Awards or for the grant of new awards in substitution therefor (which substitute awards, if any, may be payable in cash or other property or a combination thereof) by the surviving entity or acquiror, in each case on such terms and subject to such conditions as the Committee may determine, with respect to each Award not so assumed or continued:

(a) In the event such transaction occurs on or after the close of the performance year with respect to the Award, the Committee shall determine, acting in its sole and reasonable discretion, prior to the occurrence of the transaction, the extent to which the applicable performance metrics specified in Exhibit A have been satisfied. If financial statements or other relevant data are not available prior to the time of such determination, the Committee shall make such determination based upon the financial information and data then available to the Company.

(b) In the event such transaction occurs prior to the close of the performance year with respect to the Award, the applicable performance metrics specified in Exhibit A shall be determined as follows: (i) the performance year shall be deemed to end on the effective date of such transaction; and (ii) the extent to which the applicable performance metrics specified in Exhibit A for the shortened performance year described in clause (i) above have been achieved shall be determined by the Committee acting in its sole

and reasonable discretion based upon the financial information available to the Company (it being understood that the Committee may, to the extent it deems necessary, extrapolate performance through the effective date of the transaction based upon available data); (iii) the performance determined pursuant to clause (ii) shall then be adjusted by multiplying it by fraction, the numerator of which is the number of days in the shortened performance year and the denominator of which is 365, and the performance as so adjusted shall be the basis for determining the Total Benefit Amount with respect to the Award, subject to proration in accordance with Section 10(c) below.

(c) If subsection (b) above applies, the Total Benefit Amount initially determined under subsection (b) with respect to an Award shall be prorated by multiplying such initially determined amount by a fraction, the numerator of which is the number of days in the shortened performance year and the denominator of which is 365.

For purposes of this Section 10, “Person” means any individual, partnership, limited liability company, corporation, association, trust, joint venture, unincorporated organization, or other entity or group, and “Affiliated Person” means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or is under common control with such Person.

11. Amendment. The Committee may amend the Program at any time and from time to time, and may terminate the Program, in each case subject only to such limitations, if any, as the EIP may impose.

12. 409A. This Program and the Awards granted thereunder shall be construed and administered consistent with the intent that they at all times be in compliance with or exempt from the requirements of Section 409A of the Code and the regulations promulgated thereunder.

XERIUM TECHNOLOGIES, INC.
PERFORMANCE AWARD PROGRAM

Exhibit A (applicable to 2009 performance year)

There are five different types of Awards under the Performance-Based Portion of the Program for 2009 performance year:

1. Corporate Awards
2. North America Division Awards
3. South America Division Awards
4. Europe Division Awards and
5. Asia Division Awards.

The North America Division Awards, South America Division Awards, Europe Division Awards and Asia Division Awards are referred to herein collectively as "Division Awards" and each as a "Division Award". The North America Division, South America Division, Europe Division and Asia Division are referred to herein collectively as "Divisions" and each as a "Division".

Participants in the Program selected by the Committee shall receive the types of Awards in the amounts determined by the Committee.

Corporate Awards are described in Section 1 below, and Division Awards are described in Section 2 below.

Except as otherwise expressly provided herein, all accounting terms not otherwise defined herein shall have the meanings assigned to them in conformity with U.S. generally accepted accounting principles.

Section 1 - Corporate Awards

Two measures of performance are relevant in determining the Performance-Based Benefit Amount, if any, under a Corporate Award: (i) the Corporate Cash Metric and (ii) the Corporate EBITDA Metric.

i. Corporate Cash Metric

The "Corporate Cash Metric" means, for Xerium Technologies, Inc., on a consolidated basis, net cash provided by operating activities for the year ended December 31, 2009 *minus* capital expenditures (as reflected on the cash flow statement) for the year ended December 31, 2009 *plus* interest expense (excluding the amortization of debt expense and net of interest income) for the year ended December 31, 2009 *plus* the reduction (where a reduction is expressed as a positive number and an increase is expressed as a negative number) in Trapped Cash for Xerium Technologies, Inc., on a consolidated basis, from December 31, 2008 to December 31, 2009. "Trapped Cash" means accounts receivable (if any) outstanding at December 31, 2008 or December 31, 2009, as the case may be, in excess of the accounts receivable that would cause the quotient determined by dividing accounts receivable on such date by the ratio

of net sales for the year then ended to 365 to be in excess of 50 *plus* inventory (if any) at December 31, 2008 or December 31, 2009, as the case may be, in excess of one-sixth of cost of goods sold for the year then ended *plus* accounts payable (if any) outstanding at December 31, 2008 or December 31, 2009, as the case may be, less than the amount of the accounts payable that would cause the quotient determined by dividing accounts payable on such date by the ratio of cost of goods sold for the year then ended to 365 to be less than 48. For the avoidance of doubt, for this purpose, the term “accounts payable” shall exclude wages payable. The Committee shall have sole discretion to determine the calculation of the amount of the Corporate Cash Metric.

Weighting: The amount of the target award under the Corporate Award that is based upon the Corporate Cash Metric is 25% of the total Corporate Award for the Participant. “X” below refers to the target award for the Participant under the Corporate Award that is based upon the Corporate Cash Metric.

The Target Corporate Cash Metric (referred to below as “Y”) shall be established by the Committee upon the granting of Corporate Awards and communicated to Participants receiving a Corporate Award; provided, however, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by Xerium Technologies, Inc. or any of its subsidiaries.

Subject to Section 1(iii), the Performance-Based Benefit Amount payable with respect to a Corporate Award based upon the portion measured against the Corporate Cash Metric shall be determined as follows:

Corporate Cash Metric below .95Y: no payment under the Corporate Cash Metric component

Corporate Cash Metric at .95Y: bonus = .5 X

Corporate Cash Metric at Y: bonus = X

Corporate Cash Metric at 1.8Y or above: bonus = 2.5X

The amount payable between the levels of Corporate Cash Metric identified above shall be determined on the basis of straight line interpolation between points.

ii. Corporate EBITDA Metric

The “Corporate EBITDA Metric” means “Adjusted EBITDA,” as such term is defined in the first sentence of the definition of such term in the Credit and Guaranty Agreement (the “Credit Agreement”), dated as of May 19, 2005, entered into by and among the Company, certain subsidiaries of the Company, Citigroup Global Markets, Inc., CIBC World Markets Corp. and other agents and banks party thereto, as amended and in effect on May 30, 2008, for Xerium Technologies, Inc. for the year ended December 31, 2009. The Committee shall have sole discretion to determine the calculation of the amount of the Corporate EBITDA Metric.

Weighting: The amount of the target award under the Corporate Award that is based upon the Corporate EBITDA Metric is 75% of the total Corporate Award for the Participant. "X" below refers to the target award for the Participant under the Corporate Award that is based upon the Corporate EBITDA Metric.

The Target Corporate EBITDA Metric (referred to below as "Y") shall be established by the Committee upon the granting of Corporate Awards and communicated to Participants receiving a Corporate Award; provided, however, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by the Company or any of its subsidiaries.

Subject to Section 1(iii), the Performance-Based Benefit Amount payable with respect to a Corporate Award based upon the portion measured against the Corporate EBITDA Metric shall be determined as follows:

Corporate EBITDA Metric below .75Y: no payment under the Corporate EBITDA Metric component

Corporate EBITDA at .75Y: bonus = .05X

Corporate EBITDA at Y: bonus = X

Corporate EBITDA at 1.42Y or above: bonus = 2.5X

The amount payable between the levels of Corporate EBITDA Metric identified above shall be determined on the basis of straight line interpolation between points.

iii. Performance-Based Benefit Amount payable with respect to a Corporate Award shall be the sum of the amounts determined pursuant to Section 1(i) and Section 1(ii) above; provided, however, if the such amount exceeds two (2) times the sum of (a) the target award for the Participant under the Corporate Award that is based upon the Corporate Cash Metric and (b) the target award for the Participant under the Corporate Award that is based upon the Corporate EBITDA Metric (such sum with respect to a Participant, the "Corporate Target") then the Performance-Based Benefit Amount payable with respect to a Corporate Award for such Participant shall be reduced to two (2) times the Corporate Target.

Section 2 - Division Awards

The description of Division Awards below applies to the Division Awards of each of the four Divisions.

Two measures of performance are relevant in determining the Performance-Based Benefit Amount, if any, under a Division Award: (i) the Division Cash Metric and (ii) the Division EBITDA Metric.

i. Division Cash Metric

The "Division Cash Metric" means net cash provided by operating activities for the year ended December 31, 2009 *minus* capital expenditures for the year ended December 31, 2009 *plus* interest expense (excluding the amortization of debt expense and net of interest income) for the year ended December 31, 2009 *plus* the reduction (where a reduction is expressed as a positive number and an increase is expressed as a negative number) in Trapped Cash (as defined in Section 1(i) above) for the particular Division from December 31, 2008 to December 31, 2009, in each case as required to be presented in the internal financial management reports (commonly referred to as "GRs") of the Company for the particular Division. The Committee shall have sole discretion to determine the calculation of the amount of the Division Cash Metric.

Weighting: The amount of the target award under the Division Award that is based upon the Division Cash Metric is 25% of the total Division Award for the Participant. "X" below refers to the target award for the Participant under the Division Award that is based upon the Division Cash Metric.

The Target Division Cash Metric (referred to below as "Y") shall be established by the Committee upon the granting of Division Awards and communicated to Participants receiving a Division Award for the particular Division; provided, however, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by the particular Division.

Subject to Section 2(iii), the Performance-Based Benefit Amount payable with respect to a Division Award (other than an Asia Division Award) based upon the portion measured against the Division Cash Metric shall be determined as follows:

Division Cash Metric below .95Y: no payment under the Division Cash Metric component

Division Cash Metric at .95Y: bonus = .5X

Division Cash Metric at Y: bonus = X

Division Cash Metric at 1.81Y or above: bonus = 2.5X

The amount payable between the levels of Division Cash Metric identified above shall be determined on the basis of straight line interpolation between points.

Subject to Section 2(iii), the Performance-Based Benefit Amount payable with respect to an Asia Division Award based upon the portion measured against the Division Cash Metric shall be determined as follows:

Division Cash Metric below .95Y: no payment under the Division Cash Metric component

Division Cash Metric at .95Y: bonus = .5X

Division Cash Metric at Y: bonus = X

Division Cash Metric at 8.25Y or above: bonus = 2.5X

The amount payable between the levels of Division Cash Metric identified above shall be determined on the basis of straight line interpolation between points.

ii. Division EBITDA Metric:

The "Division EBITDA Metric" means "Adjusted EBITDA" for the particular Division for the year ended December 31, 2009 as required to be presented in the internal financial management reports (commonly referred to as "GRs") of the Company in accordance with the guidelines for such reports in effect on June 30, 2009 and consistent with the definition of Adjusted EBITDA as set forth in the first sentence of the definition of such term in the Credit Agreement. The Committee shall have sole discretion to determine the calculation of the amount of the Division EBITDA Metric.

Weighting: The amount of the target award under the Division Award that is based upon the Division EBITDA Metric is 75% of the total Division Award for the Participant. "X" below refers to the target award for the Participant under the Division Award that is based upon the Division EBITDA Metric.

The Target Division EBITDA Metric (referred to below as "Y") shall be established by the Committee upon the granting of Division Awards and communicated to Participants receiving a Division Award for the particular Division; provided, however, that the amount so established by the Committee may be adjusted by the Committee after the initial determination of the amount to reflect any significant change of circumstance, including without limitation, the acquisition or disposition of any business by the particular Division.

Subject to Section 2(iii), the Performance-Based Benefit Amount payable with respect to a Division Award (other than an Asia Division Award) based upon the portion measured against the Division EBITDA Metric shall be determined as follows:

Division EBITDA Metric below .75Y: no payment under the Division EBITDA Metric component

Division EBITDA at .75Y: bonus = .05X

Division EBITDA at Y: bonus = X

Division EBITDA Metric at 1.38Y or above: bonus = 2.5X

The amount payable between the levels of Division EBITDA Metric identified above shall be determined on the basis of straight line interpolation between points.

Subject to Section 2(iii), the Performance-Based Benefit Amount payable with respect to an Asia Division Award based upon the portion measured against the Division EBITDA Metric shall be determined as follows:

Division EBITDA Metric below .75Y: no payment under the Division EBITDA Metric component

Division EBITDA at .75Y: bonus = .05X

Division EBITDA at Y: bonus = X

Division EBITDA Metric at 3.25Y or above: bonus = 2.5X

The amount payable between the levels of Division EBITDA Metric identified above shall be determined on the basis of straight line interpolation between points.

iii. Performance-Based Benefit Amount payable with respect to a Division Award shall be the sum of the amounts determined pursuant to Section 2 (i) and Section 2(ii) above; provided, however, if the such amount exceeds two (2) times the sum of (a) the target award for the Participant under the Division Award that is based upon the Division Cash Metric and (b) the target award for the Participant under the Division Award that is based upon the Division EBITDA Metric (such sum with respect to a Participant, the "Division Target") then the Performance-Based Benefit Amount payable with respect to a Division Award for such Participant shall be reduced to two (2) times the Division Target.

Section 3 - Performance-Based Benefit Amount

The Performance-Based Benefit Amount for a Participant shall be the sum of the Performance-Based Benefit Amount payable with respect to any Corporate Award for such Participant (as determined in accordance with Section 1(iii)) and the Performance-Based Benefit Amount payable with respect to any Division Award for such Participant (as determined in accordance with Section 2(iii)).

XERIUM TECHNOLOGIES, INC.
PERFORMANCE AWARD PROGRAM

Exhibit B (applicable to 2009 performance year)

Participant(s)	Time-Based Portion of Total Benefit Amount	Performance-Based Portion of Total Benefit Amount
CEO and His Direct Reports	50%	50%
Other Executives	25%	75%

XERIUM TECHNOLOGIES, INC.
PERFORMANCE AWARD PROGRAM

Exhibit C (applicable to 2009 performance year)

[Form of Restricted Stock Units Agreement (2009 MIC)]

Exhibit 10.3

EMPLOYMENT AGREEMENT

AGREEMENT made and entered into in North Carolina by and between Xerium Technologies, Inc. (the "Company"), a Delaware corporation with its principal place of business in Raleigh, North Carolinas and David G. Maffucci (the "Executive"), effective as of the 8th day of June, 2009 (the "Effective Date").

WHEREAS, subject to the terms and conditions hereinafter set forth, the Company wishes to employ the Executive, in the position of Executive Vice President and Chief Financial Officer, and Executive wishes to accept such employment;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree:

1. Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers and the Executive hereby accepts employment.

2. Term. The employment of the Executive by the Company hereunder shall be for the period commencing on the Effective Date and expiring on the date of the termination of such employment in accordance with Section 5 hereof. For all purposes of this Agreement, references to (a) the "Termination Date" shall mean the date Executive's employment hereunder shall terminate pursuant to said Section 5, and (b) references to the "term" of the Executive's employment hereunder shall mean the period commencing on the Effective Date and ending on the Termination Date. Following the Termination Date, unless specifically otherwise agreed between Executive and any applicable party, the Executive shall cease to hold any position (whether as an officer, director, manager, employee, trustee, fiduciary or otherwise) with the Company or any of its Subsidiaries or Affiliates.

3. Capacity and Performance.

(a) During the term of Executive's employment hereunder, the Executive shall serve the Company as its Executive Vice President and Chief Financial Officer. In addition, and without further compensation, the Executive may serve as a director of the Company and as a director and/or officer of one or more of the Company's subsidiaries, if so elected or appointed from time to time.

(b) During the term of Executive's employment hereunder, the Executive shall be employed by the Company on a full-time basis and shall perform such duties and responsibilities on behalf of the Company and its Subsidiaries as may be designated from time to time by the Chief Executive Officer.

(c) During the term of Executive's employment hereunder, the Executive shall devote his full business time to the advancement of the business and interests of the Company and its Subsidiaries and to the discharge of his duties and responsibilities hereunder, except that Executive may serve as a director of one for-profit external board. The Executive shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the term of this Agreement, except as may be expressly approved in advance by the Chief Executive Officer in writing.

4. Compensation and Benefits. During the term of Executive's employment hereunder as compensation for all services performed by the Executive:

(a) Base Salary. The Company shall pay the Executive a base salary at the rate of four hundred fifteen thousand dollars ($415,000) per year effective as of June 8, 2009, payable in accordance with the payroll practices of the Company for its executives and subject to increase from time to time by the Board, in its sole discretion. Such base salary, as from time to time increased, is hereafter referred to as the "Base Salary."

(b) Annual Incentive Bonus Plan. The Executive shall be entitled to participate in any and all annual bonus plans (the "Annual Bonus Plans") from time to time in effect for senior executives of the Company generally. The terms of each Annual Bonus Plan and Executive's participation therein shall be determined by the compensation committee of the Board of Directors of the Company (the "Board") (or, if there is no such committee, by the Board); provided, however, that the Executive shall be entitled to participate in such plans at a minimum participation rate of sixty percent (60%) of his Base Salary (pro-rated in 2009 based on employment commencement date and at the rate in effect on December 31, 2009 provided that the Executive is employed by the Company on the payment date) paid for the applicable year, with any awards thereunder payable only to the extent earned pursuant to the terms of the applicable Annual Bonus Plan and subject to adjustment in accordance with the terms of the applicable Annual Bonus Plan. Nothwithstanding the foregoing, no award under the Annual Bonus Plans may be granted if the compensation committee determines that in order for such award to qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Plan must be submitted to and approved, or resubmitted to and approved, by the stockholders of the Company in accordance with the requirements of Section 162(m) of the Code, unless such grant is made contingent upon such approval. The compensation committee of the Board (or, if there is no such committee, the Board) may alter, modify, add to or delete any Annual Bonus Plan at any time as it, in its sole judgment determines to be appropriate.

(i) Fiscal 2009 Bonus Guarantee. With respect to the Company's 2009 fiscal year only, the Executive is guaranteed that his total bonus compensation earned for such fiscal year (including any awards granted him under the Annual Bonus

Plans for the fiscal year) shall not be less than fifty percent (50%) of the amount calculated in Section 4(b) above. Any payment due pursuant to this guarantee that is made pursuant to an award under one or more of the Annual Bonus Plans shall be payable in accordance with the Incentive Compensation Plan.

(c) Equity Participation

(i) On or about the Effective Date, the Executive will be granted sixty thousand (60,000) shares of the Company's common stock valued at the closing price on the Executive's employment commencement date.

(ii) On or about the Effective Date, the Executive will be granted seventy-five thousand (75,000) Time-Based restricted stock units ("RSUs") under the Company's 2005 Equity Incentive Plan, subject to any delay resulting from the need to obtain shareholder approval to increase the size of said Plan and subject to the Executive signing and returning the Company's Time-Based Restricted Stock Agreement. The RSUs so granted will vest in accordance with the vesting schedule contained in the Company's Time-Based Restricted Stock Agreement. In the event of termination of the Executive's employment hereunder, in accordance with Section 5(a) as a result of death or Section 5(b) as a result of disability, any RSUs granted under this Section (c)(i) that have not yet vested, but remain outstanding, shall vest as of the termination date. In the event of termination of the Executive's employment hereunder by the Company other than for Cause in accordance with Section 5(d) or by the Executive for Good Reason, in accordance with Section 5(f), any RSUs granted under this Section (c)(i) that have not yet vested, but remain outstanding, will vest upon the effectiveness of the Employee Release (as defined in Section 6(d)(iii) hereof). If the Executive's employment terminates other than as provided in the preceding two sentences, any RSUs granted hereunder which have not yet vested shall be forfeited. The RSUs granted hereunder shall otherwise be subject to the terms and conditions of the 2005 Equity Incentive Plan and the Time-Based Restricted Stock Agreement.

(iii) The Executive will be granted seventy-five thousand (75,000) RSUs under the Company's Long Term Incentive Program of 2008. The Executive shall participate in such Program for the remainder of the Program, provided that the Executive's employment by the Company hereunder is continuing on the applicable date, subject to any delay resulting from the need to obtain stockholder approval to increase the size of said Program and subject to the Executive signing and timely returning the applicable Restricted Stock Agreement, as provided below. Fifty percent (50%) of the RSUs of such grant shall be subject to the Company's time-based restricted stock agreement then in effect and the remaining fifty percent (50%) of such grant shall be subject to the Company's performance-based restricted stock agreement then in effect. The RSUs granted hereunder shall otherwise be subject to the terms of the Long Term Incentive Program of 2008 and the applicable Restricted Stock Agreements.

(iv) In addition to the equity participation described in Section (c)(i) and (c)(ii) hereunder, while the Executive's employment with the Company hereunder is continuing, the Executive shall be entitled to participate in such Company equity plans from time to time in effect for senior executives of the Company generally. The terms of each such plan and Executive's participation therein shall be determined by the compensation committee of the Board (or, if there is no such committee, by the Board itself).

(d) Other Incentive Plans. The Executive shall be entitled to participate in any and all cash, equity, bonus and other incentive plans which are not Annual Bonus Plans (the "Long Term Plans") from time to time in effect for senior executives of the Company generally. The terms of each Long Term Plan and Executive's participation therein shall be determined by the compensation committee of the Board (or, if there is no such committee, by the Board). The compensation committee of the Board (or, if there is no such committee, the Board) may alter, modify, add to or delete any Long Term Plan at any time as it, in its sole judgment, determines to be appropriate.

(e) Vacations. The Executive shall be entitled to an annual vacation of four (4) weeks, with reasonable notice to the Chief Executive Officer and subject to the reasonable business needs of the Company. Vacation shall otherwise be governed by the policies of the Company, as in effect from time to time.

(f) Other Benefits. Subject to any contribution therefor generally required of executives of the Company, the Executive shall be entitled to participate in any and all employee benefit plans from time to time in effect for executives of the Company generally, except to the extent such plans are in a category of benefit specifically otherwise provided to the Executive under this Agreement (*e.g.*, severance pay). Such participation shall be subject to the terms of the applicable plan documents and generally applicable Company policies. The Board may alter, modify, add to or delete employee benefit plans at any time as it, in its sole judgment, determines to be appropriate.

(g) Certain Prerequisites. The Company shall provide the Executive while he continues to be employed by the Company with: (i) a housing allowance of thirty thousand dollars ($30,000) per year net of taxes; (ii) participation in the Company's standard executive automobile program; and (iii) eligibility to use a Company-owned country club membership at the TPC in Wakefield, North Carolina.

(h) Business Expenses. The Company shall pay or reimburse the Executive for all reasonable and necessary business expenses incurred or paid by the Executive in the performance of his duties and responsibilities hereunder, subject to any maximum annual limit or other restrictions on such expenses set by the Board and to such reasonable substantiation and documentation as may be specified by the Company from time to time. In the case of any reimbursement to which the Executive is entitled pursuant to this Section 4(h) that would constitute deferred compensation subject to Section 409A of the Code, the following additional rules shall apply: (i) the reimbursable expense must have been incurred, except as otherwise expressly provided in this Agreement, during the term of this Agreement; (ii) the amount of expenses eligible for reimbursement during any calendar year will not affect the amount of expenses eligible for reimbursement in any other calendar year; (iii) the reimbursement shall be made not later than December 31 of the calendar year following the calendar year in which the expense was incurred; and (iv) the Executive's entitlement to reimbursement shall not be subject to liquidation or exchange for another benefit.

(i) Payments/Actions by Company. Wherever it is provided in this Agreement that payment of any form of compensation or any other action shall be made by the Company, such payment or action may be made by any Subsidiary or Affiliate of the company.

5. Termination of Employment. The Executive's employment hereunder shall terminate under the following circumstances:

(a) Death. In the event of the Executive's death during the term of Executive's employment hereunder, the Executive's employment shall immediately and automatically terminate.

(b) Disability. The Company may terminate the Executive's employment hereunder, upon notice to the Executive, in the event that the Executive becomes disabled during his employment hereunder. For this purpose, disability means that the Executive (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company. If any questions shall arise as to whether during any period the Executive is disabled within the meaning of this Section 5(b), the Executive, at the request of the Company, shall submit to a medical examination by a physician selected by the Company to determine whether the Executive is so disabled and such determination shall for the purposes of this Agreement be conclusive of the issue. If such question shall arise and the Executive shall fail to submit to such medical examination, the Company's determination of the issue shall be binding on the Executive.

(c) By the Company for Cause. The Company may terminate the Executive's employment hereunder for Cause at any time upon notice to the Executive setting forth the nature of such Cause. The following shall constitute Cause for termination: (i) the Executive's conviction of or plea of nolo contendere to a felony or other crime involving moral turpitude; (ii) the Executive's fraud, theft or embezzlement committed with respect to the Company or its Subsidiaries; (iii) material breach by the Executive of any of the provisions of Sections 8, 9 or 10 hereof that causes demonstrable harm to the Company or any of its Subsidiaries; or (iv) the Executive's willful and continued failure to perform his material duties to the Company and its Subsidiaries; provided, however, that the Company may terminate Executive's employment hereunder for "Cause" within the meaning of this clause (iv) only after the Company has provided written notice to the Executive of the failure and the Executive shall not have remedied such failure within ten (10) business days following the effectiveness of such notice.

(d) By the Company Other than for Cause. The Company may terminate the Executive's employment hereunder other than for Cause at any time upon notice to the Executive.

(e) By the Executive Other than for Good Reason. The Executive may terminate his employment hereunder other than for Good Reason (as defined in Section 5(f) below) at any time upon the provision of sixty (60) days written notice to the Company. In the event of termination of the Executive pursuant to this Section 5(e), the Board may elect to waive the period of notice or any portion thereof.

(f) By the Executive for Good Reason. The Executive may terminate his employment hereunder for Good Reason upon written notice to the Company setting forth in reasonable detail the nature of such Good Reason; provided, that such written notice must be delivered to the Company within ninety (90) days of the initial existence of the condition or circumstance constituting or giving rise to the purported Good Reason. A termination by the Executive hereunder shall not be treated as a termination for Good Reason if the Company remedies the condition or circumstance constituting or giving rise to the purported Good Reason within thirty (30) days of the receipt of the Executive's notice, or if actual termination occurs more than two years following the initial existence of such condition or circumstance. The following shall constitute Good Reason for purposes of this subsection (f): a requirement that the Executive relocate more than fifty (50) miles from his then-current principal residence, it being understood that the Executive may be required to travel frequently and that prolonged periods spent away from Executive's principal residence shall not constitute Good Reason.

6. Compensation upon Termination.

(a) Death. In the event of a termination of the Executive's employment hereunder by reason of death as contemplated by Section 5(a), the Company shall pay in a lump sum within thirty (30) days of such termination to the Executive's designated beneficiary or, if no beneficiary has been designated by the Executive, to his estate, the Base Salary earned but not paid through the Termination Date.

(b) Disability. In the event of any termination of Executive's employment hereunder by reason of disability as contemplated by Section 5(b), the Company shall pay to his Base Salary earned but not paid through the Termination Date and, in addition, shall, subject to any employee contribution applicable to the Executive on the Termination Date, continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for eighteen (18) months (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms.

(c) By the Company for Cause. In the event of any termination of Executive's employment hereunder by the Company for Cause as contemplated by Section 5(c), the Company shall have no further obligations to the Executive under this Agreement other than payment of Base Salary through the Termination Date and except as specifically provided in Section 6(g).

(d) By the Company Other than for Cause or by the Executive for Good Reason.

(i) Not Close in Time to a Change of Control. In the event of any termination of Executive's employment hereunder by the Company pursuant to Section 5(d) or by the Executive pursuant to Section 5(f), which occurs after Executive has completed at least six (6) months of employment with the Company and which termination does not occur within three (3) months prior to or within two (2) years following a Change of Control, the Company (A) shall continue to pay the Executive the Base Salary at the rate in effect on the Termination Date for one (1) year, and (B) subject to any employee contribution applicable to the Executive on the Termination Date, shall continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for one (1) year (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms.

(ii) Close in Time to a Change of Control. In the event of any termination of Executive's employment hereunder by the Company pursuant to Section 5(d) or by the Executive pursuant to Section 5(f), which occurs after Executive has completed at least six (6) months of employment with the Company and which termination occurs within three (3) months prior to or within two (2) years following a Change of Control, the Company (A) shall continue to pay the Executive the Base Salary at the rate in effect on the Termination Date for eighteen (18) months, and (B) subject to any employee contribution applicable to the Executive on the Termination Date, shall continue to contribute to the premium cost of the Executive's participation in the Company's group medical and dental plans for eighteen (18) months (or such longer period as may be provided under the employee benefit plans of the Company), but only if the Executive does not have access at reasonable cost to substantially equivalent benefits through another employer, and provided that the Executive is entitled to continue such participation under applicable law and plan terms.

(iii) Conditions. Any obligation of the Company to the Executive under Sections 6(b) and 6(d) hereof is conditioned upon (A) the Executive signing a release of claims in the form appended hereto as Attachment A or such other form as the Company may require (the "Employee Release") within twenty-one (21) days (or such greater period as the Company may specify) following the date notice of termination of employment is given hereunder and upon the Executive's not revoking the Employee Release in a timely manner thereafter and (B) the Executive's continued full performance of his continuing obligations hereunder, including those under Sections 8, 9 and 10. Base Salary to which the Executive is entitled under Sections 6(b) and 6(d) hereof shall be payable in accordance with the normal payroll practices of the Company in effect on the Termination Date and will begin at the Company's next regular payroll period which is at least five (5) business days following the effective date of the Employee Release, but shall be retroactive to next business day following the Termination Date.

(iv) No reduction. The continued payments/contributions by the Company that are described in Sections 6(d)(i) and 6(d)(ii) hereof shall not be reduced by any income or other compensation received by Executive subsequent to the termination of his employment.

(e) By the Executive Other than for Good Reason. If the Executive shall terminate his employment pursuant to Section 5(e), the Company shall continue to pay Executive his Base Salary through the Termination Date (it being understood that if, in accordance with Section 5(e), the Board elects to waive the period of notice, or any portion thereof, the payment of Base Salary under this Section 6(e) shall continue through the notice period or any portion thereof so waived).

(f) Delay in Payment Commencement on Account of Internal Revenue Code Section 409A. If the Executive is, at the time of separation from service, a “specified employee” (as hereinafter defined), any and all amounts payable in connection with such separation from service that constitute deferred compensation subject to Section 409A of the Code, as determined by the Company in its sole discretion, and that would (but for this sentence) be payable within six (6) months following such separation from service, shall not be paid until the date which is six (6) months and one (1) day after the date of such separation from service or, if earlier, Executive’s date of death. In this regard, any payments that otherwise would have been made during such six (6) month period shall be paid to the Executive in a lump sum on the first date on which they may be paid, together with interest credited at the short-term applicable federal rate, compounded daily. For purposes of this subsection (f), “specified employee” means an individual determined by the Company to be a specified employee as defined in subsection (a)(2)(B)(i) of Section 409A of the Code. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-1(i) of the Treasury Regulations for purposes of determining “specified employee” status. Any such written election shall be deemed part of this Agreement.

(g) Post-Termination Obligations Generally. Except for (i) any right expressly set forth in this Section 6, (ii) any vested benefits under any employee benefit plan referred to in Section 4(f) which specifically is designed to provide benefits following termination of employment (such as any such plan providing benefits upon disability or retirement) (but subject to all of the terms, if any, of each such other benefit plan as to how such vested benefits will be treated following termination of employment) and (iii) any rights expressly set forth in any other written agreement to which Executive and any of the company or any of its Subsidiaries or Affiliates shall become parties from time to time after the date hereof, none of the Company or any of its Subsidiaries or Affiliates shall have any further obligations to the Executive, in connection with his employment or the termination thereof, following expiration of the term of the Executive’s employment hereunder. Satisfaction by the Company and other applicable Persons of such rights and benefits shall constitute full settlement of any claim that the Executive may have on account of any termination of employment hereunder against the Company, any of its Subsidiaries or Affiliates and all of their respective past and present officers, directors, stockholders, members, managers, partners, controlling Persons, employees, agents, representatives, successors and assigns and all other others connected with any of them, both individually and in their official capacities.

7. Limitation.

(a) In the event that it is determined that any payment or benefit provided by the Company or any of its Subsidiaries to or for the benefit of the Executive, either under this Agreement or otherwise, and regardless of under what plan or arrangement it was made, would, absent the application of this Section 7, be subject to excise tax (the "Excise Tax") imposed by Section 4999 of the Code, or any successor provision ("Section 4999"), the Company will reduce such payments and/or benefits to the extent, but only to the extent, necessary so that no portion of the remaining payments and/or benefits will be subject to the Excise Tax. The Company shall have discretion in determining which, if any, of several payments and/or benefits (if more than one) are to be reduced.

(b) Determinations as to the amount of any cutback required under this Section 7 will be made by the Company's tax accountant unless the Executive has reasonable objections to the use of that firm, in which case the determinations will be made by a comparable firm chosen jointly by the Company and the Executive (the firm making the determinations to be referred to as the "Firm"). The determinations of the Firm will be binding upon the Company and the Executive except as the determinations are established in resolution (including by settlement) of a controversy with the Internal Revenue Service to have been incorrect. All fees and expenses of the Firm will be paid by the Company.

8. Restricted Activities. The Executive agrees that some restrictions on his activities during and after his employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the company and its Subsidiaries:

(a) While the Executive is employed by the Company and for one (1) year after his employment terminates (or eighteen (18) if the Executive is terminated in accordance with Section 6 (d)(ii)) (in the aggregate, the "Non-Competition Period") the Executive shall not, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the Company: (i) anywhere throughout the world; (ii) in North America; (iii) in South America; (iv) in Europe; (v) in Asia; or (vi) in Australia. Specifically, but without limiting the foregoing, the Executive agrees not to: (A) undertake any planning for any business competitive with the Company or any of its Subsidiaries; or (B) engage in any manner in any activity that is competitive with the business of the Company or any of its Subsidiaries. For the purposes of this Section 8, the Executive's undertaking shall encompass all items, products and services that may be used in substitution for Products.

(b) The Executive agrees that, during his employment with the Company, he will not undertake any outside activity, whether or not competitive with the business of the Company or its Subsidiaries that could reasonably give rise to a conflict of interest or otherwise interfere with his duties and obligations to the Company or any of its Subsidiaries.

(c) The Executive further agrees that while he is employed by the Company and during the Non-Competition Period, the Executive will not, directly or indirectly, (i) hire or attempt to hire any employee of the Company or any of its Subsidiaries, (ii) hire or attempt to hire any independent contractor providing services to the Company or any of its Subsidiaries, (iii) assist in hiring or any attempt to hire anyone identified in clauses (i) or (ii) of this sentence by any other Person, (iv) encourage any employee or independent contractor of the Company or any of its Subsidiaries to terminate his or her relationship with the Company or any of its Subsidiaries, or (v) solicit or encourage any customer or vendor of the Company or any of its Subsidiaries to terminate or diminish its relationship with any of them, or, in the case of a customer, to conduct with any Person any competing business or activity.

(d) In the event that the one (1) year or eighteen (18) month post-termination period stated above is held unenforceable by a court of competent jurisdiction due to its length, then the period shall be six (6) months.

9. Confidential Information.

(a) The Executive acknowledges that the Company and its Subsidiaries continually develop Confidential Information, that the Executive has in the past and may in the future develop Confidential Information for the Company or its Subsidiaries and that the Executive has in the past and may in the future learn of Confidential Information during the course of employment. The Executive will comply with the policies and procedures of the Company and its Subsidiaries for protecting Confidential Information and shall never use or disclose to any Person (except as required by applicable law or for the proper performance of his duties and responsibilities to the Company and its Subsidiaries), any Confidential Information obtained by the Executive incident to his employment or other association with the Company or any of its Subsidiaries. The Executive understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination.

(b) All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of the Company or its Subsidiaries and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of the Company and its Subsidiaries. The Executive shall safeguard all Documents and shall surrender to the Company at the time his employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in the Executive's possession or control.

10. Assignment of Rights to Intellectual Property. The Executive shall promptly and fully disclose all Intellectual Property to the Company. The Executive hereby assigns and agrees to assign to the Company (or as otherwise directed by the Company) the Executive's full right, title and interest in and to all Intellectual Property. The Executive agrees to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by the Company to assign the Intellectual Property to the Company and to permit the Company to enforce any patents, copyrights or other proprietary rights to the Intellectual Property. The Executive will not charge the Company for time spent in complying with these obligations. All copyrightable works that the Executive creates shall be considered "work made for hire."

11. Notification Requirement. Until the conclusion of the Non-Competition Period, the Executive shall give notice to the Company of each new business activity that he plans to undertake at least thirty (30) days prior to beginning any such activity. Such notice shall state the name and address of the Person for whom such activity is undertaken and the nature of the Executive's business relationship(s) and position(s) with such Person. The Executive shall provide the Company with such other pertinent information concerning such business activity as the Company may reasonably request in order to determine the Executive's continued compliance with his obligations under Sections 8, 9 and 10 hereof.

12. Enforcement of Covenants. The Executive acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon his pursuant to Sections 8, 9 and 10 hereof. The Executive agrees that said restraints are necessary for the reasonable and proper protection of the Company and its Subsidiaries and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. The Executive further acknowledges that, were he to breach any of the covenants contained in Sections 8, 9 and 10 hereof, the damage to the Company would be irreparable. The Executive therefore agrees that the Company, in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by the Executive of any of said covenants, without having to post bond. The parties further agree that, in the event that any provision of Sections 8, 9 and 10 hereof shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law.

13. Conflicting Agreements. The Executive hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which the Executive is a party or is bound and that the Executive is not now subject to any covenants against competition or similar covenants or any court order or other legal obligation that would affect the performance of his obligations hereunder. The Executive will not disclose to or use on behalf of the Company any proprietary information of a third party without such party's consent.

14. Definitions. Words or phrases which are initially capitalized or are within quotation marks shall have the meanings provided in this Section 14 and as provided elsewhere herein. For purposes of this Agreement, the following definitions apply:

(a) "Affiliate" means, with respect to the Company or any other specified Person, any other Person directly or indirectly controlling, controlled by or under common control with the Company or such other specified Person, where control may be by management authority, equity interest or other means.

(b) "Change of Control" shall mean any of the following which takes place after the consummation of the initial public offering of common stock of the Company (including as part of an income deposit security or other investment unit) registered under the Securities Act of 1933, as amended: (i) any Person or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Act"), other than the Company or any of its Subsidiaries or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or one of its Subsidiaries, becomes a beneficial owner, directly or indirectly, in one or a series of transactions, of securities representing fifty percent (50%) or more of the total number of votes that may be cast for the election of directors of the Company; (ii) any merger or consolidation involving the Company or any sale or other disposition of all or substantially all of the assets of the Company, or any combination of the foregoing, occurs and the beneficial owners of the Company's voting securities outstanding immediately prior to such consolidation, merger, sale or other disposition do not, immediately following the consummation of such consolidation, merger, sale or other disposition, hold beneficial ownership, directly or indirectly, of securities representing fifty percent (50%) or more of the total number of votes that may be cast for election of directors of the surviving or resulting corporation in the case of any merger or consolidation or of the acquiring Person or Persons in the case of any sale or other disposition; or (iii) within twelve (12) months after a tender offer or exchange offer for voting securities of the Company (other than by the Company or any of its Subsidiaries), individuals who are Continuing Directors shall cease to constitute a majority of the Board. For the purpose of this definition, the term "beneficial owner" (and correlative terms, including "beneficial ownership") shall have the meaning set forth in Rule 13d-3 under the Act.

(c) "Confidential Information" means any and all information of the Company and its Subsidiaries that is not generally known by others with whom they compete or do business, or with whom they plan to compete or do business and any and all information which, if disclosed by the Company or its Subsidiaries, would assist in competition against them. Confidential Information includes without limitation such information relating to (i) the development, research, testing, manufacturing,

marketing and financial activities of the Company and its Subsidiaries, (ii) the Products, (iii) the costs, sources of supply, financial performance and strategic plans of the Company and its Subsidiaries, (iv) the identity and special needs of the customers of the Company and its Subsidiaries and (v) the people and organizations with whom the Company and its Subsidiaries have business relationships and those relationships. Confidential Information also includes any information that the Company or any of its Subsidiaries have received, or may receive hereafter, from others which was received by the Company or any of its Subsidiaries with any understanding, express or implied, that the information would not be disclosed.

(d) "Continuing Director" means, with respect to any event referred to in the definition of "Change of Control," each individual who was a director of the Company immediately prior to the event in question and each individual whose election as a director by the Board or whose nomination for election by the stockholders of the Company was approved by a vote of two-thirds of the directors then still in office who were directors immediately prior to such event or whose election or nomination was previously so approved.

(e) "Intellectual Property" means inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by the Executive (whether alone or with others and whether or not during normal business hours or on or off the premises of the Company or any of its Subsidiaries) during the Executive's employment with the Company or any of its Subsidiaries (including prior to the Effective Date if applicable) that relate to either the Products or any prospective activity of the Company or any of its Subsidiaries or that make use of Confidential Information or any of the equipment or facilities of the Company or any of its Subsidiaries.

(f) "Person" means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust and any other entity or organization.

(g) "Products" mean all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company or any of its Subsidiaries, together with all services provided or planned by the Company or any of its Subsidiaries, during the Executive's employment with the Company or any of its Subsidiaries (including prior to the Effective Date if applicable).

(h) "Subsidiary" shall mean any Person of which the Company (or other specified Person) shall, directly or indirectly, own beneficially or control the voting of at least a majority of the outstanding capital stock (or other shares of beneficial interest) entitled to vote generally or at least a majority of the partnership, membership, joint venture or similar interests, or in which the Company (or other specified Person) or a Subsidiary thereof shall be a general partner or joint venturer without limited liability.

(i) All references in this Agreement to termination of employment, separation from service, retirement and similar or correlative terms, when used in a context that bears upon the vesting, payment or timing of payment of any amounts or benefits that constitute or could constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code, shall be construed to require a "separation from service" (as that term is defined in Section 1.409A-1(h) of the Treasury Regulations) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single "service recipient" with the Company under Section 1.409A-1(h)(3) of the Treasury Regulations. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A of the Code, any of the special elective rules prescribed in Section 1.409A-1(h) of the Treasury Regulations for purposes of determining whether a "separation from service" has occurred. Any such written election shall be deemed part of this Agreement.

15. Survival. The provisions of this Agreement shall survive following the Termination Date if so provided herein or desirable to accomplish the purposes of other surviving provisions, including without limitation the provisions of Sections 6, 7, 8, 9, 10 and 11.

16. Withholding. All payments made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

17. Assignment. Neither the Company nor the Executive may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without the consent of the Executive in the event that the Company shall hereafter effect a reorganization, consolidation or merger or to whom the Company transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon the Company and the Executive, their respective successors, executors, administrators, heirs and permitted assigns.

18. Severability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

19. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require the performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

20. Notices. Any and all notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person, when delivered by courier at the Executive's last known address on the books of the Company, or five (5) business days following deposit in the United States mail, postage prepaid, registered or certified, and addressed to the Executive at his last known address on the books of the Company or, in the case of the Company, at its principal place of business, attention of the Chairman of the Board or to such other address as either party may specify by notice to the other actually received.

21. Entire Agreement. This Agreement and the other plans and documents specifically referred to herein constitute the entire agreement between the parties regarding the subject matter of this Agreement and such other plans and documents and supersede all prior communications, agreements and understandings, written or oral, with respect to such subject matter.

22. Amendment. This Agreement may be amended or modified only by a written instrument signed by the Executive and by an expressly authorized representative of the Company.

23. Headings. The headings and captions in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

24. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

25. Governing Law. This is a North Carolina contract and shall be construed and enforced under and be governed in all respects by the laws of the State of North Carolina, without regard to the conflict of laws principles thereof.

26. Seal. The Executive warrants and represents that he hereby adopts the word/symbol (SEAL) as his seal with the intent that this Agreement be signed by the Executive under seal and treated as a sealed instrument.

27. Consideration. The parties expressly waive any defense either may now or hereafter have as to the lack of inadequacy of consideration for this Agreement.

THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Executive, and by the Company, through its duly authorized representative, as the date first above written.

THE EXECUTIVE:

/s/ David G. Maffucci (SEAL)	By:	/s/ Stephen R. Light
Name: David G. Maffucci	Title:	Chairman and CEO

Exhibit 10.4

SUPPLEMENTAL AGREEMENT No 1 TO THE MANAGEMENT SERVICE CONTRACT FOR MANAGEMENT BOARD MEMBERS

between

Stowe Woodward AG

Am Langen Graben 22, 52353 Düren, represented by its Supervisory Board, in turn represented by its chairman, Stephen R. Light (hereinafter the "Company")

and

Mr. Peter Williamson

Bismarckstraße 3, 69198 Schriesheim (hereinafter the "Management Board Member")

dated March 12, 2008.

1. In addition to the position as member of the management board of the Company, it is intended to appoint the Management Board Member also as Managing Director ("Geschäftsführer") of Xerium Germany Holding GmbH as well as of Xerium Technologies Limited UK. The Management Board Member's annual base salary as specified under section 3.1 of the Management Service Contract for Management Board Members shall cover all additional activities in connection with these positions, and it is agreed that no additional remuneration shall be paid.
2. All other provisions of the Management Service Contract for Management Board Member remain unchanged and unaffected.

The Company, represented by: Stephen R. Light, Chairman of the Supervisory Board		Management Board Member	
Place, Date:	Raleigh, North Carolina, U.S.A, June 10, 2009	Place, Date:	Düren, June 10, 2009
Signature:	/s/ Stephen R. Light	Signature:	/s/ Peter Williamson

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen R. Light, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerium Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2009

/s/ Stephen R. Light

Stephen R. Light
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, David G. Maffucci, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerium Technologies, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2009

/s/ David G. Maffucci

David G. Maffucci
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal executive officer of Xerium Technologies, Inc. (the "Company"), does hereby certify that, to his knowledge:

1) the Company's Form 10-Q for the period ended June 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the period ended June 30, 2009, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen R. Light

Stephen R. Light
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

August 6, 2009

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal financial officer of Xerium Technologies, Inc. (the "Company"), does hereby certify that, to his knowledge:

1) the Company's Form 10-Q for the period ended June 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the period ended June 30, 2009, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David G. Maffucci

David G. Maffucci
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

August 6, 2009

EXHIBIT E

XERIUM'S FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

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

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2009**

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 (State or other jurisdiction of incorporation or organization)	42-1558674 (I.R.S. Employer Identification No.)
8537 Six Forks Road Suite 300 Raleigh, North Carolina (Address of principal executive offices)	27615 (Zip Code)

(919) 526-1400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of November 2, 2009 was 48,934,820.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Xerium Technologies, Inc.

Condensed Consolidated Balance Sheets—(Unaudited)
(dollars in thousands, except per share data)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,816	$ 34,733
Accounts receivable (net of allowance for doubtful accounts of $7,780 at September 30, 2009 and $14,937 at December 31, 2008)	81,745	94,049
Inventories	82,128	85,543
Prepaid expenses	5,917	4,844
Other current assets	27,680	14,938
Total current assets	219,286	234,107
Property and equipment, net	392,299	384,590
Goodwill	155,095	155,205
Intangible assets	12,670	32,129
Other assets	5,106	5,541
Total assets	$ 784,456	$ 811,572
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	$ 28,100	$ —
Accounts payable	27,703	53,076
Accrued expenses	63,269	83,139
Current maturities of long-term debt	10,058	39,687
Long-term debt classified as current	585,156	—
Total current liabilities	714,286	175,902
Long-term debt, net of current maturities and long-term debt classified as current	5,240	577,270
Deferred and long-term taxes	15,595	13,358
Pension, other postretirement and postemployment obligations	68,134	67,029
Other long-term liabilities	4,657	5,594
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, $0.01 par value, 1,000,000 shares authorized; no shares outstanding as of September 30, 2009 and December 31, 2008	—	—
Common stock, $0.01 par value, 150,000,000 shares authorized; 48,934,820 and 46,257,772 shares outstanding as of September 30, 2009 and December 31, 2008, respectively	489	463
Paid-in capital	221,399	220,370
Accumulated deficit	(234,143)	(218,915)
Accumulated other comprehensive loss	(11,201)	(29,499)
Total stockholders' deficit	(23,456)	(27,581)
Total liabilities and stockholders' deficit	$ 784,456	$ 811,572

See accompanying notes.

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Xerium Technologies, Inc.

Condensed Consolidated Statements of Operations—(Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	$ 130,308	$ 159,307	$ 367,654	$ 488,687
Costs and expenses:				
Cost of products sold	81,520	106,513	228,956	303,763
Selling	16,991	20,125	49,574	62,437
General and administrative	15,428	28,265	35,100	70,322
Restructuring and impairments	1,754	3,612	2,894	6,862
Research and development	2,708	2,910	8,168	9,109
Curtailment/settlement gains	—	(39,968)	—	(39,968)
	118,401	121,457	324,692	412,525
Income from operations	11,907	37,850	42,962	76,162
Interest expense	(16,651)	(16,963)	(48,899)	(43,513)
Interest income	226	733	947	1,296
Foreign exchange gain (loss)	561	710	(225)	3,344
Income (loss) before provision for income taxes	(3,957)	22,330	(5,215)	37,289
Provision for income taxes	3,424	794	10,013	6,344
Net income (loss)	$ (7,381)	$ 21,536	$ (15,228)	$ 30,945
Net income (loss) per share:				
Basic	$ (0.15)	$ 0.47	$ (0.31)	$ 0.67
Diluted	$ (0.15)	$ 0.46	$ (0.31)	$ 0.67
Shares used in computing net income (loss) per share:				
Basic	48,882,979	46,163,605	48,898,255	46,111,390
Diluted	48,882,979	46,327,233	48,898,255	46,208,018

See accompanying notes.

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Xerium Technologies, Inc.

Condensed Consolidated Statements of Cash Flows—(Unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2009	2008
Operating activities		
Net income (loss)	$(15,228)	$ 30,945
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	1,824	774
Depreciation	29,021	33,311
Amortization of intangibles	1,748	2,386
Deferred financing cost amortization	3,895	3,539
Unrealized foreign exchange (gain) loss on revaluation of debt	(1,719)	(2,510)
Deferred taxes	2,835	(9,419)
Asset impairments	1,667	472
Gain on disposition of property and equipment	(2,024)	(2,637)
Change in fair value of interest rate swaps	1,653	(1,998)
Provision for bad debt expense	(4,823)	8,163
Curtailment/settlement gains	—	(39,968)
Change in assets and liabilities which provided (used) cash:		
Accounts receivable	21,795	3,407
Inventories	9,319	13,150
Prepaid expenses	(771)	(596)
Other current assets	3,057	373
Accounts payable and accrued expenses	(48,385)	15,155
Deferred and other long-term liabilities	(75)	(1,713)
Net cash provided by operating activities	3,789	52,834
Investing activities		
Capital expenditures, gross	(13,970)	(29,145)
Proceeds from disposals of property and equipment	4,211	3,566
Proceeds from acquisition, net of cash acquired	—	144
Other	1,100	(1,700)
Net cash used in investing activities	(8,659)	(27,135)
Financing activities		
Net increase in borrowings (maturities of 90 days or less)	28,000	(1,768)
Proceeds from borrowings (maturities longer than 90 days)	—	2,381
Principal payments on debt	(35,872)	(22,205)
Other	(1,442)	(8,794)
Net cash used in financing activities	(9,314)	(30,386)
Effect of exchange rate changes on cash flows	1,267	(1,082)
Net (decrease) increase in cash	(12,917)	(5,769)
Cash and cash equivalents at beginning of period	34,733	24,218
Cash and cash equivalents at end of period	$ 21,816	$ 18,449

See accompanying notes.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(dollars in thousands, except per share data)

1. Company History

Xerium Technologies, Inc. (the "Company") is a leading global manufacturer and supplier of two types of consumable products used primarily in the production of paper – clothing and roll covers. Operations are strategically located in the major paper-making regions of the world, including North America, Europe, South America and Asia-Pacific.

2. Senior Credit Facility Matters and Basis of Presentation

(a) Senior Credit Facility Matters

The Company's senior credit facility ("Credit Agreement") requires that the Company satisfy certain operating requirements and financial covenant ratios in order to avoid a default or event of default under the Credit Agreement. As previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, the Company anticipated that it would not be in compliance with certain financial covenants of the Credit Agreement for the period ending September 30, 2009. Therefore to provide the Company with additional time to work with its creditors and stockholders to find long-term solutions to its credit issues, on September 29, 2009, the Company entered into Waiver and Amendment No. 1 (the "Waiver Agreement") to the Credit Agreement. As of September 30, 2009, the Company was not in compliance with those covenants. Absent the Waiver Agreement, failure to meet these financial covenants would constitute an event of default under the Credit Agreement and potentially could lead to acceleration of the Company's loan obligations by the lenders, the termination of its interest rate swap agreements by the counterparties (see Note 4) or the initiation of insolvency proceedings against the Company in some non-U.S. jurisdictions.

Pursuant to the Waiver Agreement, the lenders agreed to waive any violation of the interest coverage, leverage and fixed charge covenants under the Credit Agreement until the earliest of (i) the occurrence of any other default under the Credit Agreement, (ii) the Company's failure to comply with any term of the Waiver Agreement or (iii) December 15, 2009 (the "Waiver Period"). During the Waiver Period no new revolving loans may be made to the Company. The Company may request new letters of credit of up to $3,500 for equipment purchases and may extend the expiration dates for certain outstanding letters of credit.

In connection with the Waiver Agreement, the Company paid aggregate fees to the lenders of approximately $1,500 at the time of the effectiveness of the Waiver Agreement. Additional fees of approximately $1,500 will be paid at the maturity date for the loans under the Credit Agreement and will accrue interest at the rate applicable to the loans at that time. In addition, during the period between September 29, 2009 and December 15, 2009 the outstanding balance under the Credit Agreement will bear interest at a rate that is 1.0% per year in excess of the non-default rate otherwise payable during that period under the Credit Agreement. The non-default rate is LIBOR, the Euribor or CDOR rate plus the applicable margin of 5.50%.

The Company has formed a steering committee of its Board of Directors to explore initiatives to address long-term solutions to its credit issues. The Company is in discussions with its current lenders regarding restructuring or replacing some or all of its debt, which would be likely to include the issuance of equity to such lenders and the payment of additional fees, as well as exploring with third parties various strategic alternatives affecting our debt and equity ownership.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

2. Senior Credit Facility Matters and Basis of Presentation—(continued)

(a) Senior Credit Facility Matters—(continued)

Even with the additional time provided by the Waiver Agreement, there can be no assurance that the Company will be able to complete any initiatives to resolve its credit issues on satisfactory terms, or at all. Any such initiatives the Company pursues are likely to severely dilute its existing stockholders and may result in its existing common stock having little or no value. If the Company is unable to execute its initiatives prior to the expiration of the Waiver Period, its failure to comply with the financial covenants of the Credit Agreement as of September 30, 2009 would be a default under that Agreement, absent a further waiver of those terms, which may not be available at that time. The Company is seeking an additional wavier to extend the Waiver Period and provide additional Credit Agreement relief from the payment of principal and interest due. The Company anticipates that it may have insufficient cash at year end to both make its required payments under the Credit Agreement and operate its business. Accordingly, absent a waiver of some or all of the scheduled quarterly payments required under the Credit Agreement, which would require unanimous approval of the lenders of the debt outstanding under the Credit Agreement, the Company may default on its payment obligations under the Credit Agreement or seek relief through the bankruptcy courts. There can be no assurance that the Company will be able to obtain a waiver of all or any portion of the scheduled quarterly payments under the Credit Agreement from its lenders.

Because the Waiver Agreement expires December 15, 2009, the accompanying balance sheet as of September 30, 2009 includes a reclassification of $585,156 to reflect as current the long-term debt under the Credit Agreement that was anticipated to be in default. Additionally, related deferred financing costs of approximately $16,948 were also reclassified to other current assets from other assets as of September 30, 2009.

(b) Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements at September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, such financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. The interim results presented herein are not necessarily indicative of the results to be expected for the entire year. In management's opinion, these unaudited condensed consolidated interim financial statements contain all adjustments of a normal recurring nature necessary for a fair presentation of the financial statements for the interim periods presented. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008 as reported on Form 10-K on March 12, 2009.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

3. Accounting Policies

Derivatives and Hedging

Effective January 1, 2009, the Company adopted Accounting Standards Codification ("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 disclosure 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 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 transactions 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.

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. As a result of the tests as of December 31, 2008, the Company determined that no goodwill impairment existed. During the third quarter of 2009, the Company evaluated events and circumstances that may have indicated an impairment of goodwill and performed an interim test for goodwill impairment. The interim test indicated that no impairment exists.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

Net Income (Loss) Per Common Share

Net income (loss) per common share has been computed and presented pursuant to the provisions of ASC Topic 260, *Earnings per Share* ("Topic 260"). Net income per share is based on the weighted-average number of shares outstanding during the period. As of September 30, 2009 and 2008, the Company had outstanding restricted stock units ("RSUs") (see Note 14).

For the three months ended September 30, 2008, the diluted average shares outstanding were computed using the average market price for time-based RSUs granted in 2005 and certain time-based RSUs granted in 2008 and the actual grant date market price for non-employee director RSUs. The calculation of diluted earnings per share for 2008 excluded the Company's performance-based RSUs granted in 2005 and 2007 that are based on shareholder return targets because the performance criteria had not been contingently achieved and therefore the RSUs were not contingently issuable.

For the three months ended September 30, 2009, the diluted average shares outstanding were computed using the average market price for time-based RSUs granted in 2008 and 2009 and the actual grant date market price for non-employee director RSUs. The calculation of diluted earnings per share for the three and nine months ended September 30, 2009 excluded the Company's performance-based RSUs granted in 2005, 2007, 2008 and 2009 that are based on shareholder return targets because the performance criteria have not been contingently achieved and therefore the RSUs are not contingently issuable. For the three and nine months ended September 30, 2009, the Company excluded the dilutive impact of potential future issuances of common stock underlying the Company's RSUs from the calculation of diluted average shares outstanding because their effect would have been antidilutive as the Company had a net loss for these periods.

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Weighted-average common shares outstanding—basic	48,882,979	46,163,605	48,898,255	46,111,390
Dilutive effect of stock-based compensation awards outstanding	—	163,628	—	96,628
Weighted-average common shares outstanding—diluted	48,882,979	46,327,233	48,898,255	46,208,018

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

New Accounting Standards

In August 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2009-05 – *Measuring Liabilities at Fair Value* ("ASU 2009-05"), which is an update of ASC Topic 820, *Fair Value Measurements.* ASU 2009-05 was issued to reduce potential ambiguity in financial reporting related to the fair value of liabilities by providing clarification on measuring liabilities at fair value when a quoted price in an active market is not available. ASU 2009-05 is effective for the fourth quarter of 2009 and the Company believes that the adoption of ASU 2009-05 will have no material impact on its consolidated financial statements.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

New Accounting Standards—(continued)

In June 2009, the FASB issued ASU No. 2009-01, *Topic 105—Generally Accepted Accounting Principles, amendments based on Statement of Financial Accounting Standards* ("SFAS") *No. 168 — The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* ("ASU No. 2009-01"). ASU No. 2009-01 is effective for interim periods ending after September 15, 2009 and identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States ("GAAP"). The objective of this statement is to establish the FASB Accounting Standards Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The adoption of ASU No. 2009-01 had no material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS No. 167"), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). SFAS No. 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and the Company believes that the adoption of SFAS No. 167 will have no material impact on its consolidated financial statements.

In June 2009, the FASB issued FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140* ("SFAS No. 166"). SFAS No. 166 is intended to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. SFAS No. 166 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company believes that the adoption of SFAS No. 166 will have no material impact on its consolidated financial statements.

In May 2009, the FASB issued, in ASC Topic 855-10-50-1, *Subsequent Events* ("Topic 855"), general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Topic 855 is effective for interim and annual periods ending after June 15, 2009. The adoption of Topic 855 had no material impact on its consolidated financial statements. The Company has evaluated subsequent events through November 6, 2009, which represents the date the Company's Form 10-Q for the quarter ended September 30, 2009 was filed with the SEC.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

New Accounting Standards—(continued)

In April 2009, the FASB issued, in ASC Topic 825-10-65, *Transition Related to FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments* ("Topic 825-10-65"), requirements for disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. Topic 825-10-65 is effective for interim reporting periods ending after June 15, 2009. The adoption of Topic 825-10-65 had no material impact on the Company's consolidated financial statements. See Note 6 for further discussion.

Effective January 1, 2009, the Company adopted ASC Topic 815-10-65-1 for disclosure related to derivatives and hedging. See "Derivatives and Hedging" above. The Company's adoption of Topic 815-10-65-1 did not have a material effect on its consolidated financial statements.

Effective January 1, 2008, the Company partially adopted provisions of ASC Topic 820, *Fair Value Measurements and Disclosures*, for measuring its derivative assets and liabilities. See further discussion at Note 4 "Derivatives and Hedging". ASC Topic 820-10-65-1, *Transition related to FASB Staff Position FAS157-2, Effective Date of FASB Statement No. 157* permits the Company to defer the recognition and measurement of its nonfinancial assets and nonfinancial liabilities until January 1, 2009. At January 1, 2009, the Company did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

In May 2008, the FASB issued ASC Topic 260-10-65-2, *Transition Related to FSP EITF 03-6-1* ("Topic 260"), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the allocation in computing earnings per share under the two-class method. The FASB concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. If awards are considered participating securities, the Company is required to apply the two-class method of computing basic and diluted earnings per share. These provisions of Topic 260 are effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The implementation of the provisions of Topic 260 did not impact the Company's consolidated financial statements.

In December 2007, the FASB issued, in ASC Topic 805-10-65, *Transition Related to FASB Statement No. 141 (Revised 2007), Business Combinations* ("Topic 805-10-65") requirements that upon initially obtaining control, an acquirer is to recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Topic 805-10-65 also requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination, either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. On January 1, 2009, the Company adopted Topic 805-10-65, which are effective for fiscal years beginning after December 15, 2008. The adoption of these provisions of Topic 805-10-65 had no impact on the Company's consolidated financial statements.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

3. Accounting Policies—(continued)

New Accounting Standards—(continued)

In December 2007, the FASB issued, in ASC Topic 810-10-65, *Transition Related to FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("Topic 810-10-65"). Topic 810-10-65 provided clarification of the classification of noncontrolling interests in consolidated statements of financial position and the accounting for, and reporting of, transactions between the reporting entity and holders of such noncontrolling interests. On January 1, 2009, the Company adopted Topic 810-10-65, which was effective for the first annual reporting period beginning on or after December 15, 2008. Topic 810-10-65 was required to be adopted prospectively, except for reclassifying noncontrolling interests to equity, separate from the parent's shareholders' equity, in the consolidated statement of financial position and recasting consolidated net income (loss) to include net income (loss) attributable to both the controlling and noncontrolling interests, both of which are required to be adopted retrospectively. Since essentially all of the Company's subsidiaries are 100% owned, the adoption of these provisions of Topic 810-10-65 did not have a significant impact on its consolidated financial statements.

4. 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. 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. Specifically, the Company has entered into interest rate swaps to hedge variable interest related to its senior debt and foreign exchange contracts to protect the value of certain assets and obligations.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in 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 primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

4. Derivatives and Hedging—(continued)

Cash Flow Hedges of Interest Rate Risk—(continued)

The Company anticipated that it would not be in compliance with certain financial covenants under its senior credit facility for the period ending September 30, 2009 and thus, on September 29, 2009, the Company entered into Waiver and Amendment No. 1 (the "Waiver Agreement") to the Credit Agreement (see Note 2). As of September 30, 2009, the Company was not in compliance with those covenants. As it is uncertain that the Company will be able to complete any alternative, long-term solutions to its credit issues or to obtain a further waiver prior to expiration of the Waiver Agreement, the Company is no longer able to support that the variable-rate interest payments (hedged transactions) under its senior credit facility are probable of occurring. Therefore, effective September 1, 2009, the Company was required to discontinue cash flow hedge accounting prospectively for its interest rate swaps so that the mark to market changes in their fair value are charged or credited to interest expense. Prior to September 1, 2009, the effective portion of changes in the fair value of derivatives designated and that qualified as cash flow hedges were recorded in accumulated other comprehensive income (loss) and subsequently reclassified into earnings in the period that the hedged forecasted transaction affected earnings. The ineffective portion of the change in fair value of the derivatives was recognized directly in earnings. The balance in accumulated other comprehensive loss as of August 31, 2009 related to the interest rate swaps for which hedge accounting was discontinued will be subsequently reclassified into the statement of operations (interest expense) over the remaining original term of the derivative as the hedged forecasted transactions are also recognized to interest expense, in accordance with ASC Topic 815. Accordingly, during the twelve months ended September 30, 2010, the Company estimates, based on interest rates as of September 30, 2009, that $10,115 will be reclassified as a charge to interest expense. However, if the Company is not able to restructure its debt obligations in a manner that is consistent with the hedged forecasted transactions or if the lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, the cumulative mark to market changes in the fair value of the underlying interest rate swaps that have been recorded in accumulated other comprehensive loss, in addition to the credit valuation adjustments recorded under ASC Topic 820, would be charged to the statement of operations at that time. As of September 30, 2009 this amount was $15,800. Any acceleration of the obligations of the Company under its credit facility, or any failure of the Company to make required payments under its credit facility, could allow the counterparties on certain of its existing interest rate swaps to terminate those arrangements. As of September 30, 2009, the Company estimates that the amount payable upon a termination of such interest rate swaps would have been approximately $19,045.

Although these interest rate swaps are subject to mark to market accounting through earnings effective September 1, 2009, they continue to effectively fix, from a cash flow hedge perspective, the interest rate on approximately 81% of the term loan portion of the Company's credit facility through December 31, 2010. As of September 30, 2009, the variable interest rate was effectively fixed at 10.75%. As of September 30, 2009, the Company had the following outstanding interest rate swaps, all of which were not designated as hedges:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Swaps – Canadian dollar instruments	2	$ 57,832
Interest Rate Swaps – Euro instruments	2	$159,064
Interest Rate Swaps – U.S. dollar instruments	2	$260,406

Non-designated Hedges of Foreign Exchange Risk

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

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

4. Derivatives and Hedging—(continued)

The Company, from time to time, enters 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 currency (cash flow hedges). Additionally, to manage its exposure to fluctuations in foreign currency on intercompany balances and certain purchase commitments, the Company uses foreign exchange forward contracts (fair value hedges).

As of September 30, 2009, the Company had the following 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. The change in fair value of these contracts is included in foreign exchange gain/(loss) in the statement of operations.

Foreign Currency Derivative	Notional Sold	Notional Purchased
Cash flow hedges	$ —	$ 682
Fair value hedges	$ (2,264)	$ —

Credit-risk-related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain a provision where if the Company either defaults in payment obligations under its credit facility or if such obligations are accelerated by the lenders, then the Company could also be declared in default on its derivative obligations.

As of September 30, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $18,886. Included in this amount are certain derivative liabilities of $6,283 that are related to counterparties that are also lenders under the Company's senior credit facility. Liabilities to these counterparties for derivatives and borrowings made under the senior credit facility are secured by substantially all of the Company's assets. The Company has not posted any collateral related to other derivative agreements.

Due to reduced credit limits at some of its banks, the Company has been entering into fewer foreign currency hedging arrangements and may not be able to enter into as many hedging arrangements in the future. Additionally, as discussed above, effective September 1, 2009, the Company was required to discontinue cash flow hedge accounting prospectively for its interest rate swaps so that the mark to market changes in their fair value are charged or credited to interest expense in the Company's statement of operations. Consequently, the Company's financial statements are more exposed to the effects of currency and interest rate fluctuations, respectively, both favorable and unfavorable, which could have a material impact on its results of operations.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2009.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

4. Derivatives and Hedging—(continued)

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives As of September 30, 2009		Liability Derivatives As of September 30, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Topic 815				
Interest Rate Swaps	Other current assets	$ —	Accrued expenses	$ —
Total derivatives designated as hedging instruments under Topic 815		$ —		$ —
Derivatives not designated as hedging instruments under Topic 815				
Interest Rate Swaps	Other current assets	$ —	Accrued expenses	$ 15,886
Foreign Currency Hedges	Other current assets	$ 184	Accrued expenses	$ —
Total derivatives not designated as hedging instruments under Topic 815		$ 184		$ 15,886

The tables below present the effect of the Company's derivative financial instruments on the consolidated statements of operations for the three months ended September 30, 2009.

Tabular Disclosure of the Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three Months Ended September 30, 2009

Derivatives in Topic 815 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion), net of tax	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest Rate Swaps (1)	$ (1,634)	Interest expense	$ (2,952)	Interest expense	$ (266)

Derivatives Not Designated as Hedging Instruments Under Topic 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest Rate Swaps (1)	Interest Expense	$ (592)
Foreign Currency Hedges	Foreign exchange gain	$ 120
		$ (472)

(1) The Company's interest rate swaps were considered designated hedging instruments through August 31, 2009. As discussed above, effective September 1, 2009, the interest rate swaps were no longer designated hedging instruments.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

4. Derivatives and Hedging—(continued)

Fair Value of Derivatives Under Accounting Standards Topic 820

Effective January 1, 2008, the Company adopted ASC Topic 820 for measuring its derivative assets and liabilities. 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 for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related 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 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 counterparty'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 utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2009, the Company has 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 are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of September 30, 2009.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observables Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives	$ 184	$ —	$ 184	$ —
Total	$ 184	$ —	$ 184	$ —
Liabilities				
Derivatives	$(15,886)	$ —	$ (15,886)	$ —
Total	$(15,886)	$ —	$ (15,886)	$ —

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

5. Inventories

The components of inventories are as follows at:

	September 30, 2009	December 31, 2008
Raw materials	$ 17,365	$ 17,357
Work in process	27,734	29,385
Finished units	37,029	38,801
	$ 82,128	$ 85,543

6. Debt

On September 29, 2009, the Company entered into the Waiver Agreement under its senior credit facility. See Note 2.

Borrowings under the revolving credit facility and the term loans carry interest at the sum of, as applicable, LIBOR, the Euribor or CDOR rate plus, in each case, the applicable margin. In connection with the amendment of the senior credit facility agreement on May 30, 2008, the applicable margin increased from 2.75% to 5.50% through December 31, 2008 with three identified step downs (i.e., to 4.25%, 3.75% and 2.75%) that are contingent upon future improvements in the Company's credit rating levels beginning January 1, 2009. Under the terms of the Waiver Agreement entered into on September 29, 2009, there is a 1% increase in interest rates through the end of the Waiver Period. Based on the 90-day LIBOR, as of September 30, 2009, approximately 81% of the Company's long-term debt under its senior credit facility was effectively fixed by interest rate swap contracts at 10.75%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed was 7.08%.

During the first quarters of 2009 and 2008, the Company made mandatory debt repayments of approximately $16,100 and $9,400, respectively, based on the difference between its "pre-dividend free cash flow", as defined in its credit facility agreement, and cash dividends paid in the prior year, multiplied by the applicable percentage as defined in the agreement. The Company also made mandatory payments of $2,600 and $500 during the second and third quarters of 2009. Beginning in 2009, the sum of voluntary and scheduled debt payments made in the previous year is subtracted from this result to determine the mandatory debt repayment. The Company also made scheduled quarterly debt payments of its senior debt of approximately $4,700 and $1,800 during the first quarters of 2009 and 2008, respectively, $4,700 and $2,000 during the second quarters of 2009 and 2008, respectively and $5,000 and $2,300 during the third quarters of 2009 and 2008, respectively. Also in the third quarter of 2008, the Company made a voluntary prepayment of approximately $6,100. During the first quarter of 2009, the Company made borrowings under its revolver of $28,000.

Topic 825-10-65 requires disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The carrying value of the debt under the senior credit facility of $591,446 exceeded its fair value of approximately $421,000 as of September 30, 2009.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

7. Income Taxes

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 differences between financial reporting and tax bases of assets and liabilities. Deferred tax 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 the 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. Information evaluated includes the Company's financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years.

Because of the Company's accumulated loss position and the uncertainty around the future profitability in certain tax jurisdictions, on September 30, 2009, the Company has deferred tax asset valuation allowances for deferred tax assets primarily related to net operating loss carry forwards in the United States, the United Kingdom, Canada, Germany, Sweden and Australia.

For the three months ended September 30, 2009 and 2008, the provision for income taxes was $3,424 and $794, respectively. For the three months ended September 30, 2009 and 2008, the effective tax rate for income taxes was (86.5%) and 3.6%, respectively. The increase in income taxes for the third quarter of 2009 as compared with the third quarter of 2008 is principally due to losses incurred by certain foreign and domestic subsidiaries for which the Company currently has deferred tax asset valuation allowances recorded, including curtailment/settlement gains recorded in the third quarter of 2008 relating to U.S. retiree plans of $40.1 million for which no taxes were reflected due to the U.S. deferred tax asset valuation allowance recorded as of 2008. Recorded deferred tax asset valuation allowances resulted in positive tax expense for the quarter ended September 30, 2009, which resulted in a negative effective rate when compared with the Company's third quarter pre-tax loss of $3,957.

For the nine months ended September 30, 2009 and 2008, the provision for income taxes was $10,013 and $6,344, respectively. The increase in income taxes for the nine months ended September 30, 2009 was primarily due to the reasons noted above for the third quarter of 2009 and the establishment of a deferred tax asset valuation allowance in Canada of approximately $2,850 in the first quarter of 2009.

As of December 31, 2008, the Company had a gross unrecognized tax benefit of $4,831. During the nine months ended September 30, 2009, the Company's unrecognized tax benefit decreased by approximately $432 based principally on the outcome of a foreign tax audit.

The Company's policy is to recognize interest and penalties related to income tax matters as income tax expense, which were immaterial for the nine months ended September 30, 2009 and 2008, respectively. The tax years 2000 through 2008 remain open to examination by the major taxing jurisdictions to which the Company and its subsidiaries are subject.

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

8. Pensions, Other Postretirement and Postemployment Benefits

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 also sponsors various unfunded defined contribution plans that provide for retirement benefits to employees, some in accordance with local government requirements.

Also, through December 31, 2008, the Company sponsored an unfunded plan that offered the opportunity to obtain health care benefits to a majority of all retired U.S. employees and their covered dependents and beneficiaries. A portion of this plan was contributory, with retiree contributions adjusted periodically. Eligibility varied according to date of hire, age and length of service. As of December 31, 2008, the Company no longer sponsors or funds its U.S. retiree health insurance program. Certain retirees also have a life insurance benefit provided at no cost.

Effective December 31, 2008, the Company froze benefit pension accruals under its Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "Pension Plan") so that service beyond December 31, 2008 is not credited under the Pension Plan. Employees who were vested as of December 31, 2008 will be entitled to their benefits earned as of December 31, 2008. Current employees who were not vested as of December 31, 2008 will be entitled to their benefits earned as of December 31, 2008 upon five years of continuous employment from date of hire.

Additionally, during the first quarter of 2009 the Company suspended its 401(k) plan match in the United States until further notice.

As required by ASC Topic 715-20-50, *Compensation––Retirement Benefits* ("Topic 715"), the following tables summarize the components of net periodic benefit cost:

Defined Benefit Plans	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Service cost	$ 1,018	$ 1,598	$ 2,415	$ 4,624
Interest cost	1,731	1,663	4,710	5,018
Expected return on plan assets	(982)	(1,200)	(2,528)	(3,602)
Amortization of prior service cost	28	30	70	89
Amortization of net loss	284	137	804	395
Curtailment/settlement gains	—	(3,451)	—	(3,451)
Net periodic benefit cost	$ 2,079	$ (1,223)	$ 5,471	$ 3,073

Other Postretirement Benefit Plans	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Service cost	$ —	$ 132	$ —	$ 395
Interest cost	10	453	29	1,358
Amortization of prior service cost	—	(140)	—	(419)
Amortization of net gain	(2)	(17)	(4)	(52)
Curtailment/settlement gains	—	(36,517)	—	(36,517)
Net periodic benefit cost	$ 8	$ (36,089)	$ 25	$ (35,235)

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

9. Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Comprehensive income for the periods ended September 30, 2009 and 2008 is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net income (loss)	$ (7,381)	$ 21,536	$ (15,228)	$ 30,945
Foreign currency translation adjustments	7,697	(21,698)	17,378	(9,345)
Pension liability changes	(6)	(7,231)	(910)	(7,296)
Change in value of derivative instruments	1,817	(3,055)	1,828	(3,055)
Comprehensive income (loss)	$ 2,127	$ (10,448)	$ 3,068	$ 11,249

The components of accumulated other comprehensive income (loss) are as follows:

	Foreign Currency Translation Adjustment	Pension Liability Changes under Topic 715	Value of Derivative Instruments	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2008	$ 5,891	$ (21,531)	$ (13,859)	$ (29,499)
Current period change, net of tax	17,380	(910)	1,828	18,298
Balance at September 30, 2009	$ 23,271	$ (22,441)	$ (12,031)	$ (11,201)

10. Warranties

The Company offers warranties on certain 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. Changes in the Company's combined short-term and long-term warranty liabilities during the nine months ended September 30, 2009 are as follows:

Balance at December 31, 2008	$ 2,424
Warranties provided during period	1,647
Settlements made during period	(1,707)
Changes in liability estimates, including expirations and currency effects	(240)
Balance at September 30, 2009	$ 2,124

11. Restructuring and Impairments Expense

Restructuring and impairments expense included in the Company's income statements 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 shifting production from one facility to another. Facility costs are principally comprised of costs to relocate assets to the Company's other facilities, operating lease termination costs and other associated costs.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

11. Restructuring and Impairments Expense—(continued)

During the first quarter of 2009, the Company continued its program of streamlining its operating structure and recorded restructuring expenses of approximately $700 in connection therewith. Additionally during the first quarter of 2009, the Company sold its rolls manufacturing facility in Sweden at a gain of approximately $1,200, which was partially offset by approximately $600 of costs incurred to continue with actions related to the closure of manufacturing facilities previously announced prior to the first quarter of 2009. During the second quarter of 2009, essentially all of the Company's restructuring expenses of approximately $1,000 were related to the streamlining of its operating structure.

During the third quarter of 2009, $1,667 of the Company's $1,754 restructuring and impairments expenses was related to the impairment of long-term assets at various locations around the world. Additionally, during the third quarter of 2009, the Company continued its program of streamlining its operating structure and recorded restructuring expenses of $87 in connection therewith.

The Company expects to incur restructuring expenses of approximately $800 during the remainder of 2009, primarily related to a continuation of streamlining its operating structure.

The table below sets forth for the nine months ended September 30, 2009, the significant components and activity under restructuring programs and asset impairments:

	Balance at December 31, 2008	Charges	Write-offs	Currency Effects	Cash Payments	Balance at September 30, 2009
Severance	$ 5,422	$ 2,217	$ —	$ 51	$ (7,091)	$ 599
Asset impairment	—	1,667	(1,667)	—	—	—
Facility costs and other	2,455	(990)	—	138	24	1,627
Total	$ 7,877	$ 2,894	$ (1,667)	$ 189	$ (7,067)	$ 2,226

Restructuring and impairments expense by segment, which is not included in Segment Earnings (Loss) in Note 12, is as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Clothing	$ 785	$ 2,098	$ 656	$ 2,214
Roll Covers	957	941	1,000	2,662
Corporate	12	573	1,238	1,986
Total	$ 1,754	$ 3,612	$ 2,894	$ 6,862

12. Business Segment Information

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

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

12. Business Segment Information—(continued)

Management evaluates segment performance based on earnings before interest, taxes, depreciation and amortization and before allocation of corporate charges. Such measure is then adjusted to exclude items that are of an unusual nature and are not used in measuring segment performance or are not segment specific ("Segment Earnings (Loss)"). The accounting policies of these segments are the same as those for the Company as a whole. Inter-segment net sales and inter-segment eliminations are not material for any of the periods presented.

Summarized financial information for the Company's reportable segments is presented in the tables that follow for the three and nine months ended September 30, 2009 and 2008, respectively.

	Clothing	Roll Covers	Corporate	Total
Three Months Ended September 30, 2009:				
Net sales	$ 86,033	$44,275	$ —	$130,308
Segment Earnings (Loss)	20,186	11,010	(5,345)	
Three Months Ended September 30, 2008:				
Net sales	$104,416	$54,891	$ —	$159,307
Segment Earnings (Loss)	39,463	16,484	(1,054)	

	Clothing	Roll Covers	Corporate	Total
Nine Months Ended September 30, 2009:				
Net sales	$243,881	$123,773	$ —	$367,654
Segment Earnings (Loss)	63,017	27,329	(12,122)	
Nine Months Ended September 30, 2008:				
Net sales	$317,270	$171,417	$ —	$488,687
Segment Earnings (Loss)	91,420	46,152	(11,038)	

Segment Earnings (Loss) above excludes restructuring and impairments expense.

Provided below is a reconciliation of Segment Earnings (Loss) to income (loss) before provision for income taxes for the three and nine months ended September 30, 2009 and 2008, respectively.

	Three Months Ended September 30,	
	2009	2008
Segment Earnings (Loss):		
Clothing	$ 20,186	$ 39,463
Roll Covers	11,010	16,484
Corporate	(5,345)	(1,054)
Non-cash compensation and related expenses	(778)	(500)
Net interest expense	(16,425)	(16,230)
Depreciation and amortization	(10,851)	(11,738)
Restructuring and impairments expense	(1,754)	(3,612)
Expenses related to debt financing	—	(483)
Income (loss) before provision for income taxes	$ (3,957)	$ 22,330

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

12. Business Segment Information—(continued)

	Nine Months Ended September 30,	
	2009	2008
Segment Earnings (Loss):		
Clothing	$ 63,017	$ 91,420
Roll Covers	27,329	46,152
Corporate	(12,122)	(11,038)
Non-cash compensation and related expenses	(1,824)	(774)
Net interest expense	(47,952)	(42,217)
Depreciation and amortization	(30,769)	(35,697)
Restructuring and impairments expense	(2,894)	(6,862)
Unrealized foreign exchange gain on revaluation of debt	—	1,985
Expenses related to debt financing	—	(5,680)
Income (loss) before provision for income taxes	$ (5,215)	$ 37,289

13. Commitments and Contingencies

The Company is involved in various legal matters, which have arisen in the ordinary course of business. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its financial position, results of operations or cash flow.

Environmental Matters

During the third quarter of 2008, the Company, while evaluating its facility in Australia, discovered the possibility of contamination at that facility. Subsequently, the Company had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to remediate this facility. Based upon this evaluation, the Company accrued $4,100 in 2008 as its best estimate of the remediation costs it expected to incur. A Phase II assessment of the groundwater contamination performed for the Company during the second quarter of 2009 indicated the costs to remediate the contamination would be significantly less than originally estimated and accordingly, the Company reduced the accrual by $3,400 during the second quarter of 2009 based on this assessment.

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.

14. Stock-Based Compensation

Effective May 19, 2005, the Company adopted the 2005 Equity Incentive Plan (the “2005 Plan”), under which the Board of Directors authorized 2,500,000 shares for grant (subsequently increased to 7,500,000 at the Company’s Annual Meeting of Stockholders on August 6, 2008).

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

The Company records stock-based compensation expense in accordance with ASC Topic 718, *Compensation––Stock Compensation* ("Topic 718") and during the three and nine months ended September 30, 2009 and 2008 recorded stock-based compensation as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
RSU Awards (1)	$ 678	$ 500	$ 1,454	$ 774
2009 Performance Award Program (2)	100	—	370	—
Stock Awards (3)	—	—	94	—
Total	$ 778	$ 500	$ 1,918	$ 774

(1) Related to restricted stock units awarded in and prior to 2009. See further discussion below.
(2) Related to the value of expected awards for the year ending December 31, 2009 under the Company's Performance Award Program, which was approved by the Company's Board of Directors on March 10, 2009.
(3) Represents the value of 60,000 shares of the Company's common stock awarded to Mr. Maffucci on June 8, 2009 in connection with his appointment as the Company's Executive Vice President and Chief Financial Officer.

The Company has used the straight-line attribution method to recognize expense for time-based RSUs granted after December 31, 2005.

During 2005, 424,683 time-based RSUs and 801,843 performance-based RSUs were granted to officers and employees of the Company. Non-employee directors were also granted 12,500 RSUs during 2005. Each RSU represents one share of common stock.

To earn common stock under time-based RSUs granted in 2005, generally the grantee must be employed by the Company through the applicable vesting date, which occurred annually on May 19, 2006, 2007 and 2008. The final tranche of these RSUs vested on May 19, 2008.

To earn common stock under performance-based RSUs granted in 2005, generally defined shareholder return targets must be met over the four years following the completion of the Company's initial public offering on May 19, 2005 and the grantee must be employed by the Company through May 19, 2009. On May 19, 2009, all of the remaining 269,171of these RSUs were forfeited because the defined shareholder return targets had not been achieved.

On May 16, 2007, the Company granted 742,885 performance-based RSUs to certain officers and employees of the Company. Generally, to earn common stock under these performance-based RSUs, defined shareholder return targets must be met over the four years following the grant date and the grantee must be employed by the Company through May 16, 2011.

Awards to non-employee directors vest immediately under the 2005 Plan and the underlying shares will be issued to the director upon termination of service as a member of the Board or a change in control, as defined in the 2005 Plan. Annually during 2005, 2006 and 2007, the non-employee directors were granted 12,500 RSUs in the aggregate. In July 2008, they also were granted 48,820 RSUs in the aggregate. On November 30, 2008, three members of the Board retired, which resulted in an aggregate issuance of 81,351 shares of common stock to them underlying their vested RSUs.

On June 9, 2009 the non-employee directors were granted 224,715 RSUs in the aggregate. These RSUs are fully vested on the grant date; provided, however, that if a director ceases to serve as a member of the Board for any reason other than as a result of a change in control (as defined in the 2005 Plan) prior to the 2010 annual meeting of stockholders, the director will forfeit a pro rata portion of the award. On August 4, 2009, Board members who served as non-employee directors during the year prior to the 2009 Annual Meeting of Stockholders were awarded 221,945 RSUs in the aggregate that vested immediately.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

On January 3, 2008, the Compensation Committee of the Company's Board of Directors approved 433,000 performance-based RSU awards (based on shareholder return targets) and 433,000 time-based RSU awards for certain of the Company's officers under the 2005 Plan, which were made contingent upon the approval by the Company's stockholders at or before the Company's 2008 annual meeting of stockholders of an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 5,000,000. On August 6, 2008, at the Company's 2008 annual meeting of stockholders, the stockholders approved an amendment to the Company's 2005 Plan to increase the aggregate number of shares of common stock that may be delivered under or in satisfaction of awards under such plan from 2,500,000 to 7,500,000. The shareholder return based awards will generally only vest if the share price of the Company's common stock plus dividends paid on the common stock from January 3, 2008 satisfies annual targets that the Compensation Committee has established in respect of the three years following January 3, 2008 and the named officer continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the awards) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price. The time-based restricted stock unit awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008, provided that the named officer continues to be employed by the Company on such dates. Dividends, if any, on such time based restricted stock units will be paid at the same rate as dividends on the Company's common stock, but only in the form of additional restricted stock units. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the awards) and/or termination of employment under the circumstances set forth in the restricted stock unit awards.

The Company also granted time-based restricted stock unit awards to its new chief executive officer with respect to 75,000 shares on February 26, 2008 and 37,500 shares on June 13, 2008. These awards are scheduled to vest completely, in nearly equal installments on the first, second, and third anniversaries of January 3, 2008 and June 13, 2008, respectively, provided that the Company's chief executive officer continues to be employed by the Company on such dates. Additionally, on June 13, 2008, the Company granted a time-based restricted stock unit award to certain of its executive officers with respect to an aggregate 60,000 shares, which are scheduled to vest on the third anniversary of June 13, 2008, provided that the named officers continue to be employed by the Company on that date. During 2008, the Company granted to certain employees 55,175 time-based restricted stock units that vest equally in annual installments from the grant date over a period of three to four years.

During the first quarter of 2009, 54,299 shares of common stock underlying 87,000 time-based RSUs were issued; the remaining 32,701 shares underlying the RSUs were withheld from issuance in connection with minimum tax withholding requirements related to the issuance of such shares to the recipients. During the second quarter of 2009, 21,828 shares of common stock underlying 32,377 time-based RSUs were issued; the remaining 10,549 shares underlying the RSUs were withheld from issuance in connection with minimum tax withholding requirements related to the issuance of such shares to the recipients.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

On March 10 2009, the Company granted to certain employees 39,000 time-based restricted stock units and 39,000 performance-based restricted stock units. The time-based restricted stock unit awards are scheduled to vest completely, in nearly equal installments on the first and second anniversaries of January 3, 2009, provided that the employee continues to be employed by the Company on such dates. Dividends, if any, on such time based restricted stock units will be paid at the same rate as dividends on the Company's common stock, but only in the form of additional restricted stock units. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the awards) and/or termination of employment under the circumstances set forth in the restricted stock unit awards. The shareholder return based awards will generally only vest if the share price of the Company's common stock plus dividends paid on the common stock from January 3, 2009 satisfies annual targets that the Compensation Committee has established in respect of the two years following January 3, 2009 and the named employee continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the awards) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price.

On March 10, 2009, in accordance with the employment agreement between the Company and Mr. Stephen Light, the Company's Chairman, President and Chief Executive Officer, the Compensation Committee of the Company's Board of Directors approved RSU grants to Mr. Light as follows: (i) 341,761 time-based RSUs; (ii) 605,209 time-based RSUs that were contingent on shareholder approval of an increase in the maximum number of shares that may be granted as stock awards to any one person in any calendar year under the 2005 Plan; and (iii) 946,969 performance-based RSUs that were contingent on shareholder approval of the same increase. Mr. Light's employment agreement provides for grants of RSUs having a fair market value of $1,250 on each of January 1, 2009 and January 1, 2010 and that half of these RSUs are to vest based on his service over time while the other half vest based on the Company's performance. The 2005 Plan imposes a limit on the maximum number of shares that may be granted as stock awards to any one person in any calendar year. Those of the RSUs granted to Mr. Light that were in excess of that limit were granted contingent on shareholder approval of an amendment to the 2005 Plan to increase the limit to enable these grants. The contingent awards were not considered outstanding until approved by the shareholders. The shareholders approved the amendment on June 9, 2009.

On June 8, 2009, in connection with the appointment of Mr. David G. Maffucci as Executive Vice President and Chief Financial Officer, the Company granted to Mr. Maffucci 112,500 time-based RSUs and 37,500 performance-based RSUs. With respect to 75,000 of the time-based RSUs, the awards will vest in nearly equal installments on the first, second, and third anniversaries of the date of grant. With respect to 37,500 of the time-based RSUs, 12,500 will vest on January 3, 2010 and the remaining 25,000 will vest on January 3, 2011. Mr. Maffucci's time-based restricted stock unit awards will vest as long as he continues to be employed by the Company on the applicable vesting dates. The time based restricted stock units may also vest, in whole or in part, in connection with a change of control (as defined in the RSU agreement) and/or termination of employment under the circumstances set forth in the restricted stock unit awards. The shareholder return based awards will generally only vest if the share price of the Company's common stock plus dividends paid on the common stock satisfies annual targets that the Compensation Committee has established in respect of January 3, 2010 and 2011 and Mr. Maffucci continues to be employed with the Company through January 3, 2011. The shareholder return based restricted stock units may also vest, in whole or in part, if a change of control (as defined in the RSU agreement) occurs and shareholder return based requirements have previously been satisfied or are satisfied based on the transaction price.

Certain time-based RSUs and all non-employee director RSUs automatically adjust to reflect awards of additional RSUs upon payment of dividends by the Company. During the year ended December 31, 2008 and the first nine months of 2009, no RSUs were awarded in connection with the payment of dividends as no dividends were declared by the Company during any of those periods.

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Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

A summary of RSUs outstanding as of September 30, 2009 and their vesting dates is as follows:

	Vesting Dates	Number of RSUs
Time-based RSUs granted February 26, 2008	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	50,000
Time-based RSUs granted June 13, 2008	With respect to 37,500 RSUs — annually in equal installments on June 13, 2009, June 13, 2010 and June 13, 2011; with respect to 60,000 RSUs— June 13, 2011	85,000
Time-based RSUs granted August 6, 2008 (contingently awarded on January 3, 2008)	Annually in equal installments on January 3, 2009, January 3, 2010 and January 3, 2011	91,334
Time-based RSUs granted at various dates during 2008	Annually in equal installments over three years	32,334
Time-based RSUs granted at various dates during 2009	With respect to 1,023,470 RSUs—annually in equal installments in January 2010 and January 2011; with respect to 75,000 RSUs—annually in equal installments on June 8, 2010, 2011 and 2012	1,098,470
Performance-based RSUs granted May 16, 2007 (based on shareholder return targets)	May 16, 2011, assuming performance criteria are achieved	334,950
Performance-based RSUs granted August 6, 2008 (based on shareholder return targets) (contingently awarded on January 3, 2008)	January 3, 2011, assuming performance criteria are achieved	137,000
Performance-based RSUs granted at various dates during 2009 (based on shareholder return targets)	January 3, 2011, assuming performance criteria are achieved	1,023,469
Non-employee directors' RSUs	Date of grant	483,199
Total RSUs outstanding		3,335,756

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Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

RSU activity during the nine months ended September 30, 2009 is presented below.

	Number of RSUs	Price Range of Grant-Date Fair Value Price Per RSU	Weighted Average Grant-Date Fair Value Price Per RSU
Outstanding, December 31, 2008	1,358,585	$ 3.77 -12.01	$ 7.50
Granted	2,568,599	0.54 - 1.65	1.33
Forfeited	(472,052)	5.12 -11.66	9.65
Issued or withheld for tax withholding purposes	(119,376)	3.89 - 5.40	5.22
Outstanding, September 30, 2009	3,335,756	$ 0.54 -12.01	$ 2.52
Vested, September 30, 2009 (1)	292,130	$ 1.43 -12.01	$ 1.60

(1) Vested RSUs at September 30, 2009 consist entirely of non-employee director RSUs. The common stock underlying these RSUs will be issued to the directors upon termination of their service as members of the Board and/or a change in control, as defined in the 2005 Plan. The total grant-date fair value of such non-employee directors RSUs that vested during the nine months ended September 30, 2009 was $467.

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 and non-employee directors' RSUs based on the closing price of the Company's common stock on the date of grant.

For the performance-based RSUs granted in 2009, 2008, 2007 and 2005 (none granted in 2006), the Company calculated the grant-date fair value of performance-based RSUs by using a Monte Carlo pricing model and the following assumptions:

	For Performance-Based RSUs Granted at various dates during 2009	For Performance-Based RSUs Granted August 6, 2008 (contingently awarded January 3, 2008)	For Performance-Based RSUs Granted May 16, 2007	For Performance-Based RSUs Granted May 19, 2005
Expected term (i)	1 1/2 to 2 years	3 years	4 years	4 years
Expected volatility (ii)	116% and 119%	44%	39%	37%
Expected dividends (iii)	None	None	$0.45 per year ($0.1125 per quarter)	$0.90 per year ($0.225 per quarter)
Risk-free interest rate (iv)	0.99% to 1.17%	2.64%	4.32%	3.73%

(i) *Expected term*. Performance-based RSUs expire three years after the grant date for the 2008 awards and four years after the grant date for the 2007 and 2005 awards. For 2009 awards, the RSUs expire after approximately 1 1/2 to 2 years.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

Assumptions—(continued)

(ii) *Expected volatility*. The Company is responsible for estimating the volatility of the price of its common stock and has considered a number of factors, including third party estimates, to determine its expected volatility. For the 2008, 2007 and 2005 awards, the Company performed a peer group analysis of historical and implied volatility measures rather than using its own historical volatility because it had been a public company for a relatively short period of time (i.e., since its initial public offering on May 19, 2005). Based upon the peer group analysis, the Company determined to use a 44%, 39% and 37% volatility assumption for performance-based RSUs granted in 2008, 2007 and 2005, respectively, which is the midpoint of the range developed by looking at the peer group. For the 2009 awards, after being a public company for four years, the Company determined to use its own historical volatility rather than a peer group analysis. The volatility for the 2009 awards was 116% and 119%.

(iii) *Expected dividends*. Based on the Company's dividend policy in place at the time of the performance-based RSU grants on May 19, 2005, an assumed continuation of quarterly dividends at the rate of $0.225 per share of common stock was used for the purposes of the application of the Monte Carlo pricing model. On May 2, 2007, the Company modified its credit agreement which limited the amount of any quarterly dividends payable on its common stock to not more than $0.1125 per share. Accordingly, for the performance-based RSUs that were granted on May 16, 2007, the Company assumed continuation of quarterly dividends at the rate of $0.1125 per share of common stock for the purposes of the application of the Monte Carlo pricing model. On May 30, 2008, the Company amended its credit facility. No dividends are permitted to be paid on the Company's common stock through May 2012, the maturity date of the term loans under the amended senior credit facility. Accordingly no dividends were assumed for the 2008 or 2009 awards for purposes of the application of the Monte Carlo pricing model.

(iv) *Risk-free interest rate*. The yield on zero-coupon U.S. Treasury securities for the period that is commensurate with the expected term assumptions.

Xerium Technologies, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements—(Continued)
(dollars in thousands, except per share data)

14. Stock-Based Compensation—(continued)

Forfeitures

As the time-based and performance-based RSUs require continued employment up to the time of vesting, the amount of stock-based compensation recognized during a period is required to include an estimate of forfeitures. 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. The Company estimated its forfeiture rates as of September 30, 2009 to be as follows:

Description of Award	Forfeiture Rates
Time-based RSUs granted on various dates in 2008 and in 2009 (and contingently granted on January 1, 2009), other than those on August 6, 2008	10%
Time-based RSUs granted on August 6, 2008	55%
Performance-based RSUs granted May 19, 2007 (based on shareholder return targets)	65%
Performance-based RSUs granted August 6, 2008 (based on shareholder return targets)	70%
Performance-based RSUs granted in 2009 (based on shareholder return targets)	10%
Non-employee directors' RSUs	0%

As of September 30, 2009, there was approximately $2,600 of total unrecognized compensation expense related to unvested share-based awards which is expected to be recognized over a weighted average period of 1.4 years.

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

Forward Looking Statements

The following discussion of our financial condition and results of operations should be read together with our unaudited condensed consolidated interim financial statements and the related notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. The discussion included in this section, as well as other sections of this Quarterly Report on Form 10-Q contains forward-looking statements. 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, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," or "continue" or the negative of these terms or other comparable terminology. Undue reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties, and other factors that are, in some cases, beyond our control and that could materially affect actual results, levels of activity, performance, or achievements. Factors that could materially affect our actual results, levels of activity, performance or achievements include the following items:

- our lenders would have the right to demand immediate repayment of our obligations under our credit facility if we are not able to restructure our debt or execute on any initiative that addresses our credit issues prior to December 15, 2009, or such earlier date when the waiver of the violation of the financial covenants in our credit facility expires, and any acceleration of our debt or failure on our part to make required payments under our credit facility could allow the counterparties on certain of our existing interest rate swaps to terminate those arrangements;
- we may not be able to obtain any further extension of the waiver of the violation of the financial covenants in our credit facility, in which case we will be in default following the waiver period unless we reach agreement with our lenders before it expires;
- we anticipate that we may have insufficient cash to operate our business and make the scheduled quarterly payments required under our credit facility and, accordingly, we may default on our payment obligations under the facility absent a waiver of those terms;
- we may choose to file for reorganization under Chapter 11 of the U.S. Bankruptcy Code if we are in default under the credit facility. Additionally, the initiation of insolvency proceedings in certain non-U.S. jurisdictions may be warranted, which would limit our access to cash from our operations in those jurisdictions and impact our ability to control our assets in those jurisdictions;
- even if we obtain approval of sufficient lenders to obtain an additional waiver, we still may choose to file for reorganization under Chapter 11 of the U.S. Bankruptcy Code to address any non-approving lenders to restructuring of the debt facilities;
- if we are in default and we file for reorganization, we may be without sufficient cash to operate our business and will be without access to financing unless we are able to obtain debtor-in-possession financing. We may be unable to find any lender willing to provide us with debtor-in-possession financing, and any such financing that we are able to obtain would require the approval of the bankruptcy court;
- we may pursue initiatives to resolve our credit issues, including initiatives that involve issuances of equity, that are likely to severely dilute our existing stockholders and may result in our existing common stock having little or no value;
- we may not be able to restructure or replace any or all of our outstanding debt or complete any other alternative to address our long term credit issues on satisfactory terms, or at all, and any such arrangements could increase our borrowing costs and result in additional fees and expenses;

- our financial results face increased exposure to currency fluctuations, as our banks have limited our ability to enter into hedging arrangements and our interest rate swaps no longer qualify for hedge accounting;
- the fact that we may default on our credit facility is likely to cause our customers and vendors to seek financial assurances from us before they are willing to continue doing business with us, and they may instead choose to do business with our competitors. This may result in decreased revenues or increased costs of our operations, or negatively impact our ability to operate our business, thereby adversely affecting our results of operations;
- we may not have sufficient cash to fund our operations in light of (i) continuing conditions in the global paper market that are affecting our business, (ii) the significant expenses we have continued to incur in connection with addressing our long-term credit issues and (iii) our potential inability to access any additional sources of financing;
- we may be required to sell certain of our assets or businesses for the purposes of raising cash to fund the balance of our operations;
- in the event that we are able to successfully restructure our debt, we may incur unfavorable tax consequences resulting in increased income tax expense;
- we are subject to the risk of weaker economic conditions in the locations around the world where we conduct business, including without limitation the current turmoil in the global paper markets and the impact of the current global economic crisis on the paper industry and our customers;
- our strategies and plans, including, but not limited to, those relating to the decrease in our financial leverage, developing new products, enhancing our operational efficiencies and reducing costs may not result in the anticipated benefits;
- we may not achieve compliance with the NYSE continued listing standards;
- our profitability could be adversely affected by fluctuations in interest rates;
- we may not be able to develop and market new products successfully;
- we may not be successful in developing new technologies or in competing against new technologies developed by competitors;
- we may have insufficient cash to fund growth and unexpected cash needs after satisfying our debt service obligations due to our high degree of leverage and significant debt service obligations;
- we may be required to incur significant costs to reorganize our operations in response to market changes in the paper industry;
- we are subject to the risk of terrorist attacks or an outbreak or escalation of any insurrection or armed conflict involving the United States or any other country in which we conduct business, or any other national or international calamity;
- we are subject to any future changes in government regulation; and
- we are subject to any changes in U.S. or foreign government policies, laws and practices regarding the repatriation of funds or taxes.

Many of these risks are discussed elsewhere in this Quarterly Report on Form 10-Q, including in the sections below: “Recent Developments,” “Overview,” “Industry Trends and Outlook,” “Liquidity and Capital Resources” and “Credit Facility.” Other factors that could materially affect actual results, levels of activity, performance, or achievements can be found in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (“SEC”) on March 12, 2009. 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 projected. Any forward-looking statement in this Quarterly Report on Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.

Recent Developments

Senior Credit Facility

Our senior credit facility requires that we satisfy certain operating requirements and financial covenant ratios in order to avoid a default or event of default under the facility. See “Credit Facility” below. As previously disclosed in our Quarterly Report of Form 10-Q for the quarter ended June 30, 2009, we anticipated that we would not be in compliance with certain financial covenants of the senior credit facility for the period ending September 30, 2009. Therefore, to provide us additional time to work with our creditors and stockholders to find long-term solutions to our credit issues, on September 29, 2009, we entered into Waiver and Amendment No. 1 (the “Waiver Agreement”) to the senior credit facility. As of September 30, 2009, we were not in compliance with certain financial covenants of the Credit Agreement. Absent the Waiver Agreement, failure to meet these financial covenants would constitute an event of default under the senior credit facility and potentially could lead to acceleration of our loan obligations by our lenders, the termination of our interest rate swap agreements by the counterparties or the initiation of insolvency proceedings against us in some non-U.S. jurisdictions.

Pursuant to the Waiver Agreement, the lenders agreed to waive any violation of the interest coverage, leverage and fixed charge covenants under the senior credit facility until the earliest of (i) the occurrence of any other default under the senior credit facility, (ii) our failure to comply with any term of the Waiver Agreement or (iii) December 15, 2009 (the “Waiver Period”). We agreed that during the Waiver Period no new revolving loans may be made to us, and the lenders would not be required to make any loans to us. We may request new letters of credit in an amount up to $3.5 million for equipment purchases and may extend the expiration dates for certain outstanding letters of credit. The Waiver Agreement also requires us to report certain additional financial information to the lenders on a regular basis.

In connection with the Waiver Agreement, we were required to pay aggregate fees to the lenders of approximately (i) $1.5 million in cash at the time of the effectiveness of the Waiver Agreement and (ii) $1.5 million to be deferred to the maturity date for the loans under the senior credit facility and to accrue interest at the rate applicable to the loans until that time. In addition, during the period between September 29, 2009 and December 15, 2009 the outstanding balance under the senior credit facility will bear interest at a rate that is 1.0% per year in excess of the non-default rate otherwise payable during that period under the senior credit facility. The non-default rate is LIBOR, the Euribor or CDOR rate plus the applicable margin of 5.50%.

We have formed a steering committee of our Board of Directors to explore initiatives to address long-term solutions to our credit issues. We are in discussions with our current lenders regarding restructuring or replacing some or all of our debt, which would be likely to include the issuance of equity to such lenders and the payment of additional fees, as well as exploring with third parties various strategic alternatives affecting our debt and equity ownership.

Even with the additional time provided by the Waiver Agreement, there can be no assurance that we will be able to complete any initiatives to resolve our credit issues on satisfactory terms, or at all. Any such initiatives we pursue are likely to severely dilute our existing stockholders and may result in our existing common stock having little or no value. If we are unable to execute on our initiatives prior to the expiration of the Waiver Period, our failure to comply with the financial covenants of the senior credit facility as of September 30, 2009 would be a default under our credit facility, absent a further waiver of those terms, which may not be available at that time. We are seeking an additional wavier to extend the Waiver Period and provide additional credit facility relief from the payment of principal and interest due. We anticipate that we may have insufficient cash at year end to both make our required payments under the credit facility and operate our business. Accordingly, absent a waiver of some or all of the scheduled quarterly payments under our credit facility, which would require unanimous approval of the lenders of the debt outstanding under the facility, we may default on our payment obligations under the facility or seek relief through the bankruptcy courts. There can be no assurance that we will be able to obtain a waiver of all or any portion of the scheduled quarterly payments under our credit facility from our lenders. The occurrence of an event of default under our credit facility potentially could lead to acceleration of our loan obligations by our lenders, reorganization under Chapter 11 of the U.S. Bankruptcy Code and the initiation of insolvency proceedings against us in some non-U.S. jurisdictions.

Global Economic Environment

Our business is 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 continue to decline if paper manufacturers are unable to obtain required financing or if the economic crisis causes additional mill closures or extends current capacity curtailments.

During 2008, especially the latter part of the year, the global paper industry experienced a sharp reduction in production levels, caused by the general slowdown in economic activity and the related paper consumption decline during the same period. The slowdown of production was across all grades of paper production, but most notably in the packaging grades and newsprint. For packaging grades, demand is directly related to broad manufacturing and transportation activity reduction, while newsprint demand has been increasingly declining over a number of years due to the greater prevalence of electronic media, exacerbated in recent months by a reduction in print advertising. One of the results of the recent reduction in demand for paper products is that the inventory of paper at the paper-makers has increased significantly and production slowdowns, curtailments and idling of paper-making machines have been occurring at a sharply increasing rate, particularly in North America and Europe, since October 2008 and continuing into mid-2009. Recently, however, there has been some abatement in these production declines and very modest improvements in paper and board manufacturers' operating rates that have begun to have a positive impact on the demand for some of our products. While we were successful in reducing the rate of price decreases in 2008 for the products we sell to the paper-makers and prices have remained relatively stable in the nine months ended September 30, 2009, there continues to be price pressure due to our competitors pursuing market growth at this time of lower overall demand in our market.

Overview

We are a leading global manufacturer and supplier of two categories of consumable products used primarily in the production of paper—clothing and roll covers. Our operations are strategically located in the major paper-producing regions of North America, Europe, South America and Asia-Pacific.

Our products play key roles in the formation and processing of paper along the length of a paper-making machine. Paper producers rely on our products and services to help improve the quality of their paper, differentiate their paper products, operate their paper-making machines more efficiently and reduce production costs. Our products and services typically represent only a small fraction of a paper producer's overall production costs, yet they can reduce costs by permitting the use of lower-cost raw materials and reducing energy consumption. Paper producers must replace clothing and refurbish or replace roll covers regularly as these products wear down during the paper production process. Our products are designed to withstand extreme temperature, chemical and pressure conditions, and are the result of a substantial investment in research and development and highly sophisticated manufacturing processes.

In our clothing segment, we manufacture and sell highly engineered synthetic textile belts that transport paper as it is processed on a paper-making machine. Clothing plays a significant role in the forming, pressing and drying stages of paper production. Because paper-making processes and machine specifications vary widely, the clothing size, form, material and function is selected to fit each individual paper-making machine and process. For the three months ended September 30, 2009, our clothing segment represented 66% 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. Roll covers are tailored to each individual paper-making machine and process, using different materials, treatments and finishings. In addition to manufacturing and selling new roll covers, we also provide refurbishment services for previously installed roll covers and manufacture spreader rolls. For the three months ended September 30, 2009, our roll covers segment represented 34% of our net sales.

Industry Trends and Outlook

Historically, demand for our products has been driven primarily by the volume of paper produced on a worldwide basis. Generally, and over time, we expect growth in paper production to be greater in Asia, South America and Eastern Europe than in the more mature North American and Western European regions where demand may potentially decline.

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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. A sustained downturn in the paper industry, either globally or in a particular region, can cause paper manufacturers to reduce production or cease operations, which could adversely affect our revenues and profitability. Since 2000, paper producers have taken actions that seek to structurally 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. Papermakers continue to experience low levels of profitability, and we believe that further consolidation among papermakers, reducing the number of paper producers, and shutdowns of paper-making machines or facilities will occur 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. This rebalancing has been accelerated during the current global economic recession. Over a number of years, consumption growth of paper, particularly in South America and Asia, is expected to drive an increase in the global production rates required to maintain balance between supply and demand. It is highly likely, however, that a consumption slow-down and related effect on global paper production will continue in the near term, exacerbated by the global economic crisis. Also affecting machine curtailments are structural productivity gains from improved products that we and our competitors supply.

Global paper production growth that does occur would be moderated by the level of industry consolidation and paper-machine shutdown activity that is a continuing underlying trend in North America and Western Europe. We also believe that, in addition to industry consolidation and paper machine shutdown activity in North America and Western Europe, the trend towards new paper machine designs which have fewer rolls and market recognition of extended life of our roll cover products has been and will continue to negatively impact demand for these products and that the volume potential for the roll covers business will slowly diminish. Additionally, we are seeing a trend that paper producers are placing an increasing emphasis on maintenance cost reduction and, as a result, are extending the life of roll covers through additional maintenance cycles before replacing them.

We anticipate that pricing pressure for our products will continue with the consolidation among paper producers and as the shift of paper production growth in Asia develops. In response to this pricing pressure, we expect to increase our expenditure levels on research and development expenses and continue to develop our value added selling approach as part of our strategy to differentiate our products, while at the same time remaining focused on cost reduction and efficiency programs.

The negative paper industry trends described above are likely to continue. We believe that in the current economic environment, the paper industry will experience reduced demand, increased emphasis on cost reduction, and sustained paper-machine shutdown activity than would have been the case in the absence of the economic crisis. To address these conditions, we have sought to aggressively restructure our business and reduce costs. See “Cost Reduction Programs” below.

Sales and Expenses

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

- The volume of worldwide paper production;
- Advances in the technology of our products, which can provide value to our customers by improving the efficiency of paper-making machines;
- Our ability to provide products and services which reduce paper-making machine downtime, while at the same time allowing the manufacture of high quality paper products; and
- Impact of currency fluctuations.

Sales in our roll covers segment include our mechanical services business. We have expanded this business in response to demand from paper producers that we perform work on the internal mechanisms of a roll while we refurbish or replace a roll cover. In our clothing segment, a portion of our business has been conducted pursuant to consignment arrangements under which 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. We are striving to reduce the number of consignment arrangements and increase the use of standard terms of sale under which we recognize a sale upon product shipment. We made progress with this initiative in 2008 and expect this effort to be successful over several years.

Our operating costs are driven primarily by our total sales volume, the impact of inflation and currency and the level and impact of cost reduction programs.

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

The level of research and development spending is driven by market demand for technology enhancements, including both specific customer needs and general market requirements, as well as by our own analysis of applied technology opportunities. With the exception of purchases of equipment and similar capital items used in our research and development activities, all research and development is expensed as incurred. Research and development expenses were $2.7 million and $2.9 million for the three months ended September 30, 2009 and 2008, respectively.

Foreign Exchange

We have a geographically diverse customer base. For the three months ended September 30, 2009, approximately 36% of our sales was in North America, 35% was in Europe, 18% was in Asia-Pacific, 10% was in South America and 1% was in the rest of the world.

A substantial portion of our financial results are 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 revenues and profitability as the results are translated into U.S. Dollars for reporting purposes. In particular, increases in the value of the U.S. Dollar relative to the value of the Euro and these other currencies negatively 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 fewer U.S. Dollars.

For certain transactions, our sales are denominated in U.S. Dollars or Euros 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 consist of transactions in which the sales are denominated in or indexed to U.S. Dollars and all or a substantial portion of the associated costs are denominated in Euros or Reals.

Currency fluctuations have a greater effect on the level of our net sales than on the level of our income from operations. For example, for the three months ended September 30, 2009 as compared with the three months ended September 30, 2008, the change in the value of the U.S. Dollar against the currencies we conduct our business in resulted in currency translation decreases in net sales and income from operations of $6.0 million and $1.4 million, respectively. Although the results for the three months ended September 30, 2009 reflect a period in which the value of the U.S. Dollar increased against most of the currencies in which we conduct the majority of our non-U.S. Dollar denominated business as compared to the three months ended September 30, 2008, we would expect a similar but opposite effect in a period in which the value of the U.S. Dollar decreases.

During the three and nine months ended September 30, 2009, we conducted business in 11 foreign currencies. The following table provides the average exchange rate for the three and nine months ended September 30, 2009 and 2008, respectively, of the U.S. Dollar against each of the four foreign currencies in which we conduct the largest portion of our operations, and indicates the percentage of our net sales for the three and nine months ended September 30, 2009 denominated in such foreign currency.

Currency	Average exchange rate of the U.S. Dollar for the three months ended September 30, 2009	Average exchange rate of the U.S. Dollar for the three months ended September 30, 2008	Percentage of net sales for the three months ended September 30, 2009 denominated in such currency
Euro	$1.43 = 1 Euro	$1.50 = 1 Euro	41.9%
Brazilian Real	$0.54 = 1 Brazilian Real	$0.60 = 1 Brazilian Real	8.1%
Canadian Dollar	$0.91 = 1 Canadian Dollar	$0.96 = 1 Canadian Dollar	6.7%
Australian Dollar	$0.83 = 1 Australian Dollar	$0.89 = 1 Australian Dollar	6.6%

Currency	Average exchange rate of the U.S. Dollar for the nine months ended September 30, 2009	Average exchange rate of the U.S. Dollar for the nine months ended September 30, 2008	Percentage of net sales for the nine months ended September 30, 2009 denominated in such currency
Euro	$1.37 = 1 Euro	$1.52 = 1 Euro	41.9%
Brazilian Real	$0.48 = 1 Brazilian Real	$0.59 = 1 Brazilian Real	8.6%
Canadian Dollar	$0.86 = 1 Canadian Dollar	$0.98 = 1 Canadian Dollar	6.5%
Australian Dollar	$0.75 = 1 Australian Dollar	$0.91 = 1 Australian Dollar	6.7%

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 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.

Due to reduced credit limits at some of our banks, we have been entering into fewer foreign currency hedging arrangements and may not be able to enter into as many hedging arrangements in the future. As a result, our financial statements are more exposed to the effects of currency fluctuations, both favorable and unfavorable, which could have a material impact on our results of operations.

Cost Reduction Programs

An important part of our long-term operating strategy is to seek to reduce our overall costs and improve our competitiveness. As a part of this effort, we have engaged in a series of cost reduction programs, which were 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 have rationalized production among our facilities to better enable us to meet customer demands.

During the first quarter of 2009, we continued our program of streamlining our operating structure and recorded restructuring expenses of approximately $0.7 million in connection therewith. Additionally, during 2009 we sold our rolls manufacturing facility in Sweden at a gain of approximately $1.2 million, which was partially offset by approximately $0.6 million of costs incurred to continue with actions related to the closure of manufacturing facilities announced prior to the first quarter of 2009. During the first quarter of 2009, we also froze one of our U.S. employee pension plans, terminated our retiree medical plan, suspended contributions to our U.S. 401(k) program, froze salaries, delayed union contract wage increases, curtailed travel and halted work on our Vietnam project.

During the second quarter of 2009, essentially all of the $1.0 million of restructuring expenses we recorded were related to streamlining our operating structure. During the third quarter of 2009, we continued our program of streamlining our operating structure and recorded restructuring expenses of $0.1 million therewith. Additionally during the third quarter of 2009, approximately $1.7 million of our restructuring expenses were related to the impairment of assets at various locations around the world. We expect to incur restructuring expenses of approximately $0.8 million during the remainder of 2009, primarily related to continuing our program of streamlining our operating structure.

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Results of Operations

The tables that follow set forth for the periods presented certain consolidated operating results and the percentage of net sales they represent:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net sales	$ 130.3	$ 159.3	$367.7	$488.7
Cost of products sold	81.5	106.5	229.0	303.8
Selling expenses	17.0	20.1	49.6	62.4
General and administrative expenses	15.4	28.3	35.1	70.3
Restructuring and impairments expenses	1.8	3.6	2.9	6.9
Research and development expenses	2.7	2.9	8.1	9.1
Curtailment/settlement gain	—	(40.0)	—	(40.0)
Income from operations	11.9	37.9	43.0	76.2
Interest expense, net	(16.4)	(16.2)	(48.0)	(42.2)
Foreign exchange gain (loss)	0.5	0.7	(0.2)	3.3
Income (loss) before provision for income taxes	(4.0)	22.3	(5.2)	37.3
Provision for income taxes	3.4	0.8	10.0	6.4
Net income (loss)	$ (7.4)	$ 21.5	$ (15.2)	$ 30.9

Percentage of Sales

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	62.6	66.9	62.3	62.2
Selling expenses	13.0	12.6	13.5	12.8
General and administrative expenses	11.8	17.7	9.5	14.4
Restructuring and impairments expenses	1.3	2.3	0.8	1.4
Research and development expenses	2.1	1.8	2.2	1.9
Curtailment/settlement gain	—	(25.1)	—	(8.2)
Income from operations	9.2	23.8	11.7	15.5
Interest expense, net	(12.6)	(10.2)	(13.0)	(8.6)
Foreign exchange gain (loss)	0.4	0.4	(0.1)	0.7
Income (loss) before provision for income taxes	(3.0)	14.0	(1.4)	7.6
Provision for income taxes	2.6	0.5	2.7	1.3
Net income (loss)	(5.6)%	13.5%	(4.1)%	6.3%

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008.

Net Sales. Net sales for the three months ended September 30, 2009 decreased by $29.0 million, or 18.2%, to $130.3 million from $159.3 million for the three months ended September 30, 2008. For the three months ended September 30, 2009, 66% of our net sales was in our clothing segment and 34% was in our roll covers segment.

In our clothing segment, net sales for the three months ended September 30, 2009 decreased by $18.4 million, or 17.6%, to $86.0 million from $104.4 million for the three months ended September 30, 2008 primarily due to (i) decreased sales volume primarily in North America and Europe and (ii) unfavorable currency effects on net sales of $4.6 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. The decrease was partially offset by $1.8 million of favorable currency effects on pricing related to sales prices indexed in U.S. Dollars by certain non-U.S. operations. Overall pricing levels in our clothing segment decreased slightly more than 1% during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008.

In our roll covers segment, net sales for the three months ended September 30, 2009 decreased by $10.6 million or 19.3%, to $44.3 million from $54.9 million for the three months ended September 30, 2008. The decrease was primarily due to (i) decreased sales volumes primarily in North America and Europe, (ii) unfavorable currency effects on net sales of $1.4 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. Overall pricing levels in our roll covers segment increased slightly less than 1% during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008.

Cost of Products Sold. Cost of products sold for the three months ended September 30, 2009 decreased by $25.0 million, or 23.5%, to $81.5 million from $106.5 million for the three months ended September 30, 2008.

In our clothing segment, cost of products sold decreased by $19.0 million, or 26.4%, to $53.0 million for the three months ended September 30, 2009 from $72.0 million for the three months ended September 30, 2008 primarily due to (i) lower sales volumes during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008, (ii) the absence in 2009 of the increased provision for slow-moving and obsolete inventory of $8.1 million that was recorded in the third quarter of 2008, (iii) favorable currency effects of $2.5 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes and (iv) the $2.3 million impact of a lower cost structure, resulting from our cost reduction programs, during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008.

In our roll covers segment, cost of products sold decreased by $6.0 million, or 17.4%, to $28.5 million for the three months ended September 30, 2009 from $34.5 million for the three months ended September 30, 2008 primarily due to (i) lower sales volumes during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008, (ii) favorable currency effects of $1.0 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes, (iii) the absence in 2009 of the increased provision for slow-moving and obsolete inventory of $0.6 million that was recorded in the third quarter of 2008 and (iv) the $0.6 million impact of a lower cost structure, resulting from our cost reduction programs, during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008.

Selling Expenses. For the three months ended September 30, 2009, selling expenses decreased by $3.1 million, or 15.4%, to $17.0 million from $20.1 million for the three months ended September 30, 2008. The decrease was primarily due to the impact of (i) a reduction in salaried sales positions, commissions and travel expenses, (ii) favorable currency effects of $0.8 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008 and (iii) the $0.2 million impact of a lower cost structure, resulting from our cost reduction programs, during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008.

General and Administrative Expenses. For the three months ended September 30, 2009, general and administrative expenses decreased by $12.9 million, or 45.6%, to $15.4 million from $28.3 million for the three months ended September 30, 2008. The decrease was primarily due to (i) environmental accruals of $4.1 million recorded in the third quarter of 2008 that were absent in the third quarter of 2009, (ii) decreased provisions for bad debts of approximately $9.8 million, principally due to a $7.9 million increase in 2008, (iii) decreased salaries, travel and other costs as a result of cost reduction efforts during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008 and (iv) favorable currency translation effects of $0.2 million. These decreases were partially offset by (i) increased bank and related fees of $2.2 million that were incurred relating to initiatives undertaken to resolve our credit issues and (ii) gains on the sale of property and equipment of $2.4 million recorded in the third quarter of 2008 that were absent in the third quarter of 2009.

Restructuring and Impairments Expenses. For the three months ended September 30, 2009, restructuring and impairments expenses decreased by $1.8 million, or 50%, to $1.8 million from $3.6 million for the three months ended September 30, 2008. Restructuring expenses result from our long-term strategy to reduce production costs and improve long-term competitiveness as described above under “Cost Reduction Programs” by closing and/or transferring production from certain of our manufacturing facilities and through headcount reductions. For the three months ended September 30, 2009, restructuring expenses consisted of asset impairments of $1.7 million and severance costs of $0.1 million.

Research and Development Expenses. For the three months ended September 30, 2009, research and development expenses decreased by $0.2 million, or 6.9%, to $2.7 million from $2.9 million for the three months ended September 30, 2008 primarily due to lower salary and supply costs and to favorable currency effects.

Curtailment/Settlement Gains. During the third quarter of 2008, we recorded curtailment/settlement gains of $40.0 million as a result of the following decisions made and communicated during the third quarter of 2008: (i) freezing benefit pension accruals under our Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "Pension Plan") effective December 31, 2008 so that future service beyond December 31, 2008 will not be credited under the Pension Plan and (ii) no longer sponsoring or funding, as of December 31, 2008, our U.S. retiree health insurance program under which we had offered health care benefits to a certain group of retired U.S. employees and their covered dependents and beneficiaries. The gains include a loss of $0.2 million incurred as a result of curtailing a Canadian pension plan.

Interest Expense, Net. Net interest expense for the three months ended September 30, 2009 increased by $0.2 million, or 1.2%, to $16.4 million from $16.2 million for the three months ended September 30, 2008 primarily due to (i) a $1.3 million increase to interest expense in the three months ended September 30, 2009 as compared with the three months ended September 30, 2008 in connection with the change in the fair value of our interest rate swaps and (ii) a $0.5 million decrease in interest income related to lower levels of cash available for investment in the three months ended September 30, 2009 as compared with the three months ended September 30, 2008. In 2009, the ineffective portion of the mark to market change on two of our interest rate swap hedges has been charged to interest expense and, effective September 1, 2009, we were required to discontinue hedge accounting for all of our interest rate swaps and recorded the mark to market change in their fair value of $0.5 million as an increase to interest expense. For the three months ended September 30, 2008, our interest rate swaps qualified for hedge accounting and the change in their fair value was recorded in accumulated other comprehensive income (loss). The increases were partially offset by (i) decreased interest expense of $1.6 million related to decreased levels of debt during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008 and (ii) favorable currency effects of $0.3 million.

Foreign Exchange Gain. For the three months ended September 30, 2009, we had a foreign exchange gain of $0.5 million compared to a gain of $0.7 million for the three months ended September 30, 2008. The $0.2 million decrease was primarily attributable to the manner in which swings in the value of the U.S. Dollar as compared to other currencies, primarily the Euro and the Brazilian Real, affect the reported amount of intercompany transactions. Foreign exchange gains and losses have resulted primarily from hedging and intercompany activity.

Provision for Income Taxes. For the three months ended September 30, 2009 we recorded income tax expense of $3.4 million compared with $0.8 million for the three months ended September 30, 2008. The increase in the provision for income taxes for the third quarter of 2009 compared to the third quarter of 2008 was principally due losses incurred by certain foreign and domestic subsidiaries for which the Company currently has deferred tax asset valuation allowances recorded including curtailment/settlement gains recorded in the third quarter of 2008 relating to U.S. retiree plans of $40.1 million for which no taxes were reflected due to the U.S. deferred tax asset valuation allowance recorded as of 2008.

Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008.

Net Sales. Net sales for the nine months ended September 30, 2009 decreased by $121.0 million, or 24.8%, to $367.7 million from $488.7 million for the nine months ended September 30, 2008. For the nine months ended September 30, 2009, 66% of our net sales was in our clothing segment and 34% was in our roll covers segment.

In our clothing segment, net sales for the nine months ended September 30, 2009 decreased by $73.4 million, or 23.1%, to $243.9 million from $317.3 million for the nine months ended September 30, 2008 primarily due to (i) decreased sales volume in all regions and (ii) unfavorable currency effects on net sales of $30.8 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. The decrease was partially offset by $8.2 million of favorable currency

effects on pricing related to sales prices indexed in U.S. Dollars by certain non-U.S. operations. Overall pricing levels in our clothing segment remained unchanged during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008.

In our roll covers segment, net sales for the nine months ended September 30, 2009 decreased by $47.6 million, or 27.8%, to $123.8 million from $171.4 million for the nine months ended September 30, 2008. The decrease was primarily due to (i) decreased sales volumes in all regions and (ii) unfavorable currency effects on net sales of $10.7 million related to the translation of sales made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes. Overall pricing levels in our roll covers segment increased by slightly less than 1% during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008.

Cost of Products Sold. Cost of products sold for the nine months ended September 30, 2009 decreased by $74.8 million, or 24.6%, to $229.0 million from $303.8 million for the nine months ended September 30, 2008.

In our clothing segment, cost of products sold decreased by $50.5 million, or 25.4%, to $148.0 million for the nine months ended September 30, 2009 from $198.5 million for the nine months ended September 30, 2008 primarily due to (i) lower sales volumes during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008, (ii) favorable currency effects of $18.2 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008, (iii) increased provision for slow-moving and obsolete inventory of $8.4 million in the nine months ended September 30, 2008 and (iv) the $3.4 million impact of a lower cost structure, resulting from our cost reduction programs, during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008.

In our roll covers segment, cost of products sold decreased by $24.3 million, or 23.1%, to $81.0 million for the nine months ended September 30, 2009 from $105.3 million for the nine months ended September 30, 2008. The decrease in cost of products sold was primarily due to (i) lower sales volumes in all regions during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008, (ii) favorable currency effects of $6.7 million related to the translation of expenses made in currencies other than the U.S. Dollar to U.S. Dollars for financial reporting purposes during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008, (iii) the $3.2 million impact of a lower cost structure, resulting from our cost reduction programs, during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 and (iv) increased provision for slow-moving and obsolete inventory of $0.6 million in the nine months ended September 30, 2008.

Selling Expenses. For the nine months ended September 30, 2009, selling expenses decreased by $12.8 million, or 20.5%, to $49.6 million from $62.4 million for the nine months ended September 30, 2008. The decrease was primarily due to (i) the impact of a reduction in salaried sales positions, commissions and travel expenses, (ii) favorable currency effects of $5.5 million during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 and (iii) the $1.6 million impact of a lower cost structure, resulting from our cost reduction programs, during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008.

General and Administrative Expenses. For the nine months ended September 30, 2009, general and administrative expenses decreased by $35.2 million, or 50.1%, to $35.1 million from $70.3 million for the nine months ended September 30, 2008. The decrease was primarily due to (i) decreased provisions for bad debts of approximately $13.0 million, principally due to a $7.1 million increase in 2008, (ii) a decrease in environmental expense of $7.5 million as a result of (a) accruals of $4.1 million related to the environmental matter in Australia recorded in the third quarter of 2008 that were absent in the third quarter of 2009 and (b) a Phase II assessment during the second quarter of 2009 that indicated that remediation costs in Australia would be significantly less than originally estimated, resulting in the reversal of $3.4 million of accruals in the second quarter of 2009, (iii) a decrease in consulting, legal and bank fees of $2.7 million for the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 that were incurred relating to initiatives undertaken to resolve our credit issues, (iv) favorable currency translation effects of

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$4.1 million (v) a decrease in litigation accruals of $2.3 million for Brazilian labor matters and other legal matters, (vi) a decrease in management incentive bonus and stock-based compensation expense of $1.4 million, (vii) decreased salaries, travel and other costs as a result of cost reduction efforts during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 and (viii) the $0.2 million impact of a lower cost structure, resulting from our cost reduction programs, during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008.

Restructuring Expenses. For the nine months ended September 30, 2009, restructuring expenses decreased by $4.0 million, or 58.0%, to $2.9 million from $6.9 million for the nine months ended September 30, 2008. Restructuring expenses result from our long-term strategy to reduce costs and improve long-term competitiveness as described above under "Cost Reduction Programs" by closing and/or transferring production from certain of our manufacturing facilities and through headcount reductions. For the nine months ended September 30, 2009, restructuring expenses consisted of asset impairments of $1.7 million, severance costs of $2.2 million and facility costs of $0.2 million. The facility costs were partially offset by the $1.2 million gain on the sale of our Swedish roll covers facility on March 31, 2009.

Research and Development Expenses. For the nine months ended September 30, 2009, research and development expenses decreased by $1.0 million, or 11.0%, to $8.1 million from $9.1 million for the nine months ended September 30, 2008 primarily due to lower material and supply costs and to $0.4 million of favorable currency effects during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008.

Curtailment/Settlement Gains. During the third quarter of 2008, we recorded curtailment/settlement gains of $40.0 million as a result of the following decisions made and communicated during the third quarter of 2008: (i) freezing benefit pension accruals under our Pension Plan for U.S. Salaried and Non-Union Hourly Employees (the "Pension Plan") effective December 31, 2008 so that future service beyond December 31, 2008 will not be credited under the Pension Plan and (ii) no longer sponsoring or funding, as of December 31, 2008, our U.S. retiree health insurance program under which we had offered health care benefits to a certain group of retired U.S. employees and their covered dependents and beneficiaries. The gains include a loss of $0.2 million incurred as a result of curtailing a Canadian pension plan.

Interest Expense, Net. Net interest expense for the nine months ended September 30, 2009 increased by $5.8 million, or 13.7%, to $48.0 million from $42.2 million for the nine months ended September 30, 2008. The increase is primarily attributable to (i) increased interest rates during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 as a result of the amendment of our senior credit facility on May 30, 2008 and (b) the $3.8 million increase to interest expense in the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 in connection with the change in the fair value of our interest rate swaps. In 2009, the ineffective portion of the mark to market change on two of our interest rate swap hedges has been charged to interest expense and, effective September 1, 2009, we were required to discontinue hedge accounting for all of our interest rate swaps and recorded the mark to market change in their fair value of $0.5 million as a charge to interest expense. During the nine months ended September 30, 2008, the swaps did not qualify for hedge accounting for the first half of the year, which resulted in a credit to interest expense for the change in their fair value for the first six months of 2008. These increases were partially offset by favorable currency effects of $2.2 million.

Foreign Exchange Gain (Loss). For the nine months ended September 30, 2009, we had a foreign exchange loss of $0.2 million compared to a gain of $3.3 million for the nine months ended September 30, 2008. The gain in 2008 was primarily attributable to mark-to-market gains on fair value hedges, including gains on hedges for which the underlying foreign exchange exposure on certain intercompany debt no longer existed in the first quarter of 2008, and gains on hedges on future purchases of equipment. Foreign exchange gains and losses during the nine months ended September 30, 2009 were primarily the result of hedging and intercompany activities.

Provision for Income Taxes. For the nine months ended September 30, 2009 and 2008, the provision for income taxes was $10.0 million and $6.4 million, respectively. The increase in income taxes was principally due to the reasons noted above for the third quarter and the establishment of a deferred tax asset valuation allowance in Canada of $2.9 million in the first quarter of 2009.

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LIQUIDITY AND CAPITAL RESOURCES

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 continue to decline if paper manufacturers are unable to obtain required financing or if the economic slowdown causes additional mill closures or continued inventory build-up. In addition, the global economic crisis and the ensuing lack of credit availability may affect our customers' ability to pay their debts which could have a negative impact on our Company. These factors would impact our liquidity and our ability to satisfy the covenant requirements of our credit facility.

As previously disclosed in our Quarterly Report of Form 10-Q for the quarter ended June 30, 2009, we anticipated that we would not be in compliance with certain financial covenants of our senior credit facility for the period ending September 30, 2009. Accordingly, on September 29, 2009, we entered into the Waiver Agreement pursuant to which our lenders agreed to waive any violations of the interest coverage, leverage and fixed charge covenants under our senior credit facility during the Waiver Period. As of September 30, 2009, we were not in compliance with those financial covenants. Absent the Waiver Agreement, failure to meet these financial covenants would constitute an event of default under the senior credit facility and potentially could lead to acceleration of our loan obligations by our lenders, the termination of our interest rate swap agreements by the counterparties and the initiation of insolvency proceedings against us in some non-U.S. jurisdictions.

We have formed a steering committee of our Board of Directors to explore initiatives to address long-term solutions to our credit issues. We are in discussions with our current lenders regarding restructuring or replacing some or all of our debt, which would be likely to include the issuance of equity to such lenders and the payment of additional fees, as well as exploring with third parties various strategic alternatives affecting our debt and equity ownership

Even with the additional time provided by the Waiver Agreement, there can be no assurance that we will be able to complete any initiatives to resolve our credit issues on satisfactory terms, or at all. Any such initiatives we pursue are likely to severely dilute our existing stockholders and may result in our existing common stock having little or no value. If we are unable to execute on our initiatives prior to the expiration of the Waiver Period, our failure to comply with the financial covenants of the credit facility as of September 30, 2009 would be a default under that agreement, absent a further waiver of those terms, which may not be available at that time. We are seeking an additional wavier to extend the Waiver Period and provide additional credit facility relief from the payment of principal and interest due. We anticipate that we may have insufficient cash at year end to both make our required payments under the credit facility and operate our business. Accordingly, absent a waiver of some or all of the scheduled quarterly payments under our credit facility, which would require unanimous approval of the lenders of the debt outstanding under the facility, we may default on our payment obligations under the facility or seek relief from the bankruptcy courts. There can be no assurance that we will be able to obtain a waiver of all or any portion of the scheduled quarterly payments under our credit facility from our lenders.

Under an event of default, the lenders could accelerate the repayment of all of the outstanding debt under the senior credit facility, causing it to immediately become due and payable and, unless our lenders agree to refrain from the exercise of their remedies under our credit facility, such an event of default also could lead to the initiation of insolvency proceedings against us in some non-U.S. jurisdictions. Any such acceleration of our obligations would likely cause other lenders and contractual counterparties to terminate and/or to accelerate our obligations under other financing and credit instruments and agreements. Any acceleration of our obligations or failure on our part to make required payments under our credit facility also could allow the counterparties on certain of our existing interest rate swaps to terminate those arrangements. As of September 30, 2009, the amount of cash that would be required to settle all outstanding hedging obligations is $19.0 million. Should the lenders and/or other counterparties demand immediate repayment of all of our obligations, we expect that we would be unable to pay such obligations and we would need to seek reorganization under Chapter 11 of the U.S. Bankruptcy Code and possibly initiate insolvency proceedings in certain non-U.S. jurisdictions.

Our principal liquidity requirements are for debt service, working capital and capital expenditures. We plan to use cash generated by operations as our primary source of liquidity, but we anticipate that revenues and profits may not generate sufficient cash to fund our operations or meet our other liquidity requirements. We are not permitted to make additional borrowings under our revolver under the

terms of the Waiver Agreement and we have limited access to other sources of loans. Without adequate liquidity, we may seek reorganization under Chapter 11 of the U.S. Bankruptcy Code or liquidate our assets. In the event that we seek reorganization under Chapter 11, we are likely to need immediate access to funding through debtor-in-possession financing. We may be unable to find any lender willing to provide us with debtor-in-possession financing, and any such financing that we are able to obtain would require the approval of the bankruptcy court. If such financing is not available, then we may find it necessary to discontinue our operations. Also, if we or the directors of our foreign subsidiaries are required to commence insolvency proceedings under the local law applicable in certain of the foreign jurisdictions in which we operate, then we may lose access to cash from our operations in those jurisdictions or may lose control of the assets underlying those operations, even prior to any filing under Chapter 11.

Net cash provided by operating activities was $3.8 million and $52.8 million for the nine months ended September 30, 2009 and 2008, respectively. The $49.0 million decrease is principally attributable to a decrease in the volume of business as a result of the global economic crisis and an increase in working capital during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 principally due to the level of payment of payables and accruals since December 31, 2008. We typically defer payments to certain vendors at the end of each quarter, which results in an increased cash position at the end of the quarter and increased net cash from operating activities for the period then ended. Such deferrals were significant at December 31, 2008 and the absence of the extent of such deferrals at the end of September 30, 2009 contributed to the increase in working capital for the nine months ended September 30, 2009. In an effort to improve working capital, in the second quarter of 2009, the Company initiated a project to accelerate accounts receivable collections and to sell excess inventories. As of September 30, 2009, the Company's efforts under this project contributed approximately $5.8 million in additional cash and increased Adjusted EBITDA by approximately $6.8 million.

Net cash used in investing activities was $8.7 million for the nine months ended September 30, 2009 and $27.1 million for the nine months ended September 30, 2008. The decrease of $18.4 million was primarily due to (i) a decrease in capital equipment spending of $15.2 million in the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 and (ii) a $3.2 million increase in the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 related to proceeds from the sale of property and equipment and the Chief Executive Officer's former home.

Net cash used in financing activities was $9.3 million for the nine months ended September 30, 2009 and $30.4 million for the nine months ended September 30, 2008. The decrease of $21.1 million was primarily the result of (i) borrowings under our revolver of $28.0 million during the first quarter of 2009, and (ii) the decrease in other financing activities of $7.4 million in the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008 related to expenses associated with initiatives undertaken to resolve our credit issues. These decreases were partially offset by higher debt payments of approximately $13.7 million during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008. We made mandatory principal repayments of $16.6 million during the nine months ended September 30, 2009 as compared with $9.4 million during the nine months ended September 30, 2008. The increase in the mandatory payment was due to the loan agreement requiring us to make such excess payments based on the prior year's Adjusted EBITDA, which was impacted during 2008 by gains of approximately $52 million related to the freezing of one of our U.S. pension plans, the termination of our U.S. retiree medical plan and the mark to market changes in the fair value of our interest rate swaps, partially offset by approximately $30 million related to increased restructuring expenses and increased noncash reserves. Because none of these events generated any cash but increased Adjusted EBITDA which increased the mandatory principal payment, the effect of these actions reduced our available cash. We also made a voluntary debt repayment of $6.1 million during the nine months ended September 30, 2008 and none in nine months ended September 30, 2009.

As of September 30, 2009, there was a $591.4 million balance of term loans outstanding under our senior credit facility. During the nine months ended September 30, 2009, we made scheduled principal payments of $14.4 million and mandatory principal repayments of $19.2 million. In addition, as of September 30, 2009, we had $28.1 million outstanding under our current revolving lines of credit, including the revolving credit facility under our senior credit facility and lines of credit in various foreign countries that are used to facilitate local short-term operating needs and an aggregate of $8.0 million available for additional borrowings under these revolving

lines of credit. We are not permitted to make additional borrowings under our revolver during the Waiver Period and we have limited access to other sources of loans. Our liquidity is substantially affected by the covenant requirements of our credit agreement. See “Credit Facility” below. We had cash and cash equivalents of $21.8 million at September 30, 2009 compared to $34.7 million at December 31, 2008.

CAPITAL EXPENDITURES

For the nine months ended September 30, 2009, we had capital expenditures of $14.0 million consisting of growth capital expenditures of $7.0 million and maintenance capital expenditures of $7.0 million. Growth capital expenditures consist of items that are intended to increase the manufacturing, production and/or distribution capacity or efficiencies of our operations in conjunction with the execution of our business strategies. Maintenance capital expenditures are designed to sustain the current capacity or efficiency of our operations and include items relating to the renovation of existing manufacturing or service facilities, the purchase of machinery and equipment for safety and environmental needs and information technology. For the nine months ended September 30, 2008, capital expenditures were $29.1 million, consisting of growth capital expenditures of $21.5 million and maintenance capital expenditures of $7.6 million.

In the first quarter of 2008 we began an effort to reduce our planned capital expenditures. As part of this effort, we determined to delay the planned capital expenditures for the Vietnam facility and cancelled or rescheduled certain other previously planned capital expenditures. These cancellations did not result in any substantial penalties for us. In December 2008, we discontinued the construction of the Vietnam facility. While construction of the Vietnam facility has been discontinued, we continue to have contractual obligations with respect to certain equipment which was previously ordered for the facility. We are redeploying this equipment to other locations. Due to our assessment of the impact of the global economic crisis and the potential effect on our customers and our industry, we are currently evaluating additional capital expenditures reductions and cost reduction actions to improve long-term operating efficiencies and to better match our production with demand. 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 these amounts. We target capital expenditures for 2009 to be approximately $23 million, and estimated capital expenditure levels for 2010 are approximately $33 million.

See “—Credit Facility” below for a description on limitations on capital expenditures imposed by our credit facility.

CREDIT FACILITY

Upon the completion of the initial public offering of our common stock on May 19, 2005, we and certain of our subsidiaries entered into a senior secured credit facility. The credit facility was amended six times, most recently by the Waiver Agreement described below.

The credit facility requires that we satisfy certain operating requirements and financial covenant ratios in order to avoid a default or event of default under the senior credit facility agreement. See further discussion below. As previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, we anticipated that we would not be in compliance with certain financial covenants of the credit facility for the period ending September 30, 2009. Therefore, to provide us additional time to work with our creditors and stockholders to find long-term solutions to our credit issues, on September 29, 2009, we entered into the Waiver Agreement to the Credit Agreement. As of September 30, 2009, we were not in compliance with certain financial covenants of the credit facility. Absent the Waiver Agreement, failure to meet these financial covenants would constitute an event of default under the senior credit facility and potentially could lead to acceleration of our loan obligations by our lenders, the termination of our interest rate swap agreements by the counterparties and the initiation of insolvency proceedings against us in some non-U.S. jurisdictions.

Pursuant to the Waiver Agreement, the lenders agreed to waive any violation of the interest coverage, leverage and fixed charge covenants under the senior credit facility until the earliest of (i) the occurrence of any other default under the credit facility, (ii) our failure to comply with any term of the Waiver Agreement or (iii) December 15, 2009 (the “Waiver Period”). We agreed that during the Waiver Period no new revolving loans may be made to us, and the lenders would not be required to make any loans to us. We may request new letters of credit in an amount up to $3.5 million for equipment purchases and may extend the expiration dates for certain outstanding letters of credit. The Waiver Agreement also requires us to report certain additional financial information to the lenders on a regular basis.

In connection with the Waiver Agreement, we were required to pay aggregate fees to the lenders of approximately (i) $1.5 million in cash at the time of the effectiveness of the Waiver Agreement and (ii) $1.5 million to be deferred to the maturity date for the loans under the credit facility and to accrue interest at the rate applicable to the loans at that time. In addition, during the period between September 29, 2009 and December 15, 2009 the outstanding balance under the credit facility will bear interest at a rate that is 1.0% per year in excess of the non-default rate otherwise payable during that period under the credit facility. The non-default rate is LIBOR, the Euribor or CDOR rate plus the applicable margin of 5.50%.

We have formed a steering committee of our Board of Directors to explore initiatives to address long-term solutions to our credit issues. We are in discussions with our current lenders regarding restructuring or replacing some or all of our debt, which would be likely to include the issuance of equity to such lenders and the payment of additional fees, as well as exploring with third parties various strategic alternatives affecting our debt and equity ownership.

Even with the additional time provided by the Waiver Agreement, there can be no assurance that we will be able to complete any initiatives to resolve our credit issues on satisfactory terms, or at all. Any such initiatives involving issuances of equity are likely to severely dilute our existing stockholders and may result in our existing common stock having little or no value. If we are unable to execute on our initiatives prior to the expiration of the Waiver Period, our failure to comply with the financial covenants of the credit facility as of September 30, 2009 would be a default under that agreement, absent a further waiver of those terms, which may not be available at that time. We are seeking an additional wavier to extend the Waiver Period and provide additional credit facility relief from the payment of principal and interest due. We anticipate that we may have insufficient cash at year end to both make our required payments under the credit facility and operate our business. Accordingly, absent a waiver of some or all of the scheduled quarterly payments under our credit facility, which would require unanimous approval of the lenders of the debt outstanding under the facility, we may default on our payment obligations under the facility or seek relief from the bankruptcy courts. There can be no assurance that we will be able to obtain a waiver of all or any portion of the scheduled quarterly payments under our credit facility from our lenders. Should an event of default occur under our credit facility, we would need to seek reorganization under Chapter 11 of the U.S. Bankruptcy Code and possibly initiate insolvency proceedings in certain non-U.S. jurisdictions.

The description of the credit facility below describes the facility as amended and restated on May 30, 2008.

Our credit facility provides for a $50 million senior secured revolving credit facility and for term loans that had a total principal amount of $650 million as of May 2005. Because the term loans include portions denominated in Euros and Canadian dollars, in addition to a U.S. Dollar denominated portion, the aggregate outstanding principal on our term loans is affected by our currency exchange rates as well as principal repayments. The revolving credit facility matures on November 19, 2011, and the term loans mature on May 19, 2012. The credit facility is secured by substantially all of our assets and the assets of most of our subsidiaries, subject to legal and tax considerations and requirements.

Borrowings under the revolving credit facility and the term loans bear interest at the sum of, as applicable, LIBOR, the Euribor or CDOR rate plus, in each case, the applicable margin. The applicable margin was set at 5.50% through December 31, 2008. Beginning January 1, 2009, the applicable margin depends upon our credit rating level: it will be 2.75% if our credit rating is Ba3 or higher by Moody's and BB- or higher by S&P, 3.75% if our credit rating is B1 by Moody's or B+ by S&P, 4.25% if our credit rating is B3 or higher but lower than B1 by Moody's and 'B-' or higher but lower than 'B+' by S&P, and 5.50% if our credit rating is lower than B3 by Moody's or lower than B- by S&P. In order to qualify at each level the rating must be with a stable outlook. Our current credit rating is Caa3 by Moody's and 'CC-' by S&P. Our current applicable margin is 5.50%, except that during the Waiver Period, the outstanding balance under the credit facility will bear interest at a rate that is 1.0% per year in excess of this rate.

On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. The interest rate swap arrangements effectively fixed the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. These interest rate swaps initially qualified for hedge accounting under Topic 815. As a result of the financial covenant non-compliance for the period

ended March 31, 2008, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under Topic 815 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12.0 million was recorded as a non-cash charge to interest expense in the first quarter of 2008 and a non-cash credit to interest expense of $13.7 million in the second quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. Such mark to market changes on these interest rate swaps were principally credited or charged to accumulated other comprehensive income (loss) through September 1, 2009. As previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, we anticipated that we would not be in compliance with certain financial covenants under our senior credit facility for the period ending September 30, 2009 and thus, on September 29, 2009, we entered into the Waiver Agreement. As of September 30, 2009, we were not in compliance with those covenants under our senior credit facility. As it is uncertain that we will be able to complete any alternative, long-term solutions to our credit issues or to obtain a further waiver prior to expiration of the Waiver Agreement, we are no longer able to support that the variable-rate interest payments (hedged transactions) under our senior credit facility are probable of occurring and therefore, effective September 1, 2009, we were required to discontinue cash flow hedge accounting prospectively for our interest rate swaps so that the mark to market changes in their fair value are charged or credited to interest expense. For the month of September 2009, this amounted to a $0.5 million charge to interest expense. If we are not able to restructure our debt obligations in a manner that is consistent with the hedged forecasted transactions or if our lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, the cumulative mark to market changes in the fair value of the underlying interest rate swaps that have been recorded in accumulated other comprehensive loss, in addition to the credit valuation adjustments recorded under Topic 820, would be charged to the statement of operations at that time. As of September 30, 2009 this amount was $15.8 million. Additionally, any acceleration of our obligations under our credit facility, or any failure to make required payments under our credit facility, could allow the counterparties on certain of our existing interest rate swaps to terminate those arrangements. As of September 30, 2009, the amount payable by us upon a termination of such interest rate swaps would have been approximately $19.0 million.

The $1.7 million impact of the ineffective portion of these interest rate swaps and the discontinuation of hedge accounting were charged to interest expense during the nine months ended September 30, 2009.

Although these interest rate swaps are subject to mark to market accounting through earnings effective September 1, 2009, they continue to effectively fix, from a cash flow hedge perspective, the interest rate on approximately 81% of the term loan portion of the Company's credit facility through December 31, 2010. As of September 30, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 10.75%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.08%.

The credit facility provides for scheduled quarterly principal payments of the term loans as set out below:

Currency:	USD	Euro	CAD
2009	2,458,174	1,392,040	584,489
2010	3,318,535	1,879,254	789,059
2011	4,055,987	2,296,865	964,406
2012 (first quarter only)	4,916,348	2,784,080	1,168,976

The credit facility provides that for the purposes of computing debt, which is a part of the calculation of the leverage ratio, indebtedness which is payable in Canadian Dollars or Euros shall be converted into U.S. Dollars using the average exchange rate for the period of four consecutive fiscal quarters ended March 31, 2008. Accordingly, if the value of the U.S. Dollar increases relative to the Euro or the Canadian Dollar and our Adjusted EBITDA declines as a result of this currency effect, there would not be a corresponding decrease in the amount of our debt for purposes of the leverage ratio covenant calculation.

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The credit facility also requires us to make additional prepayments of the term loans under the following circumstances:

- with 100% of the net cash proceeds received by us from any sale, transfer or other disposition of any assets (excluding inventory and certain discontinued manufacturing facilities), subject to an exemption for the reinvestment of up to $3 million of such proceeds within a year of our receipt thereof in long-term productive assets of the general type used in our business;
- with 100% of the net cash proceeds received by us from any insurance recovery or condemnation events, subject to certain exceptions and reinvestment rights and exempting the first $2 million;
- with 75% of the net cash proceeds from the issuance of any common stock, subject to customary exceptions and exempting the first $100,000;
- with 100% of the net cash proceeds from the incurrence of any indebtedness by us (excluding indebtedness permitted under the credit facility, but including any subordinated indebtedness), subject to customary exceptions; and
- with 75% of our excess cash on an annual basis; that is, our Adjusted EBITDA minus consolidated interest expense, cash income tax expense, consolidated capital expenditures (subject to certain exceptions), consolidated restructuring costs, cash payments of withholding taxes from proceeds of the repurchase, redemption or retention of common stock and the aggregate amount of scheduled and voluntary payments made during the past fiscal year.

Prior to the effectiveness of the amendment and restatement of our credit facility, the percentage of our annual excess cash required to be prepaid was 40% for 2007, 27.5% for 2008 and 50% for each fiscal year thereafter. We made mandatory principal prepayments from excess cash of $19.2 million and $9.4 million in the nine months ended September 30, 2009 and 2008, respectively.

Our credit facility requires that we observe and perform numerous affirmative and negative covenants, including certain financial covenants. The financial covenants per the amended credit facility are now as follows:

Minimum Interest Coverage Ratio:	**Four Fiscal Quarters Ending**	**Ratio**
The ratio of four quarter Adjusted EBITDA to interest expense.	March 31, 2009 to March 31, 2010	2.00:1.00
	June 30, 2010 to March 31, 2011	2.25:1.00
	June 30, 2011 to December 31, 2011	2.50:1.00
	March 31, 2012	2.75:1.00

Minimum Fixed Charge Coverage Ratio:	**Four Fiscal Quarters Ending**	**Ratio**
The ratio of four quarter Adjusted EBITDA to fixed charges (interest expense, scheduled principal payments, and cash taxes).	June 30, 2009 to March 31, 2012	1.20:1.00

Maximum Leverage Ratio:	**Four Fiscal Quarters Ending**	**Ratio**
The ratio of outstanding debt to four quarter Adjusted EBITDA.	June 30, 2009 and September 30, 2009	5.25:1.00
	December 31, 2009	5.00:1.00
	March 31, 2010 and June 30, 2010	4.75:1.00
	September 30, 2010	4.50:1.00
	December 31, 2010 and March 31, 2011	4.25:1.00
	June 30, 2011 to March 31, 2012	4.00:1.00

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For the four fiscal quarters ended September 30, 2009 our interest coverage ratio was 1.78:1, our fixed charge coverage ratio was 1.10:1 and our leverage ratio was 6.15:1. Accordingly, as discussed above, we were not in compliance with these financial covenants as of September 30, 2009.

Our credit facility defines consolidated capital expenditures for a particular fiscal year as all expenditures required under GAAP to be included in "purchase of property and equipment" or similar items. The credit facility limits the amount of our consolidated capital expenditures in any given fiscal year to an amount not exceeding $50 million for fiscal year 2008 and $35 million for each of fiscal years 2009, 2010 and 2011, exclusive of capital expenditures paid with net insurance and condemnation proceeds; provided that the maximum amount of consolidated capital expenditures permitted in each fiscal year shall be increased by 50% of the amount below the maximum not spent in the prior fiscal year (determined without reference to any carryover amount); and provided, further, that solely for fiscal year 2008, the maximum amount that may be carried forward to fiscal year 2009 shall equal 100% of the first $10 million of any permitted consolidated expenditures not expended in fiscal year 2008 plus 50% of any remaining expenditures not expended in fiscal year 2008.

Our credit facility also prohibits the payment of dividends on our common stock.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. We have formal accounting policies in place including those that address critical and complex accounting areas. Note 3 to the consolidated financial statements included elsewhere in this Quarterly 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 Accounting Standards Codification 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 disclosure 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 ASC Topic 815 *Derivatives and Hedging* ("Topic 815"), 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.

There are two types of hedges into which we enter: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset or liability, or a firm commitment. Hedges of cash flow exposure are entered into in order to hedge a forecasted transaction or the variability of cash flows to be paid related to a recognized liability. Changes in derivative fair values are recognized in earnings as offsets to the changes in fair value of the related hedged assets and liabilities. Changes in the derivative fair values that are designated as cash flow hedges which meet the criteria for hedge accounting are recorded in other comprehensive income (loss). On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. The interest rate swap arrangements effectively fixed the interest rate on approximately 85% of the term loan portion of our credit facility through December 31, 2010. These interest rate swaps initially qualified for hedge accounting under Topic 815. As a result of the financial covenant non-compliance for the period ended March 31, 2008, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under Topic 815 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12.0 million was recorded as a non-cash charge to interest expense in the first quarter of 2008 and a non-cash credit to interest expense of $13.7 million in the second quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. Such mark to market changes on these interest rate swaps were principally credited or charged to accumulated other comprehensive income (loss) through September 1, 2009.

Effective September 1, 2009, we were required to discontinue hedge accounting for these interest rate swaps. It is uncertain that we will be able to complete any alternative, long-term solutions to our credit issues or to obtain a further waiver prior to expiration of the Waiver Agreement entered into on September 29, 2009. Accordingly, we are no longer able to support that the variable-rate interest payments (hedged transactions) under our senior credit facility are probable of occurring and therefore, effective September 1, 2009, we were required to discontinue cash flow hedge accounting prospectively for our interest rate swaps so that the mark to market changes in their fair value are charged or credited to interest expense. For the month of September 2009, this amounted to a $0.5 million charge to interest expense. If we are not able to restructure our debt obligations in a manner that is consistent with the hedged forecasted transactions or if our lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, the cumulative mark to market changes in the fair value of the underlying interest rate swaps that have been recorded in accumulated other comprehensive loss, in addition to the credit valuation adjustments recorded under Topic 820, would be charged to the statement of operations at that time. As of September 30, 2009 this amount was $15.8 million.

Any acceleration of our obligations under our credit facility, or any failure to make required payments under our credit facility, could allow the counterparties on certain of our existing interest rate swaps to terminate those arrangements. As of September 30, 2009, we estimate that the amount payable by us upon a termination of such interest rate swaps would have been approximately $19.0 million.

The $1.7 million impact of the ineffective portion of these interest rate swaps and the discontinuation of hedge accounting were charged to interest expense during the nine months ended September 30, 2009.

Although these interest rate swaps are subject to mark to market accounting through earnings effective September 1, 2009, they continue to effectively fix, from a cash flow hedge perspective, the interest rate on approximately 81% of the term loan portion of the Company’s credit facility through December 31, 2010. As of September 30, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 10.75%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.08%.

Effective January 1, 2008, we adopted Topic 820 for measuring our derivative assets and liabilities. We 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 trade 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 incorporated 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. The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty's credit spread to the applicable exposure. For derivatives with two-way exposure, such as interest rate swaps, the counterparty's credit spread is applied to our exposure to the counterparty, and our own credit spread is applied to the counterparty's exposure to us, and the net credit valuation adjustment is reflected in our derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from its publicly-traded debt. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. Additionally, we actively monitor counterparty credit ratings for any significant changes.

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 Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of September 30, 2009, we have assessed the net significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments reduced the settlement values of our derivative liabilities by $3.2 million. Various factors which impact changes in the credit are not significant to the overall valuation adjustments over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

When appropriate, valuations are also adjusted for various factors such as liquidity and bid/offer spreads, which factors were deemed immaterial by us as of September 30, 2009. 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 September 30, 2009.

Effective January 1, 2008, we partially adopted provisions of Topic 820. ASC Topic 820-10-65-1, *Transition related to FASB Staff Position FAS157-2, Effective Date of FASB Statement No. 157* permits us to defer the recognition and measurement of nonfinancial assets and nonfinancial liabilities until January 1, 2009. At January 1, 2009, we did not have any nonfinancial assets or nonfinancial liabilities that are recognized or disclosed at fair value.

Goodwill. We account for acquired goodwill and intangible assets in accordance with ASC Topic 805, *Business Combinations* ("Topic 805"). Purchase accounting required by Topic 805 involves judgment with respect to the valuation of the acquired assets and liabilities in order to determine the amount of goodwill. We believe that the estimates that we have used to record prior acquisitions are reasonable and in accordance with Topic 805.

Impairment of Goodwill and Indefinite-Lived Intangible Assets. 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 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.

We perform an annual test for goodwill impairment as of December 31st at the business segment level. We have two business segments: clothing and roll covers. When our business was acquired in 1999, more than 80% of the goodwill was assigned to the roll covers segment 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 all tangible and intangible assets, excluding goodwill, 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 business segments based upon the percentage of each segment's revenue to total revenue. Shared expenses are allocated to each segment 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 proprietary information to determine measures that are used to value our business segments. The income approach is a present value technique used to measure the fair value of future cash flows produced by each business segment. Determining the fair value of a business segment 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 these assessments performed as of December 31, 2008, we determined that no impairment of goodwill exists.

During the third quarter of 2009, we evaluated events and circumstances that may have indicated an impairment of goodwill and performed an interim test for goodwill impairment. This interim test indicated that no impairment exists. The excess of the fair value over the carrying value for our clothing and roll covers segment as of September 30, 2009, was approximately $189 million and $12 million, respectively. In order to evaluate the sensitivity of the analysis performed, we applied a hypothetical 5% decrease to the fair value of these business segments, which resulted in a fair value in excess of carrying value of approximately $160 million for the clothing segment and resulted in a fair value that approximately equals the carrying value for the roll covers segment.

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 AST 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. During the third quarter of 2008, while evaluating one of our foreign facilities, we discovered the possibility of contamination at the facility. Subsequently we had a preliminary evaluation performed, which confirmed the existence of contamination and estimated preliminary costs to clean up the facility. Based upon this evaluation, we recorded $4.1 million in 2008 as our best estimate of the remediation costs we expect to incur. A Phase II assessment of the ground water contamination performed for us during the second quarter of 2009 indicated the costs to remediate the contamination would be significantly less than originally estimated and accordingly, we reduced the accrual by $3.4 million during the second quarter of 2009 based on this assessment.

Income Taxes. We utilize the asset and liability method for accounting for income taxes in accordance with 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 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. Relevant evidence, both positive and negative, is considered in determining the need for a valuation allowance. Information evaluated includes our financial position and results of operations for the current and preceding years as well as an evaluation of currently available information about future years. In light of our accumulated loss position in certain tax jurisdictions, and the uncertainty of profitability in future periods, we recorded valuation allowances for deferred tax assets primarily related to net operating loss carryforwards in the United States, United Kingdom, Germany, Sweden, Australia and Canada.

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. 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. There are currently no U.S. Federal or state audits or examinations underway. In May 2009, we concluded an audit relating to our German subsidiaries for tax years 1999 through 2002. No further adjustments not previously recognized were required in the quarter ended September 30, 2009 as a result of this settlement. The Canadian Federal tax authorities contacted us in October of 2008 and have initiated an audit of our Canadian companies. The audit is still in the initial information gathering stages and no issues or assessments have been raised. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties.

Topic 740 prescribes a two-step process to determine the amount of tax benefit to be recognized. 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.

NON-GAAP LIQUIDITY MEASURES

We use EBITDA and Adjusted EBITDA 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. Our credit facility includes covenants based on Adjusted EBITDA. If our Adjusted EBITDA declines below certain levels, we will violate the covenants resulting in a default condition under the credit facility or be required to prepay the credit facility. Neither EBITDA nor Adjusted EBITDA should be considered in isolation or as a substitute for income (loss) from operations (as determined in accordance with 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 is defined in our credit facility and is EBITDA plus (i) restructuring or related impairment costs (not to exceed $5.0 million in the aggregate for 2008 and in each year thereafter, (ii) reserves for inventory in connection with plant closings, (iii) stock-based and other non-cash compensation charges, charges from forgiveness of loans made to employees in connection with the purchase of equity and any tax gross-up payments made in respect of such loan forgiveness in connection with or prior to the completion of our initial public offering, (iv) certain transaction costs, including costs incurred in connection with our initial public offering and the related debt financing, the legal reorganization of Brazilian subsidiaries and the preparation and closing of the existing credit agreement, (v) consolidated amendment/termination costs, which consist of costs incurred in connection with the consummation of the fourth and fifth amendments to the senior credit facility and the termination of the employment contract of the former Chief Executive Officer and transition to the new Chief Executive Officer, not to exceed $8.0 million in the aggregate, (vi) costs associated with payments to management prior to the completion of our initial public offering in connection with the termination of incentive plans, (vii) non-cash charges resulting from the application of purchase accounting, (viii) non-cash expenses resulting from the granting of stock options, restricted stock or restricted stock unit awards under equity compensation programs solely with respect to our common stock and (ix) expenses incurred not exceeding $7 million per year as a

result of the repurchase, redemption or retention of our own common stock earned under equity compensation programs solely in order to make withholding tax payments. Adjusted EBITDA, as defined in the credit facility and calculated below, may not be comparable to similarly titled measurements used by other companies.

The following table provides a reconciliation from net income (loss), which is the most directly comparable GAAP financial measure, to EBITDA and Adjusted EBITDA.

	Three Months Ended September 30,	
(in thousands)	2009	2008
Net income (loss)	$ (7,381)	$ 21,536
Income tax provision	3,424	794
Interest expense, net	16,425	16,230
Depreciation and amortization	10,851	11,739
EBITDA	**23,319**	**50,299**
Amendment/termination costs (F)	—	483
Change in fair value of interest rate swaps (E)	(859)	450
Restructuring expenses (C)	87	1,817
Inventory write-offs under restructuring programs	104	199
Non-cash compensation and related expenses	778	500
Non-cash impairment charges (A)	1,667	405
Adjusted EBITDA	**$25,096**	**$ 54,153**

	Nine Months Ended September 30,	
(in thousands)	2009	2008
Net income (loss)	$ (15,228)	$ 30,945
Income tax provision	10,013	6,344
Interest expense, net	47,952	42,217
Depreciation and amortization	30,769	35,697
EBITDA	**73,506**	**115,203**
Unrealized foreign exchange gain on indebtedness, net (D)	—	(1,985)
Amendment/termination costs (F)	—	6,480
Change in fair value of interest rate swaps (E)	(1,654)	14,154
Change in fair value of other derivatives	—	(2,126)
Restructuring expenses (C)	1,227	5,000
Inventory write-offs under restructuring programs	349	199
Growth program costs (B)	—	1,764
Non-cash compensation and related expenses	1,824	774
Non-cash impairment charges (A)	1,667	472
Adjusted EBITDA	**$76,919**	**$139,935**

(A) In accordance with the definition of Adjusted EBITDA in our credit facility, non-cash impairment charges resulting from application of Topic 350 and ASC Topic 360, *Property, Plant, and Equipment*, have been added back to Adjusted EBITDA.

(B) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, growth program costs are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008. Prior to that period, growth programs were added back to Adjusted EBITDA based upon the credit facility agreement as in effect at that time. Growth programs were those intended to increase productivity and economic efficiency or the market share capacity of the Company, reduce cost structure, improve equipment utilization or provide additional regional capacity to better serve growth markets. These growth program costs for the nine months ended September 30, 2008 included expenses incurred for our lean manufacturing initiatives, expansion into Vietnam and other growth programs.

(C) Restructuring and related impairment costs that can be added back to determine Adjusted EBITDA were capped at $5,000 for 2008.

(D) In accordance with the definition of Adjusted EBITDA in our credit facility, as amended on May 30, 2008, unrealized foreign exchange gains and losses on indebtedness are not added back to Adjusted EBITDA for periods beginning after the quarter ended March 31, 2008. Prior to that period, such gains and losses are added back to Adjusted EBITDA based upon the credit facility as in effect at that time.

(E) In accordance with the definition of Adjusted EBITDA in our credit facility agreement, as amended on May 30, 2008, interest expense added back to calculate Adjusted EBITDA excludes, for periods beginning after the quarter ended March 31, 2008, the effect of any non-cash gains and losses resulting from the marking to market of hedging obligations that has been charged to interest expense. Had this amended definition been in place for all periods presented, Adjusted EBITDA would have been approximately $12,000 lower for the nine months ended September 30, 2008.

(F) For the nine months ended September 30, 2008, amendment/termination costs include $5,680 of costs incurred in connection with the consummation of the fourth and fifth amendments to the credit facility during the second quarter of 2008 and an $800 increase to Adjusted EBITDA for the first quarter of 2008, in accordance with the agreement with our lenders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 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 asset position of less than $0.2 million at September 30, 2009. These contracts mature at various dates through August 2010.

As of September 30, 2009, we had open foreign currency exchange contracts maturing through August 2010 with total net notional amounts of approximately $1.6 million. At September 30, 2009, we prepared an analysis to determine the sensitivity of our forward foreign exchange contracts to changes in exchange rates. A hypothetical adverse exchange rate movement of 10% against our forward foreign exchange contracts would have resulted in potential net loss in fair value of these contracts of approximately $0.2 million. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. Dollar. In addition to the direct effects of changes in exchange rates, such changes typically 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. Our senior credit facility has a variable interest rate. On November 16, 2007, we entered into interest rate swap arrangements pursuant to which we paid fixed rates on notional amounts while receiving the applicable floating LIBOR, Euribor or CDOR rates. These interest rate swaps initially qualified for hedge accounting under Topic 815. As a result of the financial covenant

non-compliance for the period ended March 31, 2008, this debt was potentially payable prior to the expiration of the underlying interest rate swaps, and accordingly, hedge accounting under Topic 815 was no longer applicable for these interest rate swaps and the mark to market decrease in their fair value of $12.0 million was recorded as a non-cash charge to interest expense in the first quarter of 2008 and a non-cash credit to interest expense of $13.7 million in the second quarter of 2008. Effective July 1, 2008, we were again able to assert that the hedged transactions were probable of occurring and accordingly redesignated the interest rate swaps as cash flow hedges of benchmark interest rate risk on variable interest payments on the hedged debt as of June 30, 2008. Such mark to market changes on these interest rate swaps were principally credited or charged to accumulated other comprehensive income (loss) through September 1, 2009.

Effective September 1, 2009, we were required to discontinue hedge accounting for these interest rate swaps. It is uncertain that we will be able to complete any alternative, long-term solutions to our credit issues or to obtain a further waiver prior to expiration of the Waiver Agreement. Accordingly, we are no longer able to support that the variable-rate interest payments (hedged transactions) under our senior credit facility are probable of occurring and therefore, effective September 1, 2009, we were required to discontinue cash flow hedge accounting prospectively for our interest rate swaps so that the mark to market changes in their fair value are charged or credited to interest expense. For the month of September 2009, this amounted to a $0.5 million charge to interest expense. If we are not able to restructure our debt obligations in a manner that is consistent with the hedged forecasted transactions or if our lenders accelerate the debt under the senior credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, the cumulative mark to market changes in the fair value of the underlying interest rate swaps that have been recorded in accumulated other comprehensive loss, in addition to the credit valuation adjustments recorded under Topic 820, would be charged to the statement of operations at that time. As of September 30, 2009 this amount was $15.8 million.

Any acceleration of our obligations under our credit facility, or any failure to make required payments under our credit facility, could allow the counterparties on certain of our existing interest rate swaps to terminate those arrangements. As of September 30, 2009, we estimate that the amount payable by us upon a termination of such interest rate swaps would have been approximately $19.0 million.

The $1.7 million impact of the ineffective portion of these interest rate swaps and the discontinuation of hedge accounting was charged to interest expense during the nine months ended September 30, 2009.

Although these interest rate swaps are subject to mark to market accounting through earnings effective September 1, 2009, they continue to effectively fix, from a cash flow hedge perspective, the interest rate on approximately 81% of the term loan portion of the Company’s credit facility through December 31, 2010. As of September 30, 2009, the weighted average interest rate on the effectively fixed portion of the term loan facility was 10.75%, and the weighted average interest rate on the portion of the term loan facility not effectively fixed by interest rate swap contracts, based on the 90-day LIBOR, was 7.08%.

As a result of the amendment of our senior credit facility agreement on May 30, 2008, the applicable margin for LIBOR term loans, LIBOR revolving loans, Euribor loans and CDOR loans under our senior credit facility increased from 2.75% to 5.50%, except that during the Waiver Period, the outstanding balance under the credit facility will bear interest at a rate that is 1.0% per year in excess of the non-default rate otherwise payable during that period under the credit facility. The non-default rate is LIBOR, the Euribor or CDOR rate plus the applicable margin of 5.50%. We estimate that a 1% increase in the LIBOR rate would increase our interest expense on the term debt by approximately $1.1 million on an annual basis through December 31, 2010, the period covered by the interest rate swap agreements.

Due to reduced credit limits at some of our banks, we have been entering into fewer foreign currency hedging arrangements and may not be able to enter into as many hedging arrangements in the future. As discussed above, we also were required to discontinue cash flow hedge accounting prospectively effective September 1, 2009 for our interest rate swaps so that the mark to market changes in their fair value are charged or credited to interest expense. Consequently, our financial statements are more exposed to the effects of currency and interest rate fluctuations, respectively, both favorable and unfavorable, which could have a material impact on our results of operations.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures*. We have carried out an evaluation, as of September 30, 2009, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a–15(e) and 15d–15(e) under the Securities Exchange Act of 1934, as amended (the "Act"). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms; and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures. No evaluation of disclosure controls and procedures can provide absolute assurance that these controls and procedures will operate effectively under all circumstances. However, the Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level as set forth above.

(b) *Changes in Internal Control over Financial Reporting*. No change in our internal control over financial reporting (as defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal matters, which have arisen in the ordinary course of business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our financial position, results of operations or cash flow.

ITEM 1A. RISK FACTORS

Since the date that we filed our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 the majority of our served markets have deteriorated substantially from the decline in paper demand related to slowing global economic activity, which may substantially reduce our revenue, Adjusted EBITDA and cash flows. As a result, the risks disclosed in our Form 10-K are more likely to occur. Additionally, because we were not in compliance with certain financial covenants in our senior credit facility for the period ending September 30, 2009, we entered into the Waiver Agreement on September 29, 2009. Accordingly, we are supplementing the risk factors disclosed in our Form 10-K for the year ended December 31, 2008 and our Form 10-Q for the quarter ended June 30, 2009 with the risk factors below.

If we are not able to address our credit issues prior to the expiration of the Waiver Period, we expect to be in default of certain covenants in our credit facility, which could have a material adverse effect on our ability to continue operating.

Our credit facility requires us to satisfy certain operating requirements and financial ratios in order to avoid a default or event of default under the agreement. These financial covenants are described above under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility." We did not satisfy our interest coverage, leverage and fixed charge covenants for the period ended September 30, 2009. Failure to satisfy these covenants would constitute a default under our credit facility absent a waiver from our lenders. On September 29, 2009, we obtained a temporary waiver from the lenders for violations of the interest coverage, leverage and fixed charge covenants under the credit facility. The waiver is in effect until the expiration of the Waiver Period, or December 15, 2009 at the latest.

In the event that the Company and the lenders under our credit facility have not reached a resolution of our debt issue and/or if the lenders decline to extend the waiver subsequent to December 15, 2009, the lenders would have the right to demand immediate repayment of such obligations under the credit facility. Any such acceleration of our obligations would likely cause other lenders and contractual counterparties to terminate and/or to accelerate our obligations under other financing and credit instruments and agreements. In addition, any acceleration of our obligations or failure on our part to make required payments under our credit facility also could allow the counterparties on certain of our existing interest rate swaps to terminate those arrangements. Should the lenders and/or other counterparties demand immediate repayment of all of our obligations, we expect that we would not be able to pay such obligations. In such event, we may be obligated to initiate insolvency proceedings in some non-U.S. jurisdictions, and/or we and our subsidiaries may have to file for bankruptcy. Even if the lenders do not demand immediate repayment, if the lenders have the right to make such a demand due to an event of default under our credit agreement, we may be obligated to initiate insolvency proceedings in some non-U.S jurisdictions.

We are in discussions with our current lenders regarding restructuring or replacing some or all of our debt, which would be likely to include the issuance of equity to such lenders and the payment of additional fees, as well as exploring with third parties various strategic alternatives affecting our debt and equity ownership. Even with the additional time provided by the Waiver Agreement, no assurances can be given that we will be able to restructure our debt or otherwise execute on a strategic transaction to address our credit issues prior to the expiration of the Waiver Period.

Additionally, if we do not successfully restructure our debt or otherwise address our credit issues or if our lenders accelerate the debt under the credit facility so that it is payable prior to the expiration of the underlying interest rate swaps, the cumulative mark to market changes in the fair value of the underlying interest rate swaps that have been recorded in accumulated other comprehensive income (loss), in addition to the credit valuation adjustments recorded under Topic 820, would be charged to the statement of operations at that time. As of September 30, 2009 this amount was $15.8 million. If payment of our hedge obligations were accelerated and if we were required to pay these outstanding obligations, which as of September 30, 2009 were $19.0 million, the hedged fixed interest rate on approximately 81% of our senior debt (10.75% at September 30, 2009) would become variable (7.08% at September 30, 2009).

We anticipate that we may have insufficient cash to operate our business and make the scheduled quarterly payments required under our credit facility.

Our credit facility requires us to make scheduled quarterly principal and interest payments on our term loans, which are described above under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility.” We anticipate that we may not have sufficient cash to operate our business and make these scheduled quarterly payments, including a payment due on December 31, 2009. Accordingly, absent a waiver of some or all of these scheduled payments, which would require unanimous approval of the lenders of the debt outstanding under the credit facility, we may default on our payment obligations under the credit facility and may find it necessary to file for protection under Chapter 11 of the U.S. Bankruptcy Code. There can be no assurance that we will be able to obtain a waiver of all or any portion of the scheduled quarterly payments under the credit facility from our lenders.

We may not be able to obtain sufficient lender approval to achieve a restructuring of our debt or extension of the waiver.

The restructuring of our debt generally would require unanimous approval of the lenders of the debt outstanding under our credit facility. If we are not able to achieve unanimous approval on the proposed or other restructuring of our debt prior to the expiration of the waiver period, we would need the approval of a supermajority of our lenders in order to further extend the waiver to permit us to pursue other alternatives. There can be no assurance we would be able to obtain sufficient approval for either a restructuring or a further waiver.

Our lenders may not agree to the necessary forbearance on their claims in order for us to successfully achieve a restructuring or other strategic alternative.

In order to achieve a restructuring of our debt, we may need our lenders to agree to significant forbearance from the exercise of remedies upon expiration of the waiver of the credit facility. In the event that such forbearance is not agreed, we or the directors of

our foreign subsidiaries may be required under local law in some non-U.S. jurisdictions to commence insolvency proceedings in those jurisdictions, which may inhibit or prevent our overall ability to restructure our debt or pursue other strategic alternatives, including a reorganization in or out of bankruptcy.

In the event that we are unable to restructure our debt, obtain an extension of the Waiver Period, or obtain a waiver of the scheduled quarterly payments required under our credit facility, we may face bankruptcy or insolvency, and may lack the financing to continue operations.

In the event that we are unable to restructure our debt, obtain an extension of the Waiver Period, or obtain a waiver of the scheduled quarterly payments required under our credit facility, we may find it necessary to file for protection under Chapter 11 of the U.S. Bankruptcy Code, and upon any such filing we are likely to require immediate access to funding in order to continue operations. Funding for the Company in bankruptcy cannot be assured, and would be most likely in the form of debtor-in-possession financing. We may be unable to find any lender willing to provide us with debtor-in-possession financing and any such financing that we are able to obtain would require approval by the bankruptcy court. If such financing is not available, then we may find it necessary to discontinue our operations. Also, if we or the directors of our foreign subsidiaries are required to commence insolvency proceedings under local law in one or more of the foreign jurisdictions in which we operate, then we may lose access to cash from our operations in those jurisdictions or may lose control of the assets underlying those operations.

Our current credit facility difficulties could have an adverse impact on our business and increase our operating costs.

The fact that we may be in default on our credit facility is likely to cause our customers and vendors to seek financial assurances from us before they are willing to continue doing business with us and they may instead choose to do business with our competitors. This may result in increased costs of our operations, thereby adversely affecting our results of operations. In addition, we have continued to incur significant expenses in connection with our process to address our long-term credit issues, which has contributed to increasing our costs of operations and consumption of available cash.

If we file for bankruptcy protection, our business and operations will be subject to various additional risks.

A bankruptcy filing by us would subject our business and operations to various additional risks, including the following:

- a bankruptcy filing and operating under bankruptcy protection would involve significant costs, including expenses of legal counsel and other professional advisors;
- transactions outside the ordinary course of business would be subject to the prior approval of the bankruptcy court, which might limit our ability to respond timely to certain events or take advantage of certain opportunities;
- if we file for bankruptcy protection in the U.S., the initiation of insolvency proceedings in certain non-U.S. jurisdictions may be warranted, which could cause us to lose control and funding for our foreign businesses;
- we might be unable to retain key executives and employees through the process of reorganization;
- we may be unable to successfully develop, prosecute, confirm, and consummate a plan of reorganization that would be acceptable to the bankruptcy court and our creditors, equity holders, and other parties in interest;
- our common stock may cease to be listed on a national securities exchange, which would make it difficult for stockholders to sell or accurately value our common stock.

We are subject to increased risk relating to the effects of currency and interest rate fluctuations on our operations, as we are we are unable to enter into additional hedging arrangements.

Due to reduced credit limits at some of our banks, we have been entering into fewer foreign currency hedging arrangements and we may not be able to enter into as many hedging arrangements in the future. It is uncertain that we will be able to complete any alternative, long-term solutions to our credit issues or to obtain a further waiver of compliance with certain covenants in our credit facility prior to expiration of the Waiver Agreement entered into on September 29, 2009. Accordingly, we are no longer able to

support that the variable-rate interest payments (hedged transactions) under our senior credit facility are probable of occurring and therefore, effective September 1, 2009, we were required to discontinue cash flow hedge accounting prospectively for our interest rate swaps so that the mark to market changes in their fair value are charged or credited to interest expense. Consequently, our financial statements are more exposed to the effects of currency and interest rate fluctuations, respectively, both favorable and unfavorable, which could have a material impact on our results of operations.

In the event that we are able to successfully restructure our debt, our borrowing costs are likely to increase.

As described above, we are in discussions with our lenders to restructure our debt. In the event that we are able to successfully restructure our debt, and in view of current uncertainty in the credit markets and our current credit ratings, the lenders are likely to require that we pay substantially higher interest and fees on our debt going forward. This may result in increased costs of our operations thereby adversely affecting our results of operations, and no assurance can be given that any higher interest or fees will be sustainable by us.

Restructuring our outstanding debt or other strategic alternatives we may pursue to address our credit issues, whether through a negotiated restructuring or in a bankruptcy proceeding, would likely severely dilute our existing stockholders and may result in our existing common stock having little or no value.

We are considering strategic alternatives to allow us to restructure our debt, which may include issuing new equity securities. There can be no assurance we would be able to complete any such strategic initiatives on satisfactory terms, or at all. Any such strategic initiatives that we pursue, whether through a negotiated restructuring or in a bankruptcy proceeding, are likely to severely dilute our existing stockholders and may result in our existing common stock having little or no value. In addition, any new investors may, through contractual provisions and/or the percentage of voting securities purchased in such transaction or transactions, be in a position to exert strong influence over our business, policies and affairs, while our existing stockholders may have little or no influence. There can be no assurance that the interests of any new investors will align with the interests of our existing stockholders.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Restrictions on Payment of Dividends

For a description on restrictions imposed by Delaware law and our credit agreement on our payment of dividends, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Credit Facility.”

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility.”

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

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ITEM 6. EXHIBITS

See the exhibit index following the signature page to this quarterly report.

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SIGNATURES

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

XERIUM TECHNOLOGIES, INC.
(Registrant)

Date: November 6, 2009

By: /s/ David G. Maffucci

David G. Maffucci
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibits
10.1	Amendment to Employment Agreement with David G. Maffucci.
10.2(1)	Waiver and Amendment No. 1 to Credit Agreement, dated as of September 29, 2009, by and among Xerium Technologies, Inc., certain subsidiaries of Xerium Technologies, Inc. and certain financial institutions as the Lenders.
10.3	2009 Director Restricted Stock Units Agreement dated as of June 9, 2009.
10.4	2009 Director Restricted Stock Units Agreement dated as of August 4, 2009.
10.5	Description of Compensation for Non-Management Directors.
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 the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Statement of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 30, 2009 and incorporated herein by reference.

EXHIBIT 10.1

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this "Amendment"), made and entered into in North Carolina by and between Xerium Technologies, Inc. (the "Company"), a Delaware corporation with its principal place of business in Raleigh, North Carolina, and David G. Maffucci (the "Executive"), effective as of the 26th day of August, 2009.

W I T N E S S E T H:

WHEREAS, the Company and the Executive are parties to that certain Employment Agreement dated as of June 8, 2009 (the "Employment Agreement"); and

WHEREAS, Section 6(d) of the Employment Agreement provides that the Executive must have completed at least six (6) months of employment with the Company prior to being eligible to receive severance and other benefits in connection with a termination of the Executive's employment by the Company pursuant to Section 5(d) of the Employment Agreement or by the Executive pursuant to Section 5(f); and

WHEREAS, the Company and the Executive desire to reduce the period that the Executive must have completed employment with the Company prior to being eligible to receive severance and other benefits in connection with a termination of the Executive's employment by the Company pursuant to Section 5(d) of the Employment Agreement or by the Executive pursuant to Section 5(f) from six (6) months to three (3) months.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Amendments to the Employment Agreement.

(a) Section 6(d)(i) is amended as follows: The word and numeral "six (6)" appearing in the fourth (4th) line of Section 6(d)(i) are replaced by the word and numeral "three (3)".

(b) Section 6(d)(ii) is amended as follows: The word and numeral "six (6)" appearing in the fourth (4th) line of Section 6(d)(ii) are replaced by the word and numeral "three (3)".

Section 2. Reference to and Effect on the Employment Agreement.

(a) Each reference in the Employment Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Employment Agreement, and each reference to the "Employment Agreement", "thereunder", "thereof" or words of like import referring to the Employment Agreement as amended hereby, shall mean and be a reference to the Employment Agreement as amended hereby.

(b) Except as specifically amended above, the Employment Agreement shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

Section 3. Controlling Law. This Amendment has been executed, delivered and accepted at, and shall be deemed to have been made in, the State of North Carolina and shall be interpreted in accordance with the internal laws (as opposed to conflicts of laws provisions) of the State of North Carolina, without regard to principles of conflicts of laws.

Section 4. Counterparts. This Amendment may be executed in several counterparts, each of which shall be an original and all of which together shall constitute but one and the same.

[Signature Page to Amendment to Employment Agreement]

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Executive, and by the Company, through its duly authorized representative, as of the date first above written.

XERIUM TECHNOLOGIES, INC.

By: /s/ Stephen R. Light
Name: Stephen R. Light
Title: President, Chief Executive Officer and Chairman

EXECUTIVE

By: /s/ David G. Maffucci
Name: David G. Maffucci

Exhibit 10.3

XERIUM TECHNOLOGIES, INC.
2009 DIRECTOR RESTRICTED STOCK UNITS
AGREEMENT

Dated as of June 9, 2009

In recognition of the important contributions that (the "Director") has made and can make to the success of Xerium Technologies, Inc. (the "Company") and its Affiliates, pursuant to the Xerium Technologies, Inc. 2005 Equity Incentive Plan (the "Plan"), the Company hereby grants to the Director the Restricted Stock Units Award described below.

1. **The Restricted Stock Unit Award.** The Company hereby grants to the Director Units, subject to the terms and conditions of this Agreement and the Plan. The Director's rights to the Units are subject to the restrictions described in this Agreement and the Plan, including the forfeiture provisions of Section 3, in addition to such other restrictions, if any, as may be imposed by law.

2. **Definitions.** The following definitions will apply for purposes of this Agreement. Capitalized terms not defined in the Agreement are used as defined in the Plan, including without limitation the following terms: "Affiliate"; "Code"; "Committee"; and "Covered Transaction".

   (a) "Agreement" means this Restricted Stock Units Agreement granted by the Company and agreed to by the Director.

   (b) "Award" means the grant of Units in accordance with this Agreement.

   (c) "Change in Control" means a Covered Transaction that would be treated as a "change in ownership," "change in effective control" or "change in ownership of a substantial portion of the assets" within the meaning of Section 409A(a)(2)(A)(iv) of the Code and the regulations thereunder.

   (d) "Common Stock" means the common stock of the Company, $0.01 par value.

   (e) "Fair Market Value" means, on the applicable date, or if the applicable date is not a date on which the NYSE is open the next preceding date on which the NYSE was open, the last sale price with respect to such Common Stock reported on the NYSE, or, if on any such date such Common Stock is not quoted by NYSE, the average of the closing bid and asked prices with respect to such Common Stock, as furnished by a professional market maker making a market in such Common Stock selected by the Committee in good faith; or, if no such market maker is available, the fair market value of such Common Stock as of such day as determined in good faith by the Committee.

   (f) "Grant Date" means June 9, 2009.

(g) "NYSE" means the New York Stock Exchange.

(h) "Payment Date" means as soon as reasonably practicable coincident with or following the earliest to occur of (1) the date on which the Director ceases to serve as a member of the Board and (2) a Change in Control.

(i) "Unit" means a notional unit which is equivalent to a single share of Common Stock on the Grant Date, subject to Section 4.

(j) "Vested" means that portion of the Award to which the Director has a nonforfeitable right, as described in Section 3.

3. **Vesting.**

The Award shall be fully Vested on the Grant Date; provided, however, that if a Director ceases to serve as a member of the Board for any reason other than as a result of a Change in Control prior to the 2010 annual meeting of stockholders, the Director will forfeit a pro rata portion of the Award. For this purpose, the pro rata portion of the Award to be forfeited shall be the product of (x) the number of Units subject to the Award and (y) a fraction, the numerator of which is the number of days from the date the Director ceased to serve as a member of the Board to the one year anniversary of the Grant Date, and the denominator of which is 365.

4. **Adjustments Based on Certain Changes in the Common Stock.** In the event of any stock split, reverse stock split, stock dividend, recapitalization or similar change affecting the Common Stock, the Award shall be equitably adjusted.

5. **No Voting Rights.** The Award shall not be interpreted to bestow upon the Director any equity interest or ownership in the Company or any Affiliate prior to the Payment Date.

6. **Dividends.** On each date on which dividends are paid by the Company, the Director shall be credited with that number of additional Units (including fractional Units) as is equal to the amount of the dividend that would have been paid on the Units then credited to the Director under this Agreement if they had been held in Common Stock on such date divided by the Fair Market Value of a share of Common Stock on such date.

7. **Payment of Award.** On the Payment Date, the Company shall issue to the Director that number of shares of Common Stock as equals that number of Units which have been credited to him or her.

8. **Right to Continue as Member of Board of Directors.** This Agreement shall not create any right of the Director to the continued right to serve as a member of the Board of Directors of the Company or its Affiliates. Except to the extent required by applicable law that cannot be waived, the loss of the Award shall not constitute an element of damages in the event of termination of the Director's service relationship with the Company or its Affiliates even if the termination is determined to be in violation of an obligation of the Company or its Affiliates to the Director by contract or otherwise.

9. **Unfunded Status.** The obligations of the Company and its Affiliates hereunder shall be contractual only and all such payments shall be made from the general assets of the Company or its Affiliates. The Director shall rely solely on the unsecured promise of the Company and nothing herein shall be construed to give the Director or any other person or persons any right, title, interest or claim in or to any specific asset, fund, reserve, account or property of any kind whatsoever owned by the Company or any Affiliate.

10. **No Assignment.** No right or benefit or payment under the Plan shall be subject to assignment or other transfer nor shall it be liable or subject in any manner to attachment, garnishment or execution.

11. **Withholding.** The Director shall pay to the Company, or make provision satisfactory to the Company for payment of, any taxes required by law to be withheld in respect of an Award, no later than the Payment Date. Such withheld amounts, if any, shall include shares retained from the Award creating the tax obligation, valued at their Fair Market Value on the business day most immediately preceding the date of retention.

12. **409A.** The Award shall be construed and administered consistent with the intent that it be at all times in compliance with, or exempt from, the requirements of Section 409A of the Code and the regulations thereunder.

13. **Amendment or Termination.** This Agreement may be amended only by mutual written agreement of the parties.

IN WITNESS WHEREOF, Xerium Technologies, Inc. has executed this Restricted Stock Units Agreement as of the date first written above.

Xerium Technologies, Inc.

By: ____________________________
Name: Stephen R. Light
Title: Chairman and CEO

Acknowledged and agreed:

DIRECTOR

____
Name:

Exhibit 10.4

XERIUM TECHNOLOGIES, INC.
2009 DIRECTOR RESTRICTED STOCK UNITS
AGREEMENT

Dated as of August 4, 2009

In recognition of the important contributions that (the "Director") has made and can make to the success of Xerium Technologies, Inc. (the "Company") and its Affiliates, pursuant to the Xerium Technologies, Inc. 2005 Equity Incentive Plan (the "Plan"), the Company hereby grants to the Director the Restricted Stock Units Award described below.

1. **The Restricted Stock Unit Award.** The Company hereby grants to the Director Units, subject to the terms and conditions of this Agreement and the Plan. The Director's rights to the Units are subject to the restrictions described in this Agreement and the Plan, in addition to such other restrictions, if any, as may be imposed by law.

2. **Definitions.** The following definitions will apply for purposes of this Agreement. Capitalized terms not defined in the Agreement are used as defined in the Plan, including without limitation the following terms: "Affiliate"; "Code"; "Committee"; and "Covered Transaction".

   (a) "Agreement" means this Restricted Stock Units Agreement granted by the Company and agreed to by the Director.

   (b) "Award" means the grant of Units in accordance with this Agreement.

   (c) "Change in Control" means a Covered Transaction that would be treated as a "change in ownership," "change in effective control" or "change in ownership of a substantial portion of the assets" within the meaning of Section 409A(a)(2)(A)(iv) of the Code and the regulations thereunder.

   (d) "Common Stock" means the common stock of the Company, $0.01 par value.

   (e) "Fair Market Value" means, on the applicable date, or if the applicable date is not a date on which the NYSE is open the next preceding date on which the NYSE was open, the last sale price with respect to such Common Stock reported on the NYSE, or, if on any such date such Common Stock is not quoted by NYSE, the average of the closing bid and asked prices with respect to such Common Stock, as furnished by a professional market maker making a market in such Common Stock selected by the Committee in good faith; or, if no such market maker is available, the fair market value of such Common Stock as of such day as determined in good faith by the Committee.

   (f) "Grant Date" means August 4, 2009.

   (g) "NYSE" means the New York Stock Exchange.

   (h) "Payment Date" means as soon as reasonably practicable coincident with or following the earliest to occur of (1) the date on which the Director ceases to serve as a member of the Board and (2) a Change in Control.

(i) "Unit" means a notional unit which is equivalent to a single share of Common Stock on the Grant Date, subject to Section 4.

(j) "Vested" means that portion of the Award to which the Director has a nonforfeitable right.

3. **Vesting.**

The Award shall be fully Vested on the Grant Date.

4. **Adjustments Based on Certain Changes in the Common Stock.** In the event of any stock split, reverse stock split, stock dividend, recapitalization or similar change affecting the Common Stock, the Award shall be equitably adjusted.

5. **No Voting Rights.** The Award shall not be interpreted to bestow upon the Director any equity interest or ownership in the Company or any Affiliate prior to the Payment Date.

6. **Dividends.** On each date on which dividends are paid by the Company, the Director shall be credited with that number of additional Units (including fractional Units) as is equal to the amount of the dividend that would have been paid on the Units then credited to the Director under this Agreement if they had been held in Common Stock on such date divided by the Fair Market Value of a share of Common Stock on such date.

7. **Payment of Award.** On the Payment Date, the Company shall issue to the Director that number of shares of Common Stock as equals that number of Units which have been credited to him or her.

8. **Right to Continue as Member of Board of Directors.** This Agreement shall not create any right of the Director to the continued right to serve as a member of the Board of Directors of the Company or its Affiliates. Except to the extent required by applicable law that cannot be waived, the loss of the Award shall not constitute an element of damages in the event of termination of the Director's service relationship with the Company or its Affiliates even if the termination is determined to be in violation of an obligation of the Company or its Affiliates to the Director by contract or otherwise.

9. **Unfunded Status.** The obligations of the Company and its Affiliates hereunder shall be contractual only and all such payments shall be made from the general assets of the Company or its Affiliates. The Director shall rely solely on the unsecured promise of the Company and nothing herein shall be construed to give the Director or any other person or persons any right, title, interest or claim in or to any specific asset, fund, reserve, account or property of any kind whatsoever owned by the Company or any Affiliate.

10. **No Assignment.** No right or benefit or payment under the Plan shall be subject to assignment or other transfer nor shall it be liable or subject in any manner to attachment, garnishment or execution.

11. **Withholding.** The Director shall pay to the Company, or make provision satisfactory to the Company for payment of, any taxes required by law to be withheld in respect of an Award, no later than the Payment Date. Such withheld amounts, if any, shall include shares retained from the Award creating the tax obligation, valued at their Fair Market Value on the business day most immediately preceding the date of retention.

12. **409A.** The Award shall be construed and administered consistent with the intent that it be at all times in compliance with, or exempt from, the requirements of Section 409A of the Code and the regulations thereunder.

13. **Amendment or Termination.** This Agreement may be amended only by mutual written agreement of the parties.

IN WITNESS WHEREOF, Xerium Technologies, Inc. has executed this Restricted Stock Units Agreement as of the date first written above.

Xerium Technologies, Inc.

By: ______________________________

Name: Stephen R. Light
Title: Chairman and CEO

Acknowledged and agreed:

DIRECTOR

____
Name:

Exhibit 10.5

Xerium Technologies, Inc.
Description of Compensation for Non-Management Directors

Cash Compensation

Non-management directors receive an annual cash retainer of $30,000. For meetings held after March 31, 2009, non-management directors also receive $1,500 per director per meeting for attending meetings of the Board or any committee of the Board in person and $500 for attending meetings that last longer than one hour by telephone. The chairman of the Audit Committee also receives additional cash compensation at an annual rate of $10,000 per year, and the chairman of the Compensation Committee and the chairman of the Nominating and Governance Committee each receive additional cash compensation at an annual rate of $5,000 per year. These amounts are payable quarterly in arrears promptly following the end of the quarter. Directors are also reimbursed for out-of-pocket expenses for attending board and committee meetings.

Equity Compensation

Non-management directors that serve until the next annual meeting of stockholders will receive equity-based compensation in the form of a grant of restricted stock units following the annual meeting of stockholders in recognition of their services for the prior year. The number of restricted stock units granted to each non-management director is calculated by dividing $40,000 by the average closing price per share of the Company's common stock over the 20 trading days prior to the annual meeting of stockholders. Non-management directors whose service on the Company's board is terminated prior to the next annual meeting of stockholders will also receive a grant of restricted stock units, calculated by dividing a pro-rated portion of $40,000 (based on the number of days served by the director since the prior annual meeting of stockholders) by the average closing price per share of the Company's common stock over the 20 trading days prior to the director's date of termination. In either case, the restricted stock units shall be granted promptly after the 20 trading day period runs.

Dividends, if any, in respect of these restricted stock units are paid at the same rate as dividends on the Company's common stock but are paid only in the form of additional restricted stock units. The restricted stock units are fully vested at grant. Upon the termination of the director's service on the Company's board, such director is entitled to receive the number of shares of common stock that equals the number of restricted stock units the director has earned.

To the extent that a non-management director has already received equity compensation for a given period of service pursuant to a Company policy previously in effect, the equity compensation provisions of this policy will not be applicable to such director until after the end of the period of service for which the equity compensation was previously awarded.

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen R. Light, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerium Technologies, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 6, 2009

/s/ Stephen R. Light

Stephen R. Light
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, David G. Maffucci, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerium Technologies, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 6, 2009

/s/ David G. Maffucci

David G. Maffucci
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal executive officer of Xerium Technologies, Inc. (the "Company"), does hereby certify that, to his knowledge:

1) the Company's Form 10-Q for the period ended September 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the period ended September 30, 2009, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen R. Light

Stephen R. Light
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

November 6, 2009

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as principal financial officer of Xerium Technologies, Inc. (the "Company"), does hereby certify that, to his knowledge:

1) the Company's Form 10-Q for the period ended September 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q for the period ended September 30, 2009, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David G. Maffucci

David G. Maffucci
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

November 6, 2009

EXHIBIT F

XERIUM ORGANIZATIONAL CHART

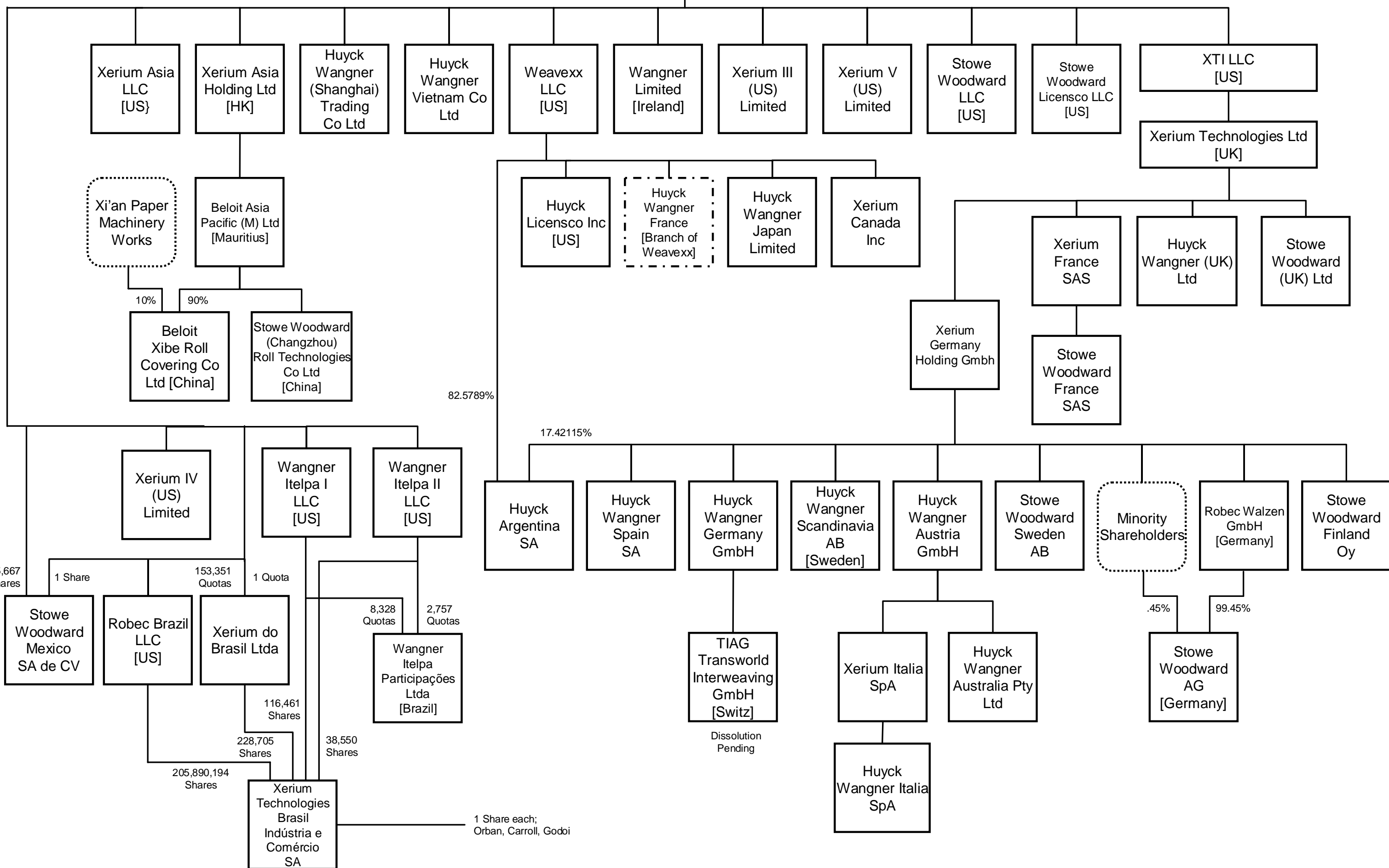
Xerium Technologies, Inc.
Xerium Asia LLC [US}
Xerium Asia Holding Ltd [HK]
Huyck Wangner (Shanghai) Trading Co Ltd
Huyck Wangner Vietnam Co Ltd
Weavexx LLC [US]
Wangner Limited [Ireland]
Xerium III (US) Limited
Xerium V (US) Limited
Stowe Woodward LLC [US]
Stowe Woodward Licensco LLC [US]
XTI LLC [US]
Xerium Technologies Ltd [UK]
Xi'an Paper Machinery Works
Beloit Asia Pacific (M) Ltd [Mauritius]
10%
90%
Beloit Xibe Roll Covering Co Ltd [China]
Stowe Woodward (Changzhou) Roll Technologies Co Ltd [China]
Huyck Licensco Inc [US]
Huyck Wangner France [Branch of Weavexx]
Huyck Wangner Japan Limited
Xerium Canada Inc
Xerium France SAS
Huyck Wangner (UK) Ltd
Stowe Woodward (UK) Ltd
Stowe Woodward France SAS
Xerium Germany Holding Gmbh
82.5789%
17.42115%
Xerium IV (US) Limited
Wangner Itelpa I LLC [US]
Wangner Itelpa II LLC [US]
Huyck Argentina SA
Huyck Wangner Spain SA
Huyck Wangner Germany GmbH
Huyck Wangner Scandinavia AB [Sweden]
Huyck Wangner Austria GmbH
Stowe Woodward Sweden AB
Minority Shareholders
Robec Walzen GmbH [Germany]
Stowe Woodward Finland Oy
805,667 Shares
1 Share
153,351 Quotas
1 Quota
Stowe Woodward Mexico SA de CV
Robec Brazil LLC [US]
Xerium do Brasil Ltda
8,328 Quotas
2,757 Quotas
Wangner Itelpa Participações Ltda [Brazil]
.45%
99.45%
TIAG Transworld Interweaving GmbH [Switz]
Dissolution Pending
Xerium Italia SpA
Huyck Wangner Australia Pty Ltd
Stowe Woodward AG [Germany]
116,461 Shares
228,705 Shares
38,550 Shares
205,890,194 Shares
Xerium Technologies Brasil Indústria e Comércio SA
1 Share each; Orban, Carroll, Godoi
Huyck Wangner Italia SpA

EXHIBIT G

PROJECTED FINANCIAL INFORMATION

PROJECTIONS

A. Responsibility for and Purpose of the Projections

For the purpose of demonstrating the feasibility of the Plan, the following financial projections for each of the six fiscal years 2010 through 2015 (the "Projections") were prepared by the Debtors, assisted by their professional advisors. The Projections reflect the Debtors' most recent estimates of consolidated financial position, results of operations and cash flows of Xerium. Consequently, the Projections reflect the Debtors' assumptions and judgments as to expectations of market and business conditions, expected future operating performance, and the occurrence or nonoccurrence of certain future events, all of which are subject to change, as discussed below.

The Debtors do not, as a matter of course, publish their projections, strategies, or forward-looking projections of the financial position, results of operations, and cash flows. Accordingly, the Debtors do not anticipate that they will, and disclaim any obligation to, furnish updated projections to the holders of Claims or Equity Interests after the date of this Disclosure Statement, or to include such information in documents required to be filed with the SEC or to otherwise make such information public. The assumptions disclosed herein are those that the Debtors believe to be significant to the Projections and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Projections present, to the best of the Debtors' knowledge and belief, the projected financial position, results of operations, and cash flows for the six fiscal years 2010 through 2015 for Xerium and reflect the Debtors' assumptions and judgments as of March 1, 2010. Although the Debtors are of the opinion that these assumptions are reasonable under current circumstances, such assumptions are subject to inherent uncertainties, including, without limitation, material changes to the economic environment, changes and fluctuations in available foreign exchange rates, supply and demand of key inputs, the competitive environment, the financial health of customers and their industries, and other factors affecting the Debtors' businesses. The likelihood, and related financial impact, of a change in any of these factors cannot be predicted with certainty. Consequently, actual financial results could differ materially from the Projections. The Projections assume the Plan will be implemented in accordance with its stated terms and that consummation of the Plan will occur on or about May 31, 2010. The Projections should be read in conjunction with the assumptions and qualifications contained herein.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN THE U.S. FURTHERMORE, THE PROJECTIONS HAVE NOT BEEN AUDITED OR REVIEWED BY A REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM.

THE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE BASED UPON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH MAY NOT BE REALIZED AND, AS SUCH, ARE SUBJECT

TO SIGNIFICANT BUSINESS, ECONOMIC, AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES WHICH ARE BEYOND THE CONTROL OF THE DEBTORS. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY THE DEBTORS, OR ANY OTHER PERSON, AS TO THE ACCURACY OF THE PROJECTIONS OR THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE PRESENTED IN THE PROJECTIONS. HOLDERS OF CLAIMS OR EQUITY INTERESTS MUST MAKE THEIR OWN DETERMINATIONS AS TO THE REASONABLENESS OF SUCH ASSUMPTIONS AND THE RELIABILITY OF THE PROJECTIONS IN MAKING THEIR DETERMINATION OF WHETHER TO ACCEPT OR REJECT THE PLAN.

B. General Assumptions

The Debtors prepared the Projections with the assistance of their professional advisors, including the incorporation of independent economic data and other input from third party sources. The Projections represent, to the best of the Debtors' knowledge and belief, the Debtors' projected financial position, results of operations, and cash flows for each of the six fiscal years 2010 through 2015 and reflect the Debtors' assumptions and judgments considering information known as of March 1, 2010.

1. Consolidation

The Projections are presented in a consolidated manner and include the financial performance of all entities of Xerium. As such, the Projections include the financial position, results of operations, and cash flows of both Debtor and non-Debtor entities.

2. Methodology

The Projections reflect management's current estimate of demand for its products and services as well as the achievability of productivity and cost savings initiatives. The senior management team and business unit managers of Xerium Technologies, Inc. took into account current and projected macroeconomic and microeconomic analyses relevant to the broad paper production industries as well as the Company's own internal estimates of factors that impact supply and demand for Company's products. The Projections were developed using a regional build up by product segment and consolidated at a corporate level where additions and adjustments were made for non-allocatable items and elimination of intercompany sales.

3. Tax Structure

The Projections for Xerium include the estimated impact of U.S. and non-U.S. taxes. Therefore, certain assumptions have been made with respect to regional and local profits and losses. Certain jurisdictions impose restrictions on the current deductibility of interest payments. These restrictions have been factored into the Projections. Actual cash taxes in any year may differ materially based upon varying levels of debt, interest rates, actual results, and income distribution assumptions as well as the final determination of remaining U.S. tax attributes in the chapter 11 emergence case. Income tax estimates were built up by entity for all

forecast periods through December 2010 with a blended tax rate of 40.7% to 40.9% of profit before taxes applied thereafter.

4. **Plan Consummation Date**

The Projections assume the Plan will be consummated on or about May 31, 2010. Any significant change in the assumed date of the consummation of the Plan will materially impact the Company's ability to achieve the Projections.

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C. Xerium Pro Forma Emergence Consolidated Balance Sheet

Below is a reconciliation of the pre-emergence consolidated balance sheet to the post-emergence consolidated balance sheet assuming chapter 11 filing on March 31, 2010 and consummation of the Plan on May 31, 2010.

Xerium Technologies, Inc.
Consolidated Balance Sheet
(USD Millions)

		Restructuring Transactions			
	5/31/2010 Pre-Closing (a)	Bank Debt (b)	New First Lien Facilities (c)	Transaction Fees (d)	5/31/2010 Post-Closing
Assets					
Cash and Short-Term Investments	$ 51.7	$ (17.2)	$ -	$ (11.3)	$ 23.2
Restricted Cash	15.3		-		15.3
Accounts Receivable	83.7				83.7
Inventories	83.5				83.5
Prepaid Expenses	5.8				5.8
Other Current Assets	23.0	(13.2)			9.8
Total Current Assets	**263.0**	**(30.4)**	**-**	**(11.3)**	**221.3**
Property, Plant, and Equipment, net	383.1				383.1
Investments	0.7				0.7
Goodwill	150.5				150.5
Intangible Assets and Deferred Financing, net	13.7			2.5	16.2
Other Assets	6.2				6.2
Total Assets	**$ 817.2**	**$ (30.4)**	**$ -**	**$ (8.8)**	**$ 778.0**
Liabilities and Stockholder's Equity					
New Revolver			$ -		$ -
Notes Payable (e)	20.0	(20.0)			-
Old Secured Debt (f)	619.5	(611.7)			7.8
Accounts Payable	30.7				30.7
Accrued Expenses	53.4	(7.2)		(1.5)	44.7
Total Current Liabilities	**723.5**	**(638.9)**	**-**	**(1.5)**	**83.2**
New DIP/First Lien Term Loan	60.0		-		60.0
New Long Term Debt	-	410.0			410.0
Long-Term Deferred Tax Liability	14.4				14.4
Pension and Post Retirement Benefits	67.5				67.5
Other Liabilities	10.1				10.1
Total Liabilities	**875.6**	**(228.9)**	**-**	**(1.5)**	**645.2**
Stockholder's Equity					
Common Stock Ending Balance	0.5				0.5
Paid In Capital	224.8	211.7			436.4
Retained Earnings	(276.5)	(13.2)		(7.3)	(297.0)
Accumulated Other Comprehensive Income	(7.1)				(7.1)
Total Stockholder's Equity	**(58.3)**	**198.5**	**-**	**(7.3)**	**132.8**
Total Liabilities and Stockholder's Equity	**$ 817.3**	**$ (30.4)**	**$ -**	**$ (8.8)**	**$ 778.0**

Notes:

(a) The pre-closing balance sheet reflects actual results through December 31, 2009 and forecasted results for the five months ending May 31, 2010 with exchange rates as of December 31, 2009; liability accounts include approximately $434 million in Liabilities Subject to Compromise at the Debtor entities, the balance sheet has not been so classified as the forecast assumes court approval for payment of all foreign claims and all vendor claims in the normal course of business.

(b) Reflects issuance of a new $410 million term loan, related fees to the secured lenders pursuant to the Plan, and payment of March 2010 interest payment; reflects cash payments of $17.2 million, consisting of $10.0 million cash payment to settle secured lender claims and $7.2 million of accrued interest payable at closing; reflects $13.2 million write-off of deferred financing associated with pre-petition secured debt.

(c) Reflects no draw under the new $20.0 million revolver facility required to maintain a minimum cash balance of $15.0 million; also includes roll-over of $60.0 million Debtor-in-Possession term loan facility with $15.3 million of restricted cash to collateralize Letters of Credit at 103%.

(d) Includes $7.3 million in success fees, $1.5 million in deferred waiver fees, and $2.5 million in incremental financing fees related to the Debtor-in-Possession and Exit facilities.

(e) Notes Payable carried as a current liability, booked in December 2009, for anticipated cash settlement claim paid to secured lenders at closing; $10.0 million funds cash and the remaining $10.0 million will be booked as an increase in equity.

(f) Assumes all $611.7 million of secured bank debt is replace by new Term Loan A, Term Loan B, and revolver facilities with $7.8 million in the Japanese and Austrian lines of credit remaining as a current liability.

D. Xerium Projected Consolidated Balance Sheets (Unaudited)

Below are management's projections of the consolidated financial positions at December 31 for the fiscal years 2010 through 2015 with unaudited, preliminary results for fiscal year 2009.

Xerium Technologies, Inc.
Consolidated Balance Sheet
(USD Millions)

As of December 31:	2009	2010	2011	2012	2013	2014	2015
Assets							
Cash and Short-Term Investments	$ 23.0	$ 46.0	$ 55.2	$ 80.0	$ 104.5	$ 134.8	$ 172.9
Restricted Cash	-	15.3	15.3	15.3	15.3	15.3	15.3
Accounts Receivable	77.2	81.8	91.7	95.1	99.5	103.8	107.9
Inventories	78.2	77.3	80.2	82.8	86.1	89.2	92.3
Prepaid Expenses	5.8	4.2	4.2	4.2	4.2	4.2	4.2
Other Current Assets	24.6	5.2	5.2	5.2	5.2	5.2	5.2
Total Current Assets	**208.8**	**229.8**	**251.8**	**282.6**	**314.7**	**352.5**	**397.8**
Property, Plant, and Equipment, net	385.5	374.1	360.2	345.9	330.2	314.4	298.7
Investments	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Goodwill	150.5	150.5	150.5	150.5	150.5	150.5	150.5
Intangible Assets and Deferred Financing, net	14.5	13.5	9.7	6.1	4.9	4.5	4.5
Other Assets	6.3	6.2	6.2	6.2	6.2	6.2	6.2
Total Assets	**$ 766.3**	**$ 774.9**	**$ 779.1**	**$ 792.0**	**$ 807.2**	**$ 828.8**	**$ 858.4**
Liabilities and Stockholder's Equity							
Consolidated Debt	$ 640.1	$ 472.4	$ 459.5	$ 445.2	$ 421.3	$ 392.9	$ 359.1
Accounts Payable	32.1	35.5	36.8	38.0	39.5	40.9	42.3
Accrued Expenses	39.7	41.3	39.3	37.3	35.3	33.3	31.3
Total Current Liabilities	**711.9**	**549.2**	**535.6**	**520.4**	**496.0**	**467.1**	**432.7**
Long-Term Deferred Tax Liability	14.9	13.8	11.5	11.9	15.5	19.9	27.6
Pension and Post Retirement Benefits	68.3	66.6	66.6	66.6	66.6	66.6	66.6
Other Liabilities	10.0	10.4	10.4	10.4	10.4	10.4	10.4
Total Liabilities	**805.2**	**640.0**	**624.2**	**609.4**	**588.6**	**564.0**	**537.4**
Stockholder's Equity							
Common Stock Ending Balance	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Paid In Capital	221.9	437.2	439.9	442.6	445.2	447.9	450.5
Retained Earnings	(249.9)	(301.7)	(284.2)	(259.2)	(225.9)	(182.4)	(128.8)
Accumulated Other Comprehensive Income	(11.3)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Total Shareholder's Equity	**(38.9)**	**134.8**	**154.9**	**182.6**	**218.6**	**264.8**	**321.0**
Total Liabilities and Shareholder's Equity	**$ 766.4**	**$ 774.9**	**$ 779.1**	**$ 792.0**	**$ 807.2**	**$ 828.8**	**$ 858.4**

E. Xerium Projected Consolidated Income Statements (Unaudited)

Below is management's projection of consolidated income for the fiscal years 2010 through 2015 with unaudited, preliminary results for fiscal year 2009.

Xerium Technologies, Inc.
Consolidated Income Statement
(USD Millions)

	2009	2010	2011	2012	2013	2014	2015
Total Sales	$ 500.1	$ 559.8	$ 572.5	$ 602.1	$ 634.3	$ 666.8	$ 699.1
Cost of Product Sold	(312.6)	(338.3)	(337.7)	(351.7)	(367.8)	(382.9)	(398.2)
Gross Margin	**187.5**	**221.5**	**234.8**	**250.4**	**266.5**	**283.9**	**300.9**
SG&A Expenses	(138.4)	(193.7)	(159.7)	(164.6)	(169.9)	(175.1)	(180.2)
EBIT	**49.1**	**27.8**	**75.1**	**85.8**	**96.6**	**108.8**	**120.7**
Depreciation	39.5	42.7	42.9	43.7	44.5	44.5	44.5
Amortization of Intangibles	2.3	2.3	2.3	2.3	-	-	-
EBITDA	**91.0**	**72.8**	**120.3**	**131.9**	**141.1**	**153.4**	**165.2**
Interest Income	1.2	1.6	2.4	3.1	4.1	5.3	6.8
Interest Expense	(59.2)	(46.4)	(45.4)	(44.1)	(42.0)	(39.4)	(36.3)
Amortization of Finance Costs	(5.4)	(16.5)	(1.5)	(1.3)	(1.2)	(0.4)	-
Other Income, net	(4.7)	(10.1)	-	-	-	-	-
Profit Before Taxes	**(19.1)**	**(43.7)**	**30.6**	**43.6**	**57.5**	**74.3**	**91.2**
Income Tax Expense	(11.9)	(8.0)	(13.1)	(18.5)	(24.2)	(30.9)	(37.7)
Net Income/(Loss)	**$ (31.0)**	**$ (51.6)**	**$ 17.4**	**$ 25.1**	**$ 33.3**	**$ 43.5**	**$ 53.5**

For purposes of comparison, the Company has prepared a schedule that normalizes Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA") to exclude the impact of one-time events. Below is management's projection of normalized EBITDA for the fiscal years 2010 through 2015 with EBITDA and adjustment amounts for fiscal year 2009 based on unaudited, preliminary results for fiscal year 2009.

Xerium Technologies, Inc.
Normalized EBITDA
(USD Millions)

	2009	2010	2011	2012	2013	2014	2015
EBITDA	**$ 91.0**	**$ 72.8**	**$ 120.3**	**$ 131.9**	**$ 141.1**	**$ 153.4**	**$ 165.2**
Stock Based Compensation	2.3	3.7	2.7	2.7	2.7	2.7	2.7
IPO Costs, Related Comp & Refi Cost	-	-	-	-	-	-	-
Impairment (FAS 142 & 144)	1.7	1.3	-	-	-	-	-
Australian environmental reserve	(3.4)	-	-	-	-	-	-
CEO transtion costs	-	-	-	-	-	-	-
Curtailment/settlement pension gains	-	-	-	-	-	-	-
Significant bad debt adjustments	(1.8)	-	-	-	-	-	-
Inventory reserve adjustments	(0.4)	-	-	-	-	-	-
Reversal of litigation accruals	(2.3)	-	-	-	-	-	-
Gain on Asset Sales	(0.8)	-	-	-	-	-	-
Operational Restructuring Costs, Net	2.4	12.2	3.4	3.4	3.4	3.4	3.4
Financial Restructuring Costs	8.7	14.1	-	-	-	-	-
Other Restructuring Costs	-	7.6	-	-	-	-	-
Normalized EBITDA	**$ 97.4**	**$ 111.6**	**$ 126.4**	**$ 138.0**	**$ 147.2**	**$ 159.4**	**$ 171.3**

1. Key Assumptions

(a) Revenues and Cost of Sales

Management's current long range plan assumes a global rebound in demand for the products and services of Xerium in some, but not all, paper and board segments. Management forecasts that the percentage of total Xerium revenue from Asia and South America will continue to expand through the forecast period while the share of revenue from North America and Europe will continue to decline. With the exception of its Asia division, management has projected a consolidated revenue growth rate that is below the global growth rate projected by RISI for worldwide paper and board volume through 2011 and has used

internal projections to develop growth rates in the latter years. Asia, on the other hand, is expected to grow faster than analysts' projections for that region as the company aggressively expands its sales and service force. The Projections take into account continuing mill curtailments with limited new start-ups, the impact of new technologies and customer behavior that may result in fewer positions and longer lifecycles of rolls and covers, shifting worldwide mix to tissue and specialty grades from newsprint and printing & writing, and greater overall market growth in developing markets in Asia, South America, and Eastern Europe. The Projections from 2010 through 2015 assume a stable foreign exchange rate at those available to the Company as of September 30, 2009 when the 2010 budget was prepared.

(b) Selling, General and Administrative

Consolidated selling, general, and administrative ("SG&A") expenses include, among other things, salaries, wages, commissions, benefits, corporate overhead, incentive plans, rent, leases, marketing activities, and research and development expenses as well as expenses associated with operational restructuring and professional fees related to financial restructuring. SG&A expenses are forecast to increase in 2010 compared with 2009 to support significant operational and financial restructuring activities. SG&A expenses are then forecast to decrease markedly in 2011 as restructuring activities are pared back and the Company begins to realize benefits from productivity and cost reduction initiatives. From 2012 through 2015, annual SG&A expenses are forecast to increase between 2.9% and 3.3%, due to higher sales volumes, an assumed increase in employee costs, and general inflation.

(c) Depreciation and Amortization

Consolidated depreciation and amortization of intangibles is forecasted to remain relatively constant throughout the projection period as capital spending remains relatively stable and no major sales or acquisitions of business units or product lines are forecasted.

F. Xerium Projected Consolidated Statement of Cash Flows (Unaudited)

Below is management's projection of consolidated cash flow for the fiscal years 2010 through 2015 with unaudited, preliminary results for fiscal year 2009.

Xerium Technologies, Inc.
Consolidated Cash Flow Statement
(USD Millions)

	2009	2010	2011	2012	2013	2014	2015
Net Income/(Loss)	$ (31.0)	$ (51.6)	$ 17.4	$ 25.1	$ 33.3	$ 43.5	$ 53.5
Depreciation and Amortization	41.9	45.0	45.2	46.0	44.5	44.5	44.5
Deferred Financing Cost Amortization	5.4	16.5	1.5	1.3	1.2	0.4	-
Deferred Taxes	7.0	(1.1)	(2.3)	0.4	3.6	4.4	7.7
Other Liabilities and Prepaid Expenses	4.2	15.1	2.7	2.7	2.7	2.7	2.7
Change in Current Assets and Liabilities	(11.3)	(7.5)	(13.4)	(6.9)	(8.1)	(8.0)	(7.9)
Cash Provided/(Used) By Operations	**16.1**	**16.4**	**51.1**	**68.6**	**77.2**	**87.5**	**100.6**
Capital Expenditures, gross	(19.5)	(32.4)	(29.0)	(29.4)	(28.8)	(28.8)	(28.8)
Proceeds from Divestitures and Asset Sales, net	4.3	(0.1)	-	-	-	-	-
Other Investing Activities	1.1	-	-	-	-	-	-
Cash Provided/(Used) By Investing	**(14.2)**	**(32.5)**	**(29.0)**	**(29.4)**	**(28.8)**	**(28.8)**	**(28.8)**
Net Increase/(Decrease) in Revolver	28.0	-	-	-	-	-	-
Net Increase/(Decrease) in Other Debt	(41.1)	43.9	(12.9)	(14.4)	(23.9)	(28.4)	(33.8)
Other Financing Activities	(1.5)	(4.7)	(0.0)	0.0	0.0	0.0	-
Cash Provided/(Used) By Financing	**(14.6)**	**39.2**	**(12.9)**	**(14.4)**	**(23.9)**	**(28.4)**	**(33.8)**
Effect of Exchange Rate Changes on Cash Flows	1.0	(0.1)	-	-	-	-	-
Net Increase/(Decrease) in Cash	**(11.7)**	**23.0**	**9.2**	**24.8**	**24.5**	**30.3**	**38.0**
Cash and Cash Equivalents at Beginning of Period	34.7	23.0	46.0	55.2	80.0	104.5	134.8
Ending Cash and Cash Equivalents	**$ 23.0**	**$ 46.0**	**$ 55.2**	**$ 80.0**	**$ 104.5**	**$ 134.8**	**$ 172.9**

1. **Key Assumptions**

(a) Working Capital

Management estimates that the Company will continue to see improvement in working capital as a result of its targeted efforts to release "trapped cash" in receivables, inventory, and payables through 2010. The consolidated working capital days assumptions for Accounts Receivable, Inventory, and Accounts Payable remain constant with 2010 levels through the remainder of the projection period as measured against total revenue or cost of sales.

(b) Capital Expenditures

Between 2010 and 2015, Xerium Technologies, Inc. forecasts consolidated capital expenditures of $177.2 million, primarily for the replacement of aged equipment, to support the normal roll-outs of new products and productivity initiatives, and to enable mix changes in order to be responsive to the marketplace. Capital expenditures in 2010 are also projected to include a limited amount of additional incremental spend resulting from the deferral of select projects from 2009.

(c) Debt

Management expects that the Debtors will be required to make adequate protection payments in an amount equal to the interest due on the outstanding balances under the Shared Collateral Claims during the pendency of these cases. The Projections assume a new $410 million term loan will replace all existing Term B secured debt and the Prepetition Revolver along with a $80 million DIP Facility which will roll into the Exit Facility on the Plan confirmation date of May 31, 2010.

The Projections also assume that all restructuring transactions occur on May 31, 2010 with accrued interest paid to lenders as required and future amortization, debt balances, and interest payments paid per the terms of the Amended and Restated Credit Facility and/or Exit Facility using base interest rates available as of February 24, 2010.

See Section IV(C)(1) of the Disclosure Statement, entitled "Exit Facility" for a full description of the Exit Facility.

<u>EXHIBIT H</u>

LIQUIDATION ANALYSIS

Liquidation Analysis

A. Introduction

Under the "best interests" of creditors test set forth in section 1129(a)(7) of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (as amended, the "Bankruptcy Code"), the Bankruptcy Court may not confirm a plan of reorganization unless the plan provides each holder of a claim or equity interest with property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor was liquidated under chapter 7 of the Bankruptcy Code on the effective date. To demonstrate that the Debtors'[1] joint prepackaged plan of reorganization (the "Plan") satisfies the "best interests" of creditors test, the Debtors have prepared the following hypothetical Liquidation Analysis, which is based upon certain assumptions discussed in the Disclosure Statement and in the notes accompanying the Liquidation Analysis (the "Notes"). Capitalized terms not defined in the Notes shall have the meanings ascribed to them in the Plan and the Disclosure Statement.

The Liquidation Analysis estimates potential Cash distributions to holders of Allowed Claims and Equity Interests in a hypothetical chapter 7 liquidation of the Debtors' assets. Asset values discussed in the Liquidation Analysis may differ materially from values referred to in the Plan and Disclosure Statement. The Debtors prepared the Liquidation Analysis with the assistance of their advisors.

B. Scope, Intent, and Purpose of the Liquidation Analysis

The determination of the costs of, and hypothetical proceeds from, the liquidation of the Debtors' assets is an uncertain process involving the extensive use of estimates and assumptions that, although considered reasonable by the Debtors, are inherently subject to significant business, economic and competitive uncertainties and contingencies beyond the control of the Debtors, their management and their advisors. Inevitably, some assumptions in the Liquidation Analysis would not materialize in an actual chapter 7 liquidation, and unanticipated events and circumstances could affect the ultimate results in an actual chapter 7 liquidation. The Liquidation Analysis was prepared for the sole purpose of generating a reasonable good-faith estimate of the proceeds that would be generated if the Debtors were liquidated in accordance with chapter 7 of the Bankruptcy Code. The Liquidation Analysis is not intended and should not be used for any other purpose. The underlying financial information in the Liquidation Analysis was not compiled or examined by any independent accountants. No independent appraisals were conducted in preparing the Liquidation Analysis. NEITHER THE DEBTORS NOR THEIR ADVISORS MAKE ANY REPRESENTATION OR WARRANTY THAT THE ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE ESTIMATES AND ASSUMPTIONS REPRESENTED IN THE LIQUIDATION ANALYSIS. ACTUAL RESULTS COULD VARY MATERIALLY.

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[1] The Debtors include: Xerium Technologies, Inc.; Huyck Licensco Inc.; Stowe Woodward Licensco LLC; Stowe Woodward LLC; Wangner Itelpa I LLC; Wangner Itelpa II LLC; Weavexx, LLC; Xerium Asia, LLC; Xerium III (US) Limited; Xerium IV (US) Limited; Xerium V; XTI LLC; Xerium Canada Inc.; Huyck.Wangner Austria GmbH; Xerium Germany Holding GmbH; and Xerium Italia S.p.A.

In preparing the Liquidation Analysis, the Debtors estimated Allowed Claims based upon a review of Claims reflected on the Debtors' books and records to date. In addition, the Liquidation Analysis includes estimates for Claims that could be asserted and Allowed in a chapter 7 liquidation, including Administrative Expense Claims, wind-down costs and trustee fees. For purposes of the Liquidation Analysis, the Debtors' estimates of Allowed Claims contained in the Liquidation Analysis references specific Claims estimates, even though the Debtors' estimates of ranges of projected recoveries under the Plan to holders of Allowed Claims and Equity Interests are based on ranges of Allowed Claims and Equity Interests. Therefore, the Debtors' estimate of Allowed Claims set forth in the Liquidation Analysis should not be relied on for any other purpose, including determining the value of any distribution to be made on account of Allowed Claims and Equity Interests under the Plan. NOTHING CONTAINED IN THE LIQUIDATION ANALYSIS IS INTENDED TO BE OR CONSTITUTES A CONCESSION OR ADMISSION OF THE DEBTORS. THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN THE REORGANIZATION CASES COULD MATERIALLY DIFFER FROM THE ESTIMATED AMOUNTS SET FORTH IN THE LIQUIDATION ANALYSIS.

C. Global Notes to the Liquidation Analysis

1. Liquidation Date and Appointment of Chapter 7 Trustee

The Liquidation Analysis assumes that the Debtors commence a chapter 7 liquidation on May 30, 2010 (the "Liquidation Date"). On the Liquidation Date, it is assumed that the Bankruptcy Court would appoint one chapter 7 trustee (the "Trustee") to oversee the liquidation of the Debtors' estates (the "Estates"). Should multiple Trustees be appointed to administer the Estates, lower recoveries and higher administrative costs could result and distributions to creditors could be delayed.

2. Liquidation of the Debtors

The Liquidation Analysis assumes the Debtors' liquidation begins on the Liquidation Date and continues for a period of approximately twelve months. During such liquidation period, the Debtors' assets would be sold and the cash proceeds, net of liquidation-related costs, would then be distributed to holders of Allowed Claims or Equity Interests.

3. Value of Debtors' Assets

Unless otherwise stated herein, the book values of the Debtors' assets used in the Liquidation Analysis are the un-audited net book values for each of the Debtors as of December 31, 2009, and are assumed to be a proxy for the Debtors' assets as of the Liquidation Date.

4. Liquidation Analysis Waterfall and Recovery Ranges

The Liquidation Analysis assumes that the proceeds generated from the Debtors' assets will be available to the Trustee (the "Liquidation Proceeds"). The Trustee then would use the Liquidation Proceeds to satisfy the costs and expenses of the liquidation, including wind-down costs including, to the extent required, costs related to local insolvency proceedings for non-U.S. Debtors, and the Trustee fees. For purposes of this analysis, secured lenders are

assumed to provide a carve-out for liquidation expenses. Any remaining net Liquidation Proceeds would then be allocated to holders of Claims and Equity Interests in accordance with the priorities set forth in section 726 of the Bankruptcy Code. The Liquidation Analysis provides for high and low recovery percentages for Claims and Equity Interests upon the Trustee's application of the Liquidation Proceeds. The high and low recovery ranges reflect a high and low range of estimated Liquidation Proceeds from the Trustee's sale of the Debtors' assets.

5. **Liquidation of Non-Debtor Affiliates**

Affiliates of the Debtors ("Non-Debtor Affiliates") are assumed to be liquidated in applicable insolvency proceedings concurrent with the liquidation of the Debtors. The methodologies and assumptions utilized in the non-Debtor liquidation analyses are generally consistent with the methodologies and assumptions utilized for the Debtors' Liquidation Analysis. Net proceeds from the liquidation of the Non-Debtor Affiliates are distributed, first, to satisfy any guarantees of the Debtors' secured debt, then to unsecured Claims, and finally, to the extent of any excess proceeds, to Equity Interest holders, including Debtors.

6. **Liquidation of U.S. Debtors**

For purposes of this analysis, the U.S. Debtors are presented in a consolidated schedule. The asset proceeds and claims recoveries presented in the consolidated schedule, however, are based upon entity-level liquidations.

7. **Factors Considered in Valuing Hypothetical Liquidation Proceeds**

Certain factors may limit the amount of the Liquidation Proceeds available to the Trustee. Certain of these factors are discussed in further detail below. In addition, it is possible that distribution of the Liquidation Proceeds would be delayed while the Trustee and his or her professionals become knowledgeable about the Reorganization Cases and the Debtors' business and operations. This delay could materially reduce the value, on a "present value" basis, of the Liquidation Proceeds.

(Dollars in Thousands)

Debtor	Notes	NBV	Recovery High	Recovery Low	Value Available For Distribution High	Value Available For Distribution Low
U.S. Debtors - Consolidated*						
Cash	1	$ 44,286	100.0%	100.0%	$ 44,286	$ 44,286
Accounts receivable - gross	2	17,880	89.9%	80.1%	16,082	14,327
Intercompany receivables	3	105,074	0.0%	0.0%	22	14
Inventories - gross	4	18,750	47.0%	37.0%	8,819	6,944
Prepaid expenses	5	2,190	10.0%	0.0%	219	-
Other current assets	5	10,946	10.0%	0.0%	1,095	-
Property, plant & equipment - net	6	80,290	45.1%	33.3%	36,234	26,734
Investments - net	7	1,572,804	0.1%	0.0%	1,151	328
Intangible assets - net	8	47,335	0.0%	0.0%	-	-
Gross liquidation proceeds		**$ 1,899,555**	**5.7%**	**4.9%**	**$ 107,908**	**$ 92,632**
Less: liquidation expenses						
Wind-down costs	9				(20,450)	(21,473)
Professional fees	10				(2,414)	(2,598)
Trustee fees	11				(3,203)	(2,769)
Total liquidation expenses					(26,067)	(26,840)
% of gross liquidation proceeds					24%	29%
Net proceeds available for distribution:					**$ 81,841**	**$ 65,792**
Estimated superpriority administrative claims:	12	**Amount**	**Recovery High**	**Recovery Low**	**Paydown From Net Asset Proceeds High**	**Paydown From Net Asset Proceeds Low**
DIP Professional Fees Carve Out		$ 3,000	100.0%	100.0%	$ (3,000)	$ (3,000)
DIP Credit Facility & Accrued Interest		60,336	100.0%	100.0%	(60,336)	(60,336)
		$ 63,336	100.0%	100.0%	$ (63,336)	$ (63,336)
Net proceeds available for creditors:					**$ 18,505**	**$ 2,456**
Secured equipment financing and leases:	15					
Secured equipment financing and leases		$ 175	100.0%	100.0%	$ (175)	$ (175)
Net proceeds available for secured creditors:					**$ 18,330**	**$ 2,281**
Secured credit facility claims:	15					
Revolving Credit Facility		$ 28,100	1.6%	0.2%	$ (437)	$ (60)
Term B - XTI		299,494	1.6%	0.2%	(4,656)	(636)
Deferred Waiver Claim		1,500	1.6%	0.2%	(23)	(3)
Term B - XTI LLC		64,423	0.0%	0.0%	(4)	(0)
Debt Guaranteed by U.S. Entities (gross to all Debtors)		592,428	2.2%	0.3%	(13,118)	(1,570)
		$ 985,944	1.8%	0.2%	$ (18,237)	$ (2,269)
Proceeds from guarantees & equalization payments						
Distributions from guarantors	13				$ -	$ -
Equalization proceeds / (payments)	14				103,628	63,451
					$ 103,628	$ 63,451
Secured credit facility claims (post guarantees & equalization):	15				**Cummulative Paydown**	
Revolving Credit Facility		$ 28,100	29.9%	16.5%	$ (8,394)	$ (4,632)
Term B - XTI		299,494	29.9%	16.5%	(89,469)	(49,369)
Deferred Waiver Claim		1,500	29.9%	16.5%	(448)	(247)
Term B - XTI LLC		64,423	29.9%	16.5%	(19,245)	(10,619)
Debt Guaranteed by U.S. Entities (net to Non-U.S. Debtors)		204,031	2.1%	0.4%	(4,310)	(852)
		$ 597,548	20.4%	11.0%	$ (121,866)	$ (65,720)
Secured swap claims:	15					
ML Secured Swap USD - XTI		$ 5,946	1.6%	0.2%	$ (92)	$ (12)
ML Secured Swap EUR - XTI LLC		852	0.0%	0.0%	(0)	(0)
		$ 6,798	1.4%	0.2%	$ (92)	$ (12)
Net proceeds available for priority & unsecured claims:					**$ -**	**$ -**

Includes U.S. Debtors, comprising Xerium Technologies Inc., XTI LLC, Huyck Licensco Inc., Stowe Woodward Licensco LLC, Stowe Woodward LLC, Wangner Itelpa I LLC, Wangner Itelpa II LLC, Weavexx, LLC, Xerium Asia, LLC, Xerium III (US) Limited, Xerium IV (US) Limited, and Xerium V (US) Limited. Claim recoveries are based upon entity-specific claims and proceeds.

(Dollars in Thousands)

Debtor	Notes	NBV	Recovery High	Recovery Low	Value Available For Distribution High	Value Available For Distribution Low
Xerium Germany Holding Gmbh						
Cash	1	$ -	-	-	$ -	$ -
Accounts receivable - gross	2	-	-	-	-	-
Intercompany receivables	3	25,571	26.2%	10.0%	6,692	2,557
Inventories - gross	4	-	-	-	-	-
Prepaid expenses	5	169	10.0%	0.0%	17	-
Other current assets	5	1,999	10.0%	0.0%	200	-
Property, plant & equipment - net	6	-	-	-	-	-
Investments - net	7	414,451	0.6%	0.1%	2,580	563
Intangible assets - net	8	-	-	-	-	-
Gross liquidation proceeds		**$ 442,191**	**2.1%**	**0.7%**	**$ 9,489**	**$ 3,120**
Less: liquidation expenses						
Wind-down costs	9				(1,572)	(1,651)
Professional fees	10				(223)	(109)
Trustee fees	11				(207)	(77)
Total liquidation expenses					(2,003)	(1,836)
% of gross liquidation proceeds					21%	59%
Net proceeds available for creditors					**$ 7,486**	**$ 1,284**

Secured credit facility claims	15	Amount	Recovery High	Recovery Low	Paydown From Net Asset Proceeds High	Paydown From Net Asset Proceeds Low
Term B - Xerium Germany		$ 85,317	3.6%	0.6%	$ (3,084)	$ (529)
Debt Guaranteed by Xerium Germany Holding Gmbh		121,798	3.6%	0.6%	(4,402)	(755)
		$ 207,115	3.6%	0.6%	$ (7,486)	$ (1,284)
Proceeds from guarantees & equalization payments						
Distributions from guarantors	13				151,234	92,440
Equalization proceeds / (payments)	14				(39,895)	(23,626)
					$ 111,340	$ 68,814

Secured credit facility claims (post guarantees & equalization)	15				Cummulative Paydown	
Term B - Xerium Germany		$ 85,317	29.9%	16.5%	$ (25,487)	$ (14,064)
Debt Guaranteed by Xerium Germany Holding Gmbh		121,798	76.6%	46.0%	(93,339)	(56,034)
		$ 207,115	57.4%	33.8%	$ (118,826)	$ (70,098)
Proceeds available for priority & general unsecured claims					**$ -**	**$ -**

(Dollars in Thousands)

Debtor	Notes	NBV	Recovery High	Recovery Low	Value Available For Distribution High	Value Available For Distribution Low
Xerium Italia SpA						
Cash	1	$ -	-	-	$ -	$ -
Accounts receivable - gross	2	-	-	-	-	-
Intercompany receivables	3	-	-	-	-	-
Inventories - gross	4	-	-	-	-	-
Prepaid expenses	5	-	-	-	-	-
Other current assets	5	698	10.0%	0.0%	70	-
Property, plant & equipment - net	6	-	-	-	-	-
Investments - net	7	104,834	7.6%	0.8%	7,974	883
Intangible assets - net	8	1,968	0.0%	0.0%	-	-
Gross liquidation proceeds		**$ 107,500**	**7.5%**	**0.8%**	**$ 8,043**	**$ 883**
Less: liquidation expenses						
Wind-down costs	9				-	-
Professional fees	10				(2)	-
Trustee fees	11				(2)	-
Total liquidation expenses					(4)	-
% of gross liquidation proceeds					0%	0%
Net proceeds available for creditors					**$ 8,039**	**$ 883**
			Recovery		**Paydown From**	
Secured credit facility claims	15	**Amount**	**High**	**Low**	**Net Asset Proceeds**	
Term B - Xerium Italia		$ 27,080	3.9%	0.4%	$ (1,061)	$ (117)
Debt Guaranteed by Xerium Italia SpA		178,013	3.9%	0.4%	(6,978)	(767)
		$ 205,093	3.9%	0.4%	$ (8,039)	$ (883)
<u>Proceeds from guarantees & equalization payments</u>						
Distributions from guarantors	13				149,283	92,439
Equalization proceeds / (payments)	14				(12,683)	(7,470)
					$ 136,601	$ 84,969
Secured credit facility claims (post guarantees & equalization)	15	**Amount**	**High**	**Low**	**Cummulative Paydown**	
Term B - Xerium Italia		$ 27,080	29.9%	16.5%	$ (8,090)	$ (4,464)
Debt Guaranteed by Xerium Italia SpA		178,013	76.7%	45.7%	(136,550)	(81,388)
		$ 205,093	70.5%	41.9%	$ (144,640)	$ (85,852)
Proceeds available for priority & general unsecured claims					**$ -**	**$ -**

(Dollars in Thousands)

Debtor	Notes	NBV	Recovery High	Recovery Low	Value Available For Distribution High	Value Available For Distribution Low
Huyck Wangner Austria GmbH						
Cash	1	$ 292	100.0%	100.0%	$ 292	$ 292
Accounts receivable - gross	2	13,737	88.5%	78.8%	12,155	10,830
Intercompany receivables	3	1,657	0.0%	0.0%	-	-
Inventories - gross	4	18,313	46.2%	36.2%	8,469	6,638
Prepaid expenses	5	755	10.0%	0.0%	76	-
Other current assets	5	913	10.0%	0.0%	91	-
Property, plant & equipment - net	6	40,637	52.9%	35.9%	21,480	14,572
Investments - net	7	46,754	0.0%	0.0%	-	-
Intangible assets - net	8	36,350	0.0%	0.0%	-	-
Gross liquidation proceeds		**$ 159,409**	**26.7%**	**20.3%**	**$ 42,563**	**$ 32,331**
Less: liquidation expenses						
Wind-down costs	9				(15,117)	(15,873)
Professional fees	10				(1,377)	(1,374)
Trustee fees	11				(1,277)	(970)
Total liquidation expenses					(17,771)	(18,218)
% of gross liquidation proceeds					42%	56%
Net proceeds available for creditors					**$ 24,792**	**$ 14,114**

Secured credit facility claims	Notes	Amount	Recovery High	Recovery Low	Paydown From Net Asset Proceeds High	Paydown From Net Asset Proceeds Low
Secured credit facility claims	15					
Term B - HW Austria		$ 38,762	11.9%	6.8%	$ (4,606)	$ (2,622)
Debt Guaranteed by HW Austria		169,876	11.9%	6.8%	(20,186)	(11,492)
		$ 208,637	11.9%	6.8%	$ (24,792)	$ (14,114)
Proceeds from guarantees & equalization payments						
Distributions from guarantors	13				139,277	87,709
Equalization proceeds / (payments)	14				(18,902)	(12,037)
					$ 120,375	$ 75,673

Secured credit facility claims (post guarantees & equalization)	Notes	Amount	Recovery High	Recovery Low	Cummulative Paydown High	Cummulative Paydown Low
Secured credit facility claims (post guarantees & equalization)	15					
Term B - HW Austria		$ 38,762	29.9%	16.5%	$ (11,579)	$ (6,389)
Debt Guaranteed by HW Austria		169,876	78.6%	49.1%	(133,588)	(83,397)
		$ 208,637	69.6%	43.0%	$ (145,167)	$ (89,787)
Proceeds available for priority & general unsecured claims					**$ -**	**$ -**

(Dollars in Thousands)						
			Recovery		Value Available For Distribution	
Debtor	**Notes**	**NBV**	**High**	**Low**	**High**	**Low**
Xerium Canada Inc.						
Cash	1	$ 915	100.0%	100.0%	$ 915	$ 915
Accounts receivable - gross	2	6,286	79.3%	70.0%	4,988	4,403
Intercompany receivables	3	4,142	0.0%	0.0%	-	-
Inventories - gross	4	8,362	44.0%	34.0%	3,682	2,846
Prepaid expenses	5	159	10.0%	0.0%	16	-
Other current assets	5	1,580	10.0%	0.0%	158	-
Property, plant & equipment - net	6	35,640	41.3%	28.9%	14,709	10,306
Investments - net	7	-	-	-	-	-
Intangible assets - net	8	2,416	0.0%	0.0%	-	-
Gross liquidation proceeds		**$ 59,500**	**41.1%**	**31.0%**	**$ 24,467**	**$ 18,469**
Less: liquidation expenses						
Wind-down costs	9				(5,708)	(5,993)
Professional fees	10				(791)	(785)
Trustee fees	11				(734)	(554)
Total liquidation expenses					(7,233)	(7,332)
% of gross liquidation proceeds					30%	40%
Net proceeds available for creditors					**$ 17,234**	**$ 11,137**
			Recovery		Paydown From Net Asset Proceeds	
Secured credit facility claims	15	**Amount**	**High**	**Low**		
Term B - Xerium Canada		$ 67,146	8.2%	5.3%	$ (5,522)	$ (3,569)
Debt Guaranteed by Xerium Canada		142,407	8.2%	5.3%	(11,712)	(7,569)
		$ 209,554	8.2%	5.3%	$ (17,234)	$ (11,137)
Proceeds from guarantees & equalization payments						
Distributions from guarantors	13				145,697	89,418
Equalization proceeds / (payments)	14				(32,148)	(20,318)
					$ 113,549	$ 69,100
Secured credit facility claims (post guarantees & equalization)	15				**Cummulative Paydown**	
Term B - Xerium Canada		$ 67,146	29.9%	16.5%	$ (20,059)	$ (11,068)
Debt Guaranteed by Xerium Canada		142,407	77.8%	48.6%	(110,724)	(69,169)
		$ 209,554	62.4%	38.3%	$ (130,783)	$ (80,237)
Proceeds available for priority & general unsecured claims					$ -	$ -

The numerical designation for a particular line item in the "notes" column of the Liquidation Analysis corresponds to a specific note below.

1. Cash and Cash Equivalents

Cash and cash equivalents include estimated cash in deposit and disbursement accounts held at May 30, 2010. The Liquidation Analysis assumes that additional cash available for distribution would only be generated by the disposition of assets. It is assumed that cash held in the accounts of the Company is fully available.

2. Accounts Receivable

Trade accounts receivable represent amounts owed to the Debtors by the Debtors' customers. Based upon a review of the aging of customer accounts, gross accounts receivable is estimated to have a recovery rate between 70.0% and 90.0%. Other accounts

receivable relating to accrued rebates and miscellaneous receivables is estimated to have a recovery rate between 40.0% and 50.0%.

3. Intercompany Receivables

Intercompany receivables represent amounts owed to the Debtors by both Debtor and Non-Debtor Affiliates. Recovery rates were estimated by reviewing the individual affiliates' ability to satisfy unsecured claims in a liquidation scenario. Based upon this review, the estimated recovery is assumed to be 0.0% with the exception of Xerium Germany, for which the recovery rate is estimated to be between 10.0% and 26.2%.

4. Inventory

Inventories include raw materials, work-in-process inventory, and finished rolls and roll covers. The Liquidation Analysis assumes that the Trustee would continue to operate manufacturing operations to convert a portion of work-in-process inventory into finished goods for sale. Based upon a review of the components of inventory, the estimated recovery is assumed to be between 34.0% and 47.0%.

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets primarily include prepaid insurance, prepaid rent and deposits, other prepaid assets, deferred tax and other miscellaneous assets. Recovery estimates for these assets are based upon factors such as the nature of the asset, its potential use during the liquidation period and the Debtors' ability to recover value. The aggregate estimated recovery for prepaid and other current assets is assumed to be between 0.0% and 10.0%.

6. Property and Equipment

Property and equipment primarily consists of land, buildings, machinery and equipment, furniture and fixtures and leasehold improvements. Estimated recovery values are based on appraisals of fair market values as of December 31, 2007, adjusted for timing and liquidation assumptions. The aggregate estimated recovery on property and equipment is assumed to be 28.9% to 41.2% for Xerium Canada, 35.9% to 52.9% for Xerium Austria, and 33.3% and 45.1% for U.S. Debtors.

7. Investment in Subsidiaries

Investment in subsidiaries consists of equity investments in the Non-Debtor Affiliates. The respective recovery estimates are based on parallel liquidation analyses of the Non-Debtor Affiliates assuming they would be liquidated through applicable insolvency proceedings. The estimated recovery values reflect any proceeds in excess of secured and unsecured Claims.

8. Intangible Assets

Intangible assets consist of goodwill, patents, licenses, trademarks, and trade names. For the Debtors, only goodwill has book value as of December 31, 2009. Goodwill and other intangible assets are estimated to have no value in a chapter 7 liquidation.

9. Wind-Down Costs

The Debtors estimate that liquidating and completely winding down their operations will take approximately twelve months. The Debtors anticipate that they would incur certain costs in connection with the wind down of their operations. Such costs include wages, benefits and severance for employed personnel, rent and utilities for critical facilities, and other overhead and administrative expenses necessary to maintain critical operations and liquidate assets during the wind down period.

10. Professional Fees

Professional fees include the fees and expenses incurred by any attorneys, accountants, investment bankers, and other professionals retained by the Trustee, the Debtors, the Debtors' secured lenders and any official committee of unsecured creditors that may be formed during the liquidation period.

11. Trustee Fees

It is assumed that the Trustee fees are paid by the Debtors in accordance with section 326 of the Bankruptcy Code. Trustee fees are estimated based upon historical experience in other similar cases and are calculated to be 3% of the asset recovery value.

12. Super-priority Administrative Claims

Total obligations under the DIP Facility held by the U.S. Debtors and related accrued interest is estimated to be $60.3 million at May 30, 2010. The carve-out at May 30, 2010 is estimated to be $3 million, which includes estimated unpaid professional fees. The DIP Facility Claim and the carve-out for accrued and unpaid professional fees from the chapter 11 estates are assumed to be paid after the liquidation costs of the chapter 7 estates, with the carve-out assumed paid in its entirety first and the DIP Facility Claim paid subsequently.

13. Distributions from Guarantors

Distributions from guarantors represent proceeds received from both Debtor guarantors[2] and Non-Debtor Guarantors[3] of the Term B senior secured debt.

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[2] Xerium Technologies, Inc., XTI LLC, Huyck Licensco Inc., Stowe Woodward Licensco LLC, Stowe Woodward LLC, Wangner Itelpa I LLC, Wangner Itelpa II LLC, Weavexx, LLC, Xerium Asia, LLC, Xerium III (US) Limited, Xerium IV (US) Limited, Xerium V (US) Limited, Xerium Germany Holding GmbH, Xerium Italia S.p.A, Huyck.Wangner Austria GmbH, and Xerium Canada Inc.

14. Equalization Proceeds / Payments

In accordance with the ratable sharing provisions of the Credit Facility, the lenders share proceeds of the collateral of all Debtors equally such that the recovery rates in a liquidation would be equal across tranches. The equalization proceeds / payments represent the reallocation of proceeds in accordance with this provision of the Credit Facility.

15. Secured Claims

Secured Claims consist of Claims under equipment financing and leases, Claims under the Credit Facility, the Deferred Waiver Claim, the debt guarantee Claims, and the Secured Swap Termination Claims at Xerium and XTI. No proceeds in excess of the Secured Claims are estimated to be available for further distribution.

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[3] Huyck Wangner Australia Pty Ltd; Xerium do Brasil Ltda; Xerium Technologies Brasil Indústria e Comércio SA; Wangner Itelpa Participacoes Ltda; Stowe Woodward France SAS; Xerium (France) SAS; Huyck Wangner Japan Ltd; Stowe Woodward Mexico SA de CV; TIAG Transworld Interweaving GmbH; Huyck Wangner UK Limited; Stowe Woodward (UK) Limited; Xerium Technologies Limited; Huyck Wangner Scandinavia AB; Stowe Woodward Sweden AB; Huyck Wangner Vietnam Co Ltd; Huyck Wangner Germany GmbH; Stowe Woodward AG; and Robec Walzen GmbH.