

EXIDE TECHNOLOGIES  
Form 10-Q  
February 09, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended December 31, 2005**

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

**Commission File Number 1-11263**

**EXIDE TECHNOLOGIES**

**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware  
(State or other jurisdiction of  
incorporation or organization)**

**23-0552730  
(I.R.S. Employer  
Identification Number)**

**13000 Deerfield Parkway,  
Building 200  
Alpharetta, Georgia  
(Address of principal executive offices)**

**30004  
(Zip Code)**

**(678) 566-9000**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the Registrant is 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

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

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

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

As of February 3, 2006, 24,545,291 shares of common stock were outstanding.

**EXIDE TECHNOLOGIES AND SUBSIDIARIES  
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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited, in thousands, except per-share data)**

	<b>Successor Company for the Three Months Ended December 31, 2005</b>	<b>Successor Company for the Three Months Ended December 31, 2004</b>
NET SALES	\$ 733,442	\$ 727,902
COST OF SALES	614,609	602,151
Gross profit	118,833	125,751
EXPENSES:		
Selling, marketing and advertising	66,261	69,003
General and administrative	42,471	47,365
Restructuring and impairment	6,511	5,713
Goodwill Impairment		399,388
Other expense (income) net	7,973	(5,005)
Interest expense net	18,404	11,728
	141,620	528,192
Loss before reorganization items, income taxes and minority interest	(22,787)	(402,441)
REORGANIZATION ITEMS, NET	1,311	2,236
INCOME TAX PROVISION	3,528	34,484
MINORITY INTEREST	32	(121)
Net loss	\$ (27,658)	\$ (439,040)
NET LOSS PER SHARE		
Basic and Diluted	\$ (1.11)	\$ (17.56)
WEIGHTED AVERAGE SHARES		
Basic and Diluted	25,000	25,000

The accompanying notes are an integral part of these statements.



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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited, in thousands, except per-share data)

	<b>Successor Company for the Nine Months  Ended December 31, 2005</b>	<b>Successor Company for the Period  May 6, 2004 to December 31, 2004</b>	<b>Predecessor Company for the Period April 1, 2004 to  May 5, 2004</b>
NET SALES	\$ 2,089,259	\$ 1,763,429	\$ 214,607
COST OF SALES	1,764,317	1,477,867	179,137
 Gross profit	 324,942	 285,562	 35,470
 EXPENSES:			
Selling, marketing and advertising	204,948	178,617	24,504
General and administrative	129,347	108,601	17,940
Restructuring and impairment	16,051	12,986	602
Goodwill Impairment		399,388	
Other expense (income) net	12,781	(57,042)	6,222
Interest expense net	51,163	29,165	8,870
	414,290	671,715	58,138
 Loss before reorganization items, income taxes and minority interest	 (89,348)	 (386,153)	 (22,668)
REORGANIZATION ITEMS, NET	4,398	5,654	18,434
FRESH START ACCOUNTING ADJUSTMENTS, NET			(228,371)
GAIN ON DISCHARGE OF LIABILITIES SUBJECT TO COMPROMISE			(1,558,839)
INCOME TAX PROVISION (BENEFIT)	2,572	30,782	(2,482)
MINORITY INTEREST	72	(75)	26
 Net income (loss)	 \$ (96,390)	 \$ (422,514)	 \$ 1,748,564
 NET INCOME (LOSS) PER SHARE			
Basic and Diluted	\$ (3.86)	\$ (16.90)	\$ 63.86

WEIGHTED AVERAGE SHARES

Basic and Diluted	25,000	25,000	27,383
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The accompanying notes are an integral part of these statements.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited, in thousands, except per-share data)**

	<b>Successor Company</b>	
	<b>December</b>	<b>March 31,</b>
	<b>31, 2005</b>	<b>2005</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 36,872	\$ 76,696
Restricted cash	548	1,323
Receivables, net of allowance for doubtful accounts of \$20,236 and \$22,471	635,221	687,715
Inventories	429,451	397,689
Prepaid expenses and other	34,182	21,275
Deferred financing costs, net	1,770	1,725
Deferred income taxes	5,419	4,305
<b>Total current assets</b>	<b>1,143,463</b>	<b>1,190,728</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>691,384</b>	<b>799,763</b>
<b>OTHER ASSETS:</b>		
Intangible assets, net	188,229	192,854
Investments in affiliates	7,147	9,010
Deferred financing costs, net	11,215	12,784
Deferred income taxes	55,711	55,896
Other	26,030	29,745
	<b>288,332</b>	<b>300,289</b>
<b>Total assets</b>	<b>\$ 2,123,179</b>	<b>\$ 2,290,780</b>
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings	\$ 14,700	\$ 1,595
Current maturities of long-term debt	24,380	632,116
Accounts payable	341,411	340,480
Accrued expenses	347,465	385,521
Warrants liability	1,688	11,188
<b>Total current liabilities</b>	<b>729,644</b>	<b>1,370,900</b>
<b>LONG-TERM DEBT</b>	<b>639,213</b>	<b>20,047</b>
<b>NONCURRENT RETIREMENT OBLIGATIONS</b>	<b>313,294</b>	<b>329,628</b>
<b>NONCURRENT DEFERRED TAX LIABILITY</b>	<b>29,511</b>	<b>24,178</b>
<b>OTHER NONCURRENT LIABILITIES</b>	<b>97,532</b>	<b>106,004</b>

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Total liabilities	1,809,194	1,850,757
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	11,993	12,764
STOCKHOLDERS EQUITY		
Preferred stock, \$0.01 par value, 1,000 shares authorized, 0 shares issued and outstanding		
Common stock, \$0.01 par value, 61,500 shares authorized, 24,542 and 24,407 shares issued and outstanding	245	234
Additional paid-in capital	888,479	888,157
Accumulated deficit	(563,313)	(466,923)
Accumulated other comprehensive (loss) income	(23,419)	5,791
Total stockholders equity	301,992	427,259
Total liabilities and stockholders equity	\$ 2,123,179	\$ 2,290,780

The accompanying notes are an integral part of these statements.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited, in thousands)**

	<b>Successor Company for the Nine months  Ended December 31, 2005</b>	<b>Successor Company for the Period  May 6, 2004 to December 31, 2004</b>	<b>Predecessor Company for the Period April 1, 2004 to May 5, 2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ (96,390)	\$ (422,514)	\$ 1,748,564
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	90,519	84,194	7,848
Impairment of Goodwill		399,388	
Gain on discharge of liabilities subject to compromise			(1,558,839)
Fresh Start accounting adjustments, net			(228,371)
Unrealized gain on Warrants	(9,500)	(61,488)	
Net loss on asset sales	12,270	1,227	
Provision for doubtful accounts	2,401	2,167	473
Deferred income taxes		680	
Non-cash provision for restructuring	1,002	108	18
Reorganization items, net	4,398	5,654	18,434
Insurance proceeds		2,143	
Minority interest	72	(75)	26
Amortization of deferred financing costs	1,347		1,251
Changes in assets and liabilities, excluding effects of Fresh Start accounting, acquisitions and divestitures:			
Receivables	10,342	(41,745)	45,924
Inventories	(51,451)	(12,408)	(10,873)
Prepaid expenses and other	(13,199)	(2,378)	286
Payables	19,007	32,464	(20,967)
Accrued expenses	(17,208)	(28,982)	(20,564)
Noncurrent liabilities	(7,210)	(3,443)	(294)
Other, net	9,199	31,360	9,898
 Net cash used in operating activities	 (44,401)	 (13,648)	 (7,186)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(37,861)	(44,577)	(7,152)
Proceeds from sales of assets	19,657	20,962	2,800
 Net cash used in investing activities	 (18,204)	 (23,615)	 (4,352)

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase in short-term borrowings	13,963	4,174	2,425
Repayments under Senior Notes			(110,082)
Borrowings under Credit Facility		168,593	621,258
Repayments under Credit Facility	(12,804)	(169,332)	(452,875)
Currency Swap	(12,084)		
Increase (decrease) in other debt	36,081	(2,036)	(2,412)
Financing costs and other		(682)	(23,146)
Net cash provided by financing activities	25,156	717	35,168
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,375)	3,031	(1,447)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(39,824)	(33,515)	22,183
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	76,696	59,596	37,413
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 36,872	\$ 26,081	\$ 59,596

The accompanying notes are an integral part of these statements.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2005**  
**(In thousands, except share and per-share data)**  
**(Unaudited)**

**(1) BASIS OF PRESENTATION**

The condensed consolidated financial statements include the accounts of Exide Technologies (referred together with its subsidiaries, unless the context requires otherwise, as Exide or the Company ) and all of its majority-owned subsidiaries. These statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by generally accepted accounting principles ( GAAP ), or those normally made in the Company s Annual Report on Form 10-K. Accordingly, the reader of this Form 10-Q should refer to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2005 for further information. The financial information contained herein is unaudited.

The financial information has been prepared in accordance with the Company s customary accounting practices. In the Company s opinion, the accompanying consolidated financial information includes all adjustments of a normal recurring nature necessary for a fair statement of the results of operations and financial position for the periods presented.

On April 15, 2002, the Petition Date , Exide Technologies, together with certain of its U.S. subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws ( Bankruptcy Code or Chapter 11 ) in the United States Bankruptcy Court for the District of Delaware ( Bankruptcy Court ). On November 21, 2002, two additional wholly owned, non-operating subsidiaries of Exide filed voluntary petitions for reorganization under Chapter 11 in the Bankruptcy Court. All of the cases were jointly administered for procedural purposes before the Bankruptcy Court under case number 02-11125KJC.

Exide Technologies and such subsidiaries (the Debtors ) continued to operate their businesses and manage their properties as debtors-in-possession throughout the course of the bankruptcy case. The Debtors, along with the Official Committee of Unsecured Creditors, filed a Joint Plan of Reorganization (the Plan ) with the Bankruptcy Court on February 27, 2004 and, on April 21, 2004, the Bankruptcy Court confirmed the Plan. The Debtors declared May 5, 2004 as the effective date of the Plan, and substantially consummated the transactions provided for in the Plan on such date (the Effective Date ). For accounting purposes the Company also recognized the emergence as of May 5, 2004, as this was the date upon which the material conditions related to emergence, most significantly the finalization of the Company s exit financing, were resolved.

The emergence from Chapter 11 resulted in a new reporting entity (the Successor Company ) and adoption of Fresh Start accounting and reporting in accordance with Statement of Position 90-7 ( SOP 90-7 ), Financial Reporting by Entities in Reorganization under the Bankruptcy Code. Fresh Start accounting required the Company to allocate the reorganization value to its assets based upon their estimated fair values in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations ( SFAS 141 ). Each liability existing at the Plan confirmation date, other than deferred taxes, was stated at present values of amounts to be paid determined at appropriate current interest rates. Adoption of Fresh Start accounting has resulted in material adjustments to the historical carrying value of the Company s assets and liabilities. The Company engaged an independent appraiser to assist in allocation of the reorganization value, including determination of the fair value of property and equipment and intangible assets. The fair values of the assets as determined by Fresh Start reporting were based on estimates of future cash flows. The determination of fair values of assets and liabilities is subject to significant estimation and assumptions.

These condensed consolidated financial statements have been prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. The ability of the Company to continue as a going concern is predicated upon, among other things, compliance with the provisions of the covenants of its current borrowing arrangements, the ability to generate cash flows from operations and, where necessary, obtaining financing sources sufficient to satisfy the Company s future obligations, as well as certain contingencies described in Note 13. On February 1, 2006, the Company obtained amendments to its Senior

Secured Credit Facility (the Credit Agreement ) which, provided \$46,200 of additional borrowings, eliminated scheduled amortization payments during the term of the facility, eliminated most financial covenants, relaxed the covenant related to minimum earnings before interest, taxes, depreciation, amortization and restructuring ( Adjusted EBITDA , previously referred to as EBITDAR ), modified covenants for the maximum capital expenditures and leverage ratios for permitted acquisitions, expanded the amount of non-core asset sale proceeds to be retained by the Company and enhanced existing call protection for the lenders as well as extended such call protection to include outstanding amounts of the Company s revolving loan facility.

As of February 9, 2006, the Company believes, based upon its financial forecast and plans, that it will comply with the Credit Agreement covenants for at least through December 31, 2006. It should be noted, however, that in the past management has had difficulty in accurately predicting the Company s performance and covenant compliance. This uncertainty with respect to the Company s ability to maintain compliance with its financial covenants throughout fiscal 2006 resulted in the Company s receiving a going concern modification to the audit opinion for fiscal 2005. Failure to comply with the Credit Agreement covenants, without

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waiver, would result in a default under the Credit Agreement. Should the Company be in default, it is not permitted to borrow under the Credit Agreement, which would have a very negative effect on liquidity. Although the Company has been able to obtain waivers of prior defaults, there can be no assurance that it can do so in the future or, if it can, what the cost and terms of obtaining such waivers would be. Future defaults would, if not waived, allow the Credit Agreement lenders to accelerate the loans and declare all amounts due and payable. Any such acceleration would also result in a default under the Indentures for the Company's notes and their potential acceleration.

The accompanying interim condensed consolidated financial statements of the Company prior to emergence from Chapter 11 (the Predecessor Company) have also been prepared in accordance with SOP 90-7. Revenues, expenses, realized gains and losses and provision for losses resulting from the reorganization are reported separately as Reorganization items, net in the condensed consolidated statements of operations.

Since the Company's emergence from bankruptcy resulted in a new reporting entity as of the Effective Date, the condensed consolidated financial statements for periods subsequent to May 5, 2004 are not comparable with those of prior periods. All financial information as of and for periods prior to May 5, 2004 is presented as pertaining to the Predecessor Company, while all financial information after that date is presented as pertaining to the Successor Company. The condensed consolidated statements of operations reflect the results of the reorganization and Fresh Start adjustments in accordance with SOP 90-7 in the period April 1, 2004 to May 5, 2004 as Predecessor Company information.

**(2) WARRANTS**

In connection with the consummation of the Plan, the Company agreed to issue Warrants entitling the holders to purchase up to 6,250,000 shares of new common stock at an exercise price of \$32.11 per share (the number of Warrants issuable being subject to adjustments allowed for by the claims reconciliation and allowance process set forth in the Plan.) The Warrants are exercisable through May 5, 2011. The exercise price, the number of shares purchasable upon the exercise of each Warrant and the number of Warrants outstanding are subject to adjustment from time to time upon occurrence of certain events described in the Warrant Agreement. The Company has accounted for the Warrants in accordance with Emerging Issues Task Force (EITF) Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock and SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). Because the Warrant Agreement provides for a cash settlement upon a change in control under certain specified conditions, the Warrants have been accounted for and classified as a liability in the condensed consolidated balance sheets. Upon the adoption of Fresh Start reporting, on the Effective Date, May 5, 2004, the Warrants were valued using Black Scholes principles and ascribed a fair value of approximately \$74,300, reflecting the underlying enterprise value of the Company underlying the Plan. In accordance with EITF Issue No. 00-19 and SFAS 150, the Warrants have been marked-to-market based upon quoted market prices. This mark-to-market resulted in recognition of unrealized gain of \$1,750, \$5,813, \$9,500, and \$61,488, respectively for the three months ended December 31, 2005 and 2004, for the nine months ended December 31, 2005, and for the period May 6, 2004 to December 31, 2004, which is reported in Other (income) expense, net in the condensed consolidated statements of operations. Future results of operations may be subject to volatility from changes in the market value of such Warrants.

**(3) COMPREHENSIVE INCOME (LOSS)**

Total comprehensive income (loss) and its components are as follows:

	<b>Three Months  Ended December 31, 2005</b>	<b>Three Months  Ended December 31, 2004</b>	<b>Nine Months  Ended December 31, 2005</b>	<b>Period May 6, 2004 to December 31, 2004</b>	<b>Period April 1, 2004 to May 5, 2004</b>
Net income (loss)	\$ (27,658)	\$ (439,040)	\$ (96,390)	\$ (422,514)	\$ 1,748,564
		3,033		3,963	

Additions and changes in fair value of cash flow hedges					
Reclassification of cash flow hedges to earnings		(151)		(434)	
Additions and changes in minimum pension liability	54		333		
Change in cumulative translation adjustment	(5,901)	38,316	(29,543)	42,104	(7,591)
Total comprehensive income (loss)	\$ (33,505)	\$ (397,842)	\$ (125,600)	\$ (376,881)	\$ 1,740,973



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Reorganization items, net represent amounts the Company incurred and continues to incur as a result of the Chapter 11 process and are presented separately in the condensed consolidated statements of operations. The following have been incurred:

	<b>Three Months  Ended December 31, 2005</b>	<b>Three Months  Ended December 31, 2004</b>	<b>Nine Months  Ended December 31, 2005</b>	<b>Period May 6, 2004 to December 31, 2004</b>	<b>Period April 1, 2004 to May 5, 2004</b>
Professional fees	\$ 917	\$ 2,725	\$ 2,913	\$ 6,743	\$ 18,515
Interest income					(81)
Other	394	(489)	1,485	(1,089)	
Total reorganization items, net	\$ 1,311	\$ 2,236	\$ 4,398	\$ 5,654	\$ 18,434
Gain on settlement of liabilities subject to compromise and recapitalization					(1,558,839)
Fresh Start accounting adjustments					(228,371)
Loss (gain) on reorganization items	\$ 1,311	\$ 2,236	\$ 4,398	\$ 5,654	\$ (1,768,776)

Net cash paid for reorganization items during the three months ended December 31, 2005 and 2004, the nine months ended December 31, 2005, the period May 6, 2004 to December 31, 2004, and the period April 1, 2004 to May 5, 2004 was \$1,818, \$2,305, \$10,206, \$33,967, and \$6,074, respectively.

The following paragraphs provide additional information relating to the above reorganization items:

*Professional fees*

Professional fees include financial, legal, and valuation services directly associated with the reorganization process, including fees incurred related to asset sales, and success fees payable to the Company's advisors related to emergence from Chapter 11. Professional fees for the period April 1, 2004 to May 5, 2004 include success fees of \$12,466 payable to the Company's advisors upon emergence from Chapter 11.

*Interest income*

Interest income represents interest income earned by the Debtors as a result of assumed excess cash balances due to the Chapter 11 filing.

*Other*

Other reorganization costs for three months and nine months ended December 31, 2005 primarily represent expenses related to directors and officers liability insurance coverage for directors and officers of the Predecessor Company.

**(5) INTANGIBLE ASSETS, NET**

Intangible assets consist of:

Trademarks  
and

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	Trademarks and Tradenames (not subject to amortization)	Tradenames (subject to amortization)	Customer relationships	Technology	Total
As of March 31, 2005					
Gross Amount	\$ 56,331	\$ 12,813	\$ 105,968	\$ 23,781	\$ 198,893
Accumulated Amortization		(928)	(4,029)	(1,082)	(6,039)
Net	\$ 56,331	\$ 11,885	\$ 101,939	\$ 22,699	\$ 192,854
As of December 31, 2005					
Gross Amount	\$ 56,331	\$ 12,813	\$ 106,339	\$ 23,781	\$ 199,264
Accumulated Amortization		(1,687)	(7,382)	(1,966)	(11,035)
Net	\$ 56,331	\$ 11,126	\$ 98,957	\$ 21,815	\$ 188,229

Amortization of intangible assets for the nine month periods ended December 31, 2005 and 2004 was \$4,996 and \$4,392, respectively. Excluding the impact of any future acquisitions (if any), the Company anticipates annual amortization of intangible assets for each of the next five years to average \$6,600.

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Inventories, valued by the first-in, first-out ( FIFO ) method, consist of:

	<b>December 31, 2005</b>	<b>March 31, 2005</b>
Raw materials	\$ 72,225	\$ 62,552
Work-in-process	76,515	76,097
Finished goods	280,712	259,040
	<b>\$ 429,452</b>	<b>\$ 397,689</b>

**(7) OTHER ASSETS**

Other assets consist of:

	<b>December 31, 2005</b>	<b>March 31, 2005</b>
Deposits	10,317	10,211
Capitalized software, net	7,026	10,390
Loan to affiliate	4,930	4,930
Other	3,757	4,214
	<b>\$ 26,030</b>	<b>\$ 29,745</b>

Deposits above principally represent amounts held by the beneficiaries as cash collateral for those parties contingent obligations with respect to certain environmental matters, workers compensation insurance and operating lease commitments.

**(8) DEBT**

At December 31, 2005 and March 31, 2005, short-term borrowings of \$14,700 and \$1,595, respectively, consisted of various operating lines of credit and working capital facilities maintained by certain of the Company's non-U.S. subsidiaries. Certain of these borrowings are collateralized by receivables, inventories and/or property. These borrowing facilities, which are typically for one-year renewable terms, generally bear interest at current local market rates plus up to one percent per annum.

Total long-term debt is as follows:

	<b>December 31, 2005</b>	<b>March 31, 2005</b>
Senior Secured Credit Facility	\$ 290,048	\$ 266,470
10.5% Senior Secured Notes due 2013	290,000	290,000
Floating Rate Convertible Senior Subordinated Notes due 2013	60,000	60,000
Other, including capital lease obligations and other loans at interest rates generally ranging up to 11.0% due in installments through 2015 (1)	23,545	35,693
Total	663,593	652,163
Less current maturities (2)	24,380	632,116
	<b>\$ 639,213</b>	<b>\$ 20,047</b>

Total debt including above and short-term borrowings at December 31, 2005 and March 31, 2005 was \$678,293 and \$653,758, respectively.

- (1) Includes various operating lines of credit and working capital facilities maintained by certain of the Company's non-U.S. subsidiaries.
- (2) At March 31, 2005, the Company reclassified its borrowings under the Credit Agreement, the 10.5% Senior Secured Notes and the Floating Rate Convertible Senior Subordinated Notes as current as a result of a default under the Credit Agreement. During the first fiscal quarter of 2006, the Company secured an amendment and received a waiver of the default described above. With the waiver, the long-term portion of the Credit Agreement and the Notes no longer require classification as current.

**(9) INTEREST EXPENSE, NET**

Interest income of \$485, \$113, \$1,335, \$1,377 and \$21 is included in Interest expense, net for the three months ended December 31, 2005 and 2004, the nine months ended December 31, 2005, the period May 6, 2004 to December 31, 2004 and the period April 1, 2004 to May 5, 2004, respectively. Interest income earned as a result of assumed excess cash balances due to the Chapter 11 filing was recorded in Reorganization items, net in the condensed consolidated statements of operations for the period April 1, 2004 to May 5, 2004. See Note 4.

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As of the Petition Date, the Company ceased accruing interest on certain unsecured pre-petition debt classified as Liabilities subject to compromise in the condensed consolidated balance sheets in accordance with SOP 90-7. Interest was accrued on certain pre-petition debt to the extent that the Company believed it was probable of being deemed an allowed claim by the Bankruptcy Court. Interest at the stated contractual amount on pre-petition debt that was not charged to results of operations for the period April 1, 2004 to May 5, 2004 was approximately \$3,339.

**(10) OTHER (INCOME) EXPENSE, NET**

Other (income) expense, net consist of:

	<b>Three Months  Ended December 31, 2005</b>	<b>Three Months  Ended December 31, 2004</b>	<b>Nine Months  Ended December 31, 2005</b>	<b>Period May 6, 2004 to December 31, 2004</b>	<b>Period April 1, 2004 to May 5, 2004</b>
Net loss on asset sales	\$ 9,602	\$ 1,216	\$ 12,270	\$ 1,227	\$
Equity income	(432)	(411)	(1,421)	(1,044)	(164)
Currency (gain) loss	768	(8,630)	12,721	(9,322)	6,283
Loss on revaluation of foreign currency forward contract		16,201		21,845	
Gain on revaluation of Warrants	(1,750)	(5,813)	(9,500)	(61,488)	
Other	(215)	(7,568)	(1,289)	(8,260)	103
	<b>\$ 7,973</b>	<b>\$ (5,005)</b>	<b>\$ 12,781</b>	<b>\$ (57,042)</b>	<b>\$ 6,222</b>

**(11) EMPLOYEE BENEFITS**

The components of the Company's net periodic pension benefit cost are as follows:

	<b>Three Months  Ended December 31, 2005</b>	<b>Three Months  Ended December 31, 2004</b>	<b>Nine Months  Ended December 31, 2005</b>	<b>Period May 6, 2004 to December 31, 2004</b>	<b>Period April 1, 2004 to May 5, 2004</b>
Service cost	\$ 2,684	2,699	\$ 8,136	\$ 7,018	\$ 856
Interest cost	8,101	8,835	24,585	22,899	2,798
Expected return on plan assets	(5,263)	(5,415)	(15,932)	(14,083)	(1,638)
Amortization					839
Net periodic benefit cost	<b>\$ 5,522</b>	<b>6,119</b>	<b>\$ 16,789</b>	<b>\$ 15,834</b>	<b>\$ 2,855</b>

The components of the Company's net periodic cost for other post-retirement benefits are as follows:

<b>Three Months</b>	<b>Three Months</b>	<b>Nine Months</b>	<b>Period</b>	<b>Period</b>
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	<b>Ended December 31, 2005</b>	<b>Ended December 31, 2004</b>	<b>Ended December 31, 2005</b>	<b>May 6, 2004 to December 31, 2004</b>	<b>April 1, 2004 to May 5, 2004</b>
Service cost	\$ 25	\$ 23	\$ 75	\$ 43	\$
Interest cost	337	399	1,005	1,016	131
Amortization					(31)
Net periodic benefit cost	\$ 362	\$ 422	\$ 1,080	\$ 1,059	\$ 100

Cash contributions to the Company's pension plans are generally made in accordance with minimum regulatory requirements. Because of the past downturn experienced in global equity markets and ongoing benefit payments, the Company's plans are currently significantly under-funded. Based on current assumptions and regulatory requirements, the Company's minimum future cash contribution requirements for its plans are expected to increase significantly in future fiscal years. The Company has received from the Internal Revenue Service (the "IRS") a temporary waiver of its minimum funding requirements for its North American plans for calendar years 2003 and 2004, amounting to approximately \$50,000, net and has granted to the Pension Benefit Guaranty Corporation a second priority lien on domestic personal property, including stock of its U.S. and direct foreign subsidiaries, to secure the unfunded liability. The temporary waiver defers the Company's minimum contributions for 2003 and 2004 and allows such contributions to be paid over a subsequent five-year period through 2010.

Based upon the temporary waiver, the Company expects its minimum future aggregate cash contributions to its pension plans from fiscal 2006 through fiscal 2010 will total approximately \$210,000 to \$230,000, including \$32,500 in fiscal 2006. As of December 31 2005, \$24,600 of the required fiscal 2006 contributions of \$32,500 had been paid.

**Table of Contents****(12) ENVIRONMENTAL MATTERS**

As a result of its multinational manufacturing, distribution and recycling operations, the Company is subject to numerous federal, state and local environmental, occupational safety and health laws and regulations, as well as similar laws and regulations in other countries in which the Company operates. For a discussion of environmental matters, see Note 13.

**(13) COMMITMENTS AND CONTINGENCIES***Claims Reconciliation*

Holders of general unsecured claims will receive collectively 2,500,000 shares of new common stock and Warrants to purchase 6,250,000 shares of new common stock at \$32.11 per share, and approximately 13.4% of such new common stock and Warrants were initially reserved for distribution for disputed claims under the Plan's claims reconciliation and allowance procedures. The Official Committee of Unsecured Creditors, in consultation with the Company, established such reserve to provide for a pro rata distribution of new common stock and Warrants to holders of disputed claims as they become allowed. As claims are evaluated and processed, the Company will object to some claims or portions thereof, and upward adjustments (to the extent stock and Warrants not previously distributed remain) or downward adjustments to the reserve will be made pending or following adjudication of such objections. Predictions regarding the allowance and classification of claims are inherently difficult to make. With respect to environmental claims in particular, there is inherent difficulty in assessing the Company's potential liability due to the large number of other potentially responsible parties. For example, a demand for the total cleanup costs of a landfill used by many entities may be asserted by the government using joint and several liability theories. Although the Company believes that there is a reasonable basis to believe that it will ultimately be responsible for only its share of these remediation costs, there can be no assurance that the Company will prevail on these claims. In addition, the scope of remedial costs, or other environmental injuries, are highly variable and estimating these costs involves complex legal, scientific and technical judgments. Many of the claimants who have filed disputed claims, particularly environmental and personal injury claims, produce little or no proof of fault on which the Company can assess its potential liability and either specify no determinate amount of damages or provide little or no basis for the alleged damages. In some cases, the Company is still seeking additional information needed for claims assessment and information that is unknown to the Company at the current time may significantly affect the Company's assessment regarding the adequacy of the reserve amounts in the future.

As general unsecured claims have been allowed in the bankruptcy court, the Company has distributed approximately one share per \$383.00 in allowed claim amount and approximately one Warrant per \$153.00 in allowed claim amount. These rates were established based upon the assumption that the common stock and Warrants allocated to holders of general unsecured claims on the effective date of the Plan, including the reserve established for disputed claims, would be fully distributed so that the recovery rates for all allowed unsecured claims would comply with the Plan without the need for any redistribution or supplemental issuance of securities. If the amount of general unsecured claims that is eventually allowed exceeds the amount of claims anticipated in the setting of the reserve, additional common stock and Warrants will be issued for the excess claim amounts at the same rates as used for the other general unsecured claims. If this were to occur, additional common stock would also be issued to the holders of pre-petition secured claims to maintain the ratio of their distribution in common stock at nine times the amount of common stock distributed for all unsecured claims.

On January 20, 2006, the Company made its seventh distribution of new common stock and Warrants.

*Historical Federal Plea Agreement*

In 2001, the Company reached a plea agreement with the U.S. Attorney for the Southern District of Illinois resolving an investigation into a scheme by former officers and certain corporate entities involving fraudulent representations and promises in connection with the distribution, sale and marketing of automotive batteries between 1994 and 1997. The Company agreed to pay a fine of \$27,500 over five years, to five-years' probation and to cooperate with the U.S. Attorney in her prosecution of the former officers. Generally, failure to comply with the provisions of the plea agreement, including the obligation to pay the fine, would permit the U.S. Government to reopen the case against the Company. In 2002, the United States Attorney's Office for the Southern District of Illinois filed a claim as a general unsecured creditor of the Company's subsidiary, Exide Illinois, Inc. for \$27,900. Also, as previously

reported, if the U.S. Government were to assert that the obligation to pay the fine was not discharged under the Plan of Reorganization, the Company could be required to pay it. In December 2004, the U.S. Attorney's Office requested additional information regarding whether the Company adequately disclosed its financial condition at the time the plea agreement and the associated fine were approved by the U.S. District Court. The Company supplied correspondence and other materials responsive to this request.

On November 18, 2005 the U.S. Attorney's Office filed a motion in the District Court for a hearing to make inquiry of the Company's failure to comply with the Court's judgment and terms of probation, principally through failure to pay the fine, and a motion to show cause why the Company should not be held in contempt. In its motion, the U.S. Attorney's Office asserts that Exide Illinois is in default from its nonpayment and is in violation of the terms of probation, and that bankruptcy does not discharge criminal fines and that the Company did not adequately disclose its financial condition at the time the plea agreement and associated fines were approved by the District Court. It is possible that the court may revoke Exide Illinois' probation, modify the terms or



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conditions of probation, resentencing Exide Illinois, enter a restraining order or injunction, order the sale of property of Exide Illinois, accept a performance bond, enter or adjust a payment schedule, or take any other action necessary to obtain compliance with the order of a fine. If the court finds that Exide Illinois willfully failed to pay a fine, the court could fine Exide Illinois not more than twice the unpaid balance of the fine, if the court determines that a fine is in default, Exide Illinois could have to pay, as a penalty, an additional amount equal to 15% of the principal amount that is in default. The Company's response to the motion is due on or before March 10, 2006.

*Pre-Petition Litigation Settlements*

The Company previously disclosed in its most recent Report on Form 10-K for fiscal 2005 tentative settlements with various plaintiffs who alleged personal injury and/or property damage from the release of hazardous materials used in the battery manufacturing process prior to the Company's filing for Chapter 11 bankruptcy protection. The Company has finalized a settlement of these claims, as well as claims they could have asserted against third parties who may have had claims of indemnification against the Company on a pre-petition or post-petition basis. The claims will be paid in new common stock and Warrants to be paid out of the reserve established under the claims reconciliation process. The terms of the settlement are still subject to approval of appropriate state courts.

*Private Party Lawsuits and other Legal Proceedings*

On March 14, 2003, the Company served notices to reject certain executory contracts with EnerSys, including a 1991 Trademark and Trade Name License Agreement (the "Trademark License"), pursuant to which the Company had licensed to EnerSys use of the Exide trademark on certain industrial battery products in the United States and 37 foreign countries. EnerSys objected to the rejection of certain of the executory contracts, including the Trademark License, and the Bankruptcy Court conducted a hearing on the Company's rejection request. No ruling has yet been issued. If the Bankruptcy Court permits the Company to reject the Trademark License, in the absence of a successful appeal, EnerSys will likely lose all rights to use the Exide trademark over time and the Company will have greater flexibility in its ability to use that mark for industrial battery products. In the event the Bankruptcy Court authorizes rejection of the Trademark License, as with other executory contracts at issue, EnerSys will have a pre-petition general unsecured claim relating to the damages arising therefrom.

In July 2001, Pacific Dunlop Holdings (US), Inc. ("PDH") and several of its foreign affiliates under the various agreements through which Exide and its affiliates acquired GNB, filed a complaint in the Circuit Court for Cook County, Illinois alleging breach of contract, unjust enrichment and conversion against Exide and three of its foreign affiliates. The plaintiffs maintain they are entitled to approximately \$17,000 in cash assets acquired by the defendants through their acquisition of GNB. In December 2001, the Court denied the defendants' motion to dismiss the complaint, without prejudice to re-filing the same motion after discovery proceeds. The defendants filed an answer and counterclaim. On July 8, 2002, the Court authorized discovery to proceed as to all parties except Exide. In August 2002, the case was removed to the U.S. Bankruptcy Court for the Northern District of Illinois and in October 2002, the parties presented oral arguments, in the case of PDH, to remand the case to Illinois state court and, in the case of Exide, to transfer the case to the U.S. Bankruptcy Court for the District of Delaware. On February 4, 2003, the U.S. Bankruptcy Court for the Northern District of Illinois transferred the case to the U.S. Bankruptcy Court in Delaware. On November 19, 2003, the Bankruptcy Court denied PDH's motion to abstain or remand the case and issued an opinion holding that the Bankruptcy Court had jurisdiction over PDH's claims and that liability, if any, would lie solely against Exide Technologies and not against any of its foreign affiliates. PDH subsequently filed a motion to reconsider, and on June 16, 2005, the Bankruptcy Court denied PDH's motion to reconsider. PDH has appealed the Bankruptcy court's decisions to the U.S. District Court for the District of Delaware. That court, pursuant to a Standing Order requiring mandatory mediation of all appeals from the Bankruptcy Court, scheduled a mediation in Wilmington, Delaware which took place on November 3, 2005. The appeal will proceed. In December 2001, PDH filed a separate action in the Circuit Court for Cook County, Illinois seeking recovery of approximately \$3,100 for amounts allegedly owed by Exide under various agreements between the parties. The claim arises from letters of credit and other security allegedly provided by PDH for GNB's performance of certain of GNB's obligations to third parties that PDH claims Exide was obligated to replace. Exide's answer contested the amounts claimed by PDH and Exide filed a counterclaim. Although this action has been consolidated with the Cook County suit concerning GNB's cash assets, the claims relating to this action have been transferred to the U.S. Bankruptcy Court for the District of

Delaware and are currently subject to a stay injunction by that court. The Company plans to vigorously defend itself and pursue its counterclaims.

From 1957 to 1982, CEAC, the Company's principal French subsidiary, operated a plant using crocidolite asbestos fibers in the formation of battery cases, which, once formed, encapsulated the fibers. Approximately 1,500 employees worked in the plant over the period. Since 1982, the French governmental agency responsible for worker illness claims received 56 employee claims alleging asbestos-related illnesses. For some of those claims, CEAC is obligated to and has indemnified the agency in accordance with French law for approximately \$260 and \$378 in calendar 2003 and 2004, respectively. In addition, CEAC has been adjudged liable to indemnify the agency for approximately \$200 and \$107 during the same periods to date for the dependents of four such claimants. The Company was not required to indemnify or make any payments in calendar year 2005. Although the Company cannot predict the number or size of any future claims, the Company does not believe resolution of the current or any future claims, individually or in the aggregate, will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

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The Company's Shanghai, China subsidiary, Exide Technologies (Shanghai) Company Limited ( Exide Shanghai ), has been the subject of an investigation by the Anti-Smuggling Bureau of the Shanghai Customs Administration ( Anti-Smuggling Bureau ). A report was submitted by the Anti-Smuggling Bureau to the Shanghai Municipal People's Public Prosecutor's Office, First Division ( Prosecutor's Office ). The Prosecutor's Office rejected the report, and with regard to two supplemental investigatory reports, the Company understands that in both instances no criminal prosecution was recommended against Exide Shanghai, its officers, directors and employees.

In April 2003, the Company sold its Torrejon, Spain nickel-cadmium plant. The Company has learned that the Torrejon courts are conducting investigation of three petitions submitted to determine whether criminal charges should be filed for alleged injuries and endangerment of workers' health at the former Torrejon plant. The petitions contain criminal allegations against current and former employees but only allegations of civil liability against the Company. The investigations have been consolidated into one court. The Company has retained counsel in the event that any charges ultimately are filed.

Between 1996 and 2002, one of the Company's Spanish subsidiaries negotiated dual-scale salaries under collective bargaining agreements for workers at numerous facilities. Several claims challenging the dual-scale salary system have been brought in various Spanish courts covering multiple jurisdictions. To date, the Company has lost its challenges in only one jurisdiction, and prevailed in other jurisdictions. The Company continues to litigate these matters and does not currently anticipate any material adverse affect on the Company's financial condition, cash flows or results of operations.

In June 2005, the Company received notice that two former shareholders, Aviva Partners LLC and Robert Jarman, had separately filed purported class action lawsuits against the Company and certain of its current and former officers alleging violations of certain federal securities laws. The cases were filed in the United States District Court for the District of New Jersey purportedly on behalf of those who purchased the Company's stock between November 16, 2004 and May 17, 2005. The complaints allege that the named officers violated Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5 in connection with certain allegedly false and misleading public statements made during this period by the Company and its officers. The District Judge consolidated the cases for all purposes on August 29, 2005 and is currently considering the shareholders' motions to be appointed Lead Plaintiff.

In addition, on October 3, 2005, Murray Capital Management, Inc., a former shareholder and purchaser of the Company's senior notes, filed a claim in the U.S. District Court for the Southern District of New York against the Company, certain of its current and former officers and Deutsche Bank Securities, Inc., alleging violations of certain federal securities, common law fraud, negligent misrepresentation, breach of fiduciary duty, negligence and unjust enrichment. While Murray's claims are largely duplicative of those set out in the Aviva and Jarman complaints, Murray also claims that false and misleading statements were made in connection with the Company's March 2005 issuance of convertible notes and concurrent issuance of senior notes. Murray has not indicated the amount of damages it seeks. The Company has filed a motion to dismiss Murray's complaint and the plaintiff's response is due on or before February 25, 2006. Exide and the other named Defendants deny all allegations of wrongdoing made against them in these actions and intend to vigorously defend the lawsuits.

In October 2005, Deutsche Bank Securities Inc. made formal written demand that the Company indemnify it in connection with the Murray litigation pursuant to the purchase agreement for the Senior Secured Notes and the Floating Rate Convertible Senior Subordinated Notes. The Company has accepted its indemnification obligations from Deutsche Bank.

The Company has been informed by the Enforcement Division of the Securities and Exchange Commission (the SEC ) that it has commenced a preliminary inquiry into statements the Company made earlier this year regarding its ability to comply with fiscal 2005 loan covenants and the going concern modification in the audit report in the Company's Annual Report on Form 10-K for fiscal 2005. The SEC noted that the inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred. The Company intends to fully cooperate with the inquiry.

The Company's Norwegian subsidiary, Exide Sonnak AS, has received notice of claims for property damage in the approximate amount of \$5,300 allegedly as the result of a warehouse fire occurring on or about July 8, 2005 in Trondheim, Norway due to an alleged malfunctioning battery charger allegedly manufactured by the Company. The

Company and its counsel are evaluating those claims.

*Environmental Matters*

As a result of its manufacturing, distribution and recycling operations, the Company is subject to numerous federal, state and local environmental, occupational safety and health laws and regulations, including limits on employee blood lead levels, as well as similar laws and regulations in other countries in which the Company operates (collectively, EH&S laws ).

The Company is exposed to liabilities under such EH&S laws arising from its past handling, release, storage and disposal of hazardous substances and hazardous wastes. The Company previously has been advised by the U.S. Environmental Protection

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Agency ( EPA ) or state agencies that it is a Potentially Responsible Party under the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ) or similar state laws at 96 federally defined Superfund or state equivalent sites. At 44 of these sites, the Company has paid its share of liability. While the Company believes it is probable its liability for most of the remaining sites will be treated as disputed unsecured claims under the Plan, there can be no assurance these matters will be discharged. If the Company's liability is not discharged at one or more sites, the government may be able to file claims for additional response costs in the future, or to order the Company to perform remedial work at such sites. In addition, the EPA, in the course of negotiating this pre-petition claim, had notified the Company of the possibility of additional clean-up costs associated with Hamburg, Pennsylvania properties of approximately \$35,000, as described in more detail below. To date the EPA has not made a formal claim for this amount or provided any support for this estimate. To the extent the EPA or other environmental authorities dispute the pre-petition nature of these claims, the Company would intend to resist any such effort to evade the bankruptcy law's intended result, and believes there are substantial legal defenses to be asserted in that case. However, there can be no assurance that the Company would be successful in challenging any such actions.

The Company is also involved in the assessment and remediation of various other properties, including certain Company owned or operated facilities. Such assessment and remedial work is being conducted pursuant to applicable EH&S laws with varying degrees of involvement by appropriate legal authorities. Where probable and reasonably estimable, the costs of such projects have been accrued by the Company, as discussed below. In addition, certain environmental matters concerning the Company are pending in various courts or with certain environmental regulatory agencies with respect to these currently or formerly owned or operating locations. While the ultimate outcome of the foregoing environmental matters is uncertain, after consultation with legal counsel, the Company does not believe the resolution of these matters, individually or in the aggregate, will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

On September 6, 2005, the U.S. Court of Appeals for the Third Circuit issued an opinion in U.S. v. General Battery/Exide (No. 03-3515) affirming the district court's holding that the Company is liable, as a matter of federal common law of successor liability, for lead contamination at certain sites in the vicinity of Hamburg, Pennsylvania. This case involves several of the pre-petition environmental claims of the federal government for which the Company, as part of its Chapter 11 proceeding, had established a reserve of common stock and Warrants. The current amount of the government claims for these sites is approximately \$14,000. In October 2004, the EPA, in the course of negotiating a comprehensive settlement of all its environmental claims against the Company, had notified the Company of the possibility of additional clean-up costs associated with other Hamburg, Pennsylvania properties of approximately \$35,000. To date the EPA has not made a formal claim for this amount or provided any support for this estimate.

As unsecured claims are allowed in the Bankruptcy Court, the Company is required to distribute common stock and Warrants to the holders of such claims. To the extent the government is able to prove the Company is responsible for the alleged contamination at the other Hamburg, Pennsylvania properties and substantiate its estimated \$35,000 of additional clean-up costs, and if the Company is unsuccessful in challenging the Third Circuit's decision above, these claims would ultimately result in an inadequate reserve of common stock and Warrants to the extent not offset by the reconciliation of all other claims for lower amounts than the aggregate reserve. The Company would still retain the right to perform and pay for such cleanup activities, which would preserve the existing reserved common stock and Warrants discussed in this Note 13. It is the Company's position that it is not liable for the contamination of this area, and that any liability it may have derives from pre-petition events which would be administered as a general, unsecured claim, and consequently no provisions have been recorded in connection therewith.

The Company has established reserves for on-site and off-site environmental remediation costs where such costs are probable and reasonably estimable and believes that such reserves are adequate. As of December 31, 2005 and March 31, 2005, the amount of such reserves on the Company's consolidated balance sheet was approximately \$56,058 and \$58,500, respectively. Because environmental liabilities are not accrued until a liability is determined to be probable and reasonably estimable, not all potential future environmental liabilities have been included in the Company's environmental reserves and, therefore, additional earnings charges are possible. Also, future findings or changes in estimates could have a material effect on the recorded reserves and cash flows.

The sites that currently have the largest reserves include the following:

*Tampa, Florida*

The Tampa site is a former secondary lead smelter, lead oxide production facility, and sheet lead-rolling mill that operated from 1943 to 1989. Under a RCRA Part B Closure Permit and a Consent Decree with the State of Florida, Exide is required to investigate and remediate certain historic environmental impacts to the site. Cost estimates for remediation (closure and post-closure) range from \$12,500 to \$20,500 depending on final State of Florida requirements. The remediation activities are expected to occur over the course of several years.

*Columbus, Georgia*

The Columbus site is a former secondary lead smelter that was mothballed in 1999, which is part of a larger facility that

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includes an operating lead acid battery manufacturing facility. Groundwater remediation activities began in 1988. Costs for supplemental investigations, remediation and site closure are currently estimated at \$11,600.

*Sonalur, Portugal*

The Sonalur facility is an active secondary lead smelter. Materials from past operations present at the site are stored in above-ground concrete containment vessels and in underground storage deposits. The Company is in the process of obtaining additional site characterization data to evaluate remediation alternatives agreeable to local authorities. Costs for remediation are currently estimated at \$3,500 to \$7,000.

Legislation has recently been proposed in the European Union which would ban lead in batteries, but with broad categories of exemptions which apply to all or nearly all of the Company's products. It is possible that such legislation, if finalized, will impose further duties on the Company for the reclamation of lead from spent batteries.

*Guarantees*

At December 31, 2005, the Company had outstanding letters of credit with a face value of \$43,908 and surety bonds with a face value of \$30,099. The majority of the letters of credit and surety bonds have been issued as collateral or financial assurance with respect to certain liabilities the Company has recorded, including but not limited to environmental remediation obligations and self-insured workers compensation reserves. Failure of the Company to satisfy its obligations with respect to the primary obligations secured by the letters of credit or surety bonds could entitle the beneficiary of the related letter of credit or surety bond to demand payments pursuant to such instruments. The letters of credit generally have terms up to one year. The Company expects limited availability of new surety bonds from traditional sources, which could impact the Company's liquidity needs in future periods. Pursuant to authorization from the Bankruptcy Court, the Company reached an agreement with the surety to maintain its current surety bonds through July 31, 2006. Collateral held by the surety in the form of letters of credit at December 31, 2005, pursuant to the terms of the agreement, was \$30,088.

Certain of the Company's European subsidiaries have bank guarantees outstanding, which have been issued as collateral or financial assurance in connection with environmental obligations, income tax claims and customer contract requirements. At December 31, 2005, bank guarantees with a face value of \$14,876 were outstanding.

*Warranty*

The Company provides customers various warranty or return privileges in each of its segments. The estimated cost of warranty is recognized as a reduction of sales in the period in which the related revenue is recognized. These estimates are based upon historical trends and claims experience and include assessment of the anticipated lag between the date of sale and claim date.

A reconciliation of changes in the Company's consolidated warranty liability follows:

Balance at March 31, 2005	\$ 49,030
Accrual for warranties provided during the period	34,933
Settlements made (in cash or credit) during the period	(36,274)
Currency translation	(1,791)
 Balance at December 31, 2005	 \$ 45,898

**(14) RESTRUCTURING AND IMPAIRMENT**

During fiscal 2006, the Company has continued to implement operational changes to streamline and rationalize its structure in an effort to simplify the organization and eliminate redundant and/or unnecessary costs. As part of these restructuring programs, the nature of the positions eliminated range from plant employees and clerical workers to operational and sales management.

During the nine months ended December 31, 2005, the Company recognized restructuring and impairment charges of \$16,051, representing \$10,939 for severance and \$5,112 for related closure costs. These charges resulted from actions completed during the nine months ended December 31, 2005 related to consolidation efforts in the Industrial Energy Europe and Rest of World ( ROW ) segment, closure costs for the Company's Casalnuovo, Italy Industrial

facility, corporate severance, headcount reductions in the Transportation Europe and ROW segment, the closure of the Lawrenceville, New Jersey office and fiscal 2006 North America headcount reductions in corporate and in the Transportation North America and Industrial Energy North America segments. Approximately 247 positions have been eliminated in connection with the fiscal 2006 restructuring activities. Summarized restructuring reserve activity follows:



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	<b>Severance Costs</b>	<b>Closure Costs</b>	<b>Total</b>
Balance at March 31, 2005	\$ 27,018	\$ 9,137	\$ 36,155
Charges, Nine Months ended December 31, 2005	10,939	5,112	16,051
Payments and currency translation	(27,721)	(6,924)	(34,645)
Balance at December 31, 2005	\$ 10,236	\$ 7,325	\$ 17,561

Remaining expenditures principally represent (i) severance and related benefits payable per employee agreements and regulatory requirements over periods up to three years (ii) lease commitments for certain closed facilities, branches and offices, as well as leases for excess and permanently idle equipment payable in accordance with contractual terms, over periods up to five years and (iii) certain other closure costs including dismantlement and costs associated with removal obligations incurred in connection with the exit of facilities.

**(15) NET INCOME (LOSS) PER SHARE**

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding for the period, while diluted net income (loss) per share is computed assuming conversion of all dilutive securities. Shares which are contingently issuable under the Plan have been included as outstanding common shares for purposes of calculating net income (loss) per share for the three months ended December 31, 2005 and 2004, the nine months ended December 31, 2005, and the period May 6, 2004 to December 31, 2004.

For the three months and nine months ended December 31, 2005, the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004, the Company incurred a net loss, therefore, dilutive common stock equivalents were not used in the calculation of loss per share as they would have an anti-dilutive effect.

Options to purchase 3,925,000 shares of common stock and warrants to purchase 1,286,000 shares of common stock were outstanding during the period April 1, 2004 to May 5, 2004. These common stock equivalents were not included in the computation of diluted earnings per share for the period April 1, 2004 to May 5, 2004 because the exercise prices of the options and warrants were greater than the average market price of the common shares and they would have an anti-dilutive effect. These options and warrants were cancelled upon emergence from bankruptcy.

**(16) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ). SFAS 123R requires that a public entity measure the cost of equity based service awards based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period. SFAS 123R is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company will adopt SFAS 123R effective April 1, 2006. The Company is currently assessing the impact that SFAS 123R will have on its financial position and results of operations.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an Amendment of ARB No. 43, Chapter 4 ( SFAS 151 ). The standard requires that abnormal amounts of idle capacity and spoilage costs within inventory should be excluded from the cost of inventory and expensed when incurred. The provisions of SFAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Company will adopt SFAS 151 effective April 1, 2006. The Company expects the adoption of SFAS 151 will not have a material impact on its financial position or results of operations.

In December 2004, the FASB issued Staff Position No. FAS 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 ( FSP No. 109-1 ), and Staff Position No. FAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 ( FSP No. 109-2 ). These staff positions provide accounting guidance on how companies should account for the effects of the American Jobs Creation Act of 2004 ( AJCA ) that was signed into law on October 22, 2004. FSP No. 109-1 states that the tax

relief (special tax deduction for domestic manufacturing) from this legislation should be accounted for as a special deduction instead of a tax rate reduction. FSP No. 109-2 gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company is currently assessing the repatriation provision to determine whether it might repatriate extraordinary dividends, as defined in the AJCA. The Company expects to complete this evaluation within a reasonable amount of time after additional guidance from the United States Treasury is published. The Company is currently assessing the impact FSP No. 109-1 and 109-2 may have on its financial position and results of operations.

In March 2005, the FASB issued FASB Interpretation No. ( FIN ) 47, Accounting for Conditional Asset Retirement Obligations an Interpretation of FASB Statement No. 143. This Interpretation clarifies that the term *conditional asset retirement*

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*obligation* as used in SFAS 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The Company is currently assessing the impact FIN 47 may have on its financial position and results of operations.

**(17) SEGMENT INFORMATION**

The Company reports its results for four business segments, Transportation North America, Transportation Europe and ROW, Industrial Energy North America and Industrial Energy Europe and ROW. The Company will continue to evaluate its reporting segments pending future organizational changes that may take place. The Company is a global producer and recycler of lead-acid batteries. The Company's four business segments provide a comprehensive range of stored electrical energy products and services for transportation and industrial applications.

Transportation markets include original-equipment and aftermarket automotive, heavy-duty truck, agricultural and marine applications, and new technologies for hybrid vehicles and 42-volt automotive applications. Industrial markets include batteries for telecommunications systems, electric utilities, railroads, uninterruptible power supply (UPS), lift trucks and other material handling equipment, mining and other commercial vehicles.

The Company's four reportable segments are determined based upon the nature of the markets served and the geographic regions in which they operate. The Company's chief decision-maker monitors and manages the financial performance of these four business groups. Costs of shared services and other corporate costs are not allocated or charged to the business groups.

Certain asset information otherwise required to be disclosed is not reflected below as it is not allocated by segment nor utilized by management in the Company's operations.

Selected financial information concerning the Company's reportable segments is as follows:

	<b>For the Three Months Ended December 31, 2005</b>					
	<b>Transportation</b>		<b>Industrial Energy</b>		<b>Other</b>	<b>Consolidated</b>
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>		
Net sales	\$ 237,650	\$ 219,709	\$ 67,292	\$ 208,791		\$ 733,442
Gross profit	27,184	33,646	14,089	43,914		118,833
Income (loss) before reorganization items, income taxes and minority interest	3,741	12,402	(4,245)	14,343	(49,028)	(22,787)
	<b>For the Three Months Ended December 31, 2004</b>					
	<b>Transportation</b>		<b>Industrial Energy</b>			
	<b>Europe and ROW</b>	<b>Europe and ROW</b>	<b>Europe and ROW</b>	<b>Europe and ROW</b>		

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	<b>North America</b>	<b>ROW</b>	<b>North America</b>	<b>ROW</b>	<b>Other (a)</b>	<b>Consolidated</b>
Net sales	\$ 216,092	\$ 242,694	\$ 55,617	\$ 213,499		\$ 727,902
Gross profit	33,871	38,775	13,661	39,444		125,751
Income (loss) before reorganization items, income taxes and minority Interest	(108,949)	(103,283)	(30,424)	(106,564)	(53,221)	(402,441)

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	<b>Transportation</b>		<b>Industrial Energy</b>		<b>Other (a)</b>	<b>Consolidated</b>
	<b>Europe and</b>		<b>Europe and</b>			
	<b>North America</b>	<b>ROW</b>	<b>North America</b>	<b>ROW</b>		
Net sales	\$ 681,799	\$ 587,054	\$ 207,770	\$ 612,636		\$ 2,089,259
Gross profit	86,580	76,311	41,140	120,911		324,942
Income (loss) before reorganization items, income taxes and minority interest	11,399	15,226	5,118	31,341	(152,432)	(89,348)

**For the Period May 6, 2004 to December 31, 2004**

	<b>Transportation</b>		<b>Industrial Energy</b>		<b>Other (a)</b>	<b>Consolidated</b>
	<b>Europe and</b>		<b>Europe and</b>			
	<b>North America</b>	<b>ROW</b>	<b>North America</b>	<b>ROW</b>		
Net sales	\$ 567,720	\$ 539,080	\$ 141,166	\$ 515,463		\$ 1,763,429
Gross profit	83,984	80,071	32,567	88,940		285,562
Income (loss) before reorganization items, income taxes and minority interest	(99,058)	(95,265)	(24,835)	(103,453)	(63,542)	(386,153)

**For the Period April 1, 2004 to May 5, 2004**

	<b>Transportation</b>		<b>Industrial Energy</b>		<b>Other (a)</b>	<b>Consolidated</b>
	<b>Europe and</b>		<b>Europe and</b>			
	<b>North America</b>	<b>ROW</b>	<b>North America</b>	<b>ROW</b>		
Net sales	\$ 75,299	\$ 58,927	\$ 19,193	\$ 61,188		\$ 214,607
Gross profit	11,121	7,850	4,775	11,724		35,470
Income (loss) before reorganization items, income taxes and minority interest	2,413	691	1,607	1,914	(29,293)	(22,668)

(a) Other includes shared services and corporate expenses, interest expense, net, currency remeasurement losses (gains), and gains on

revaluation of  
Warrants.

- (b) For the three months and nine months ended December 31, 2005, gross profit and income (loss) before reorganization items, income taxes and minority interest for Transportation North America and Industrial Energy North America reflect a change in the allocation of lead costs between the two segments as compared to the prior period. The amounts for Industrial Energy North America would have been higher and Transportation North America lower by \$1,614 and \$4,643, respectively, if the allocation change had not been made.

**(18) STOCK-BASED COMPENSATION PLANS**

The Company has elected to continue to account for its stock-based compensation plans under APB Opinion No. 25, Accounting for Stock Issued to Employees, and disclose pro forma effects of the plans on a net income (loss) and earnings (loss) per share basis as provided by SFAS No. 123, Accounting for Stock-Based Compensation. The Company did not recognize compensation expense with respect to options that had an exercise price equal to the fair market value of the Company's common stock on the date of grant. Had compensation expense for these options been recognized based on fair value at the grant dates under the related provisions of SFAS No. 123, the pro forma net income (loss) and net income (loss) per share would have been as follows:



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	<b>Three Months  Ended December 31, 2005</b>	<b>Three Months  Ended December 31, 2004</b>	<b>Nine Months  Ended December 31, 2005</b>	<b>Period May 6, 2004 to December 31, 2004</b>	<b>Period April 1, 2004 to May 5, 2004</b>
Net income (loss), as reported	\$ (27,658)	\$ (439,040)	\$ (96,390)	\$ (422,514)	\$ 1,748,564
Less: stock based compensation expense determined under the fair value based method	(337)		(810)		(86)
Pro forma, net income (loss)	\$ (27,995)	\$ (439,040)	\$ (97,200)	\$ (422,514)	\$ 1,748,478
Basic and diluted net income (loss) per share					
As reported	\$ (1.11)	\$ (17.56)	\$ (3.86)	\$ (16.90)	\$ 63.86
Pro forma	\$ (1.12)	\$ (17.56)	\$ (3.88)	\$ (16.90)	\$ 63.85

**(19) SUBSEQUENT EVENTS**

On February 1, 2006, the Company obtained amendments to the Credit Agreement which provided \$46,200 of additional borrowings, eliminated scheduled amortization payments during the term of the facility, eliminated most financial covenants, relaxed the covenant related to Adjusted EBITDA, modified covenants for the maximum capital expenditures and leverage ratios for permitted acquisitions, expanded the amount of non-core asset sale proceeds to be retained by the Company and enhanced existing call protection for the lenders as well as extended such call protection to include outstanding amounts of the Company's revolving loan facility.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****(In thousands, except per share data)**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operation and financial condition. The discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto contained in this Report on Form 10-Q.

Some of the statements contained in the following discussion of our financial condition and results of operations refer to future expectations or include other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived from numerous assumptions. See Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995, included in this Report on Form 10-Q and those included in Amendment No. 1 to the Company's Registration Statement on Form S-3 filed with the SEC on September 14, 2005 for risk factors that should be considered when evaluating forward-looking information detailed below. These factors could cause our actual results to differ materially from the forward looking statements. For a discussion of certain legal contingencies, see Note 13 to the condensed consolidated financial statements.



## **Executive Overview**

The Company is a global producer and recycler of lead-acid batteries. The Company's four business segments, Transportation North America, Transportation Europe and ROW, Industrial Energy North America and Industrial Energy Europe and ROW, provide a comprehensive range of stored electrical energy products and services for transportation and industrial applications.

Transportation markets include original-equipment and aftermarket automotive, heavy-duty truck, agricultural and marine applications, and new technologies for hybrid vehicles and 42-volt automotive applications. Industrial markets include batteries for telecommunications systems, electric utilities, railroads, uninterruptible power supply (UPS), lift trucks, mining and other commercial vehicles.

The Company's four reportable segments are determined based upon the nature of the markets served and the geographic regions in which they operate. The Company's chief decision-maker monitors and manages the financial performance of these four business groups. Costs of shared services and other corporate costs are not allocated or charged to the business groups.

## **Factors Which Affect the Company's Financial Performance**

*Lead and other Raw Materials.* Lead is the primary material by weight used in the manufacture of batteries, representing approximately one-third of the Company's cost of goods sold. The market price of lead is subject to fluctuations. Generally, when lead prices decrease, customers may seek disproportionate price reductions from the Company, and when lead prices increase, customers may resist price increases. Both of these situations may cause customer demand for the Company's products to be reduced and the Company's net sales and gross margins to decline. The average of the lead prices quoted on the London Metal

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Exchange ( LME ) increased from \$901.00 (per metric tonne) for the nine months ended December 31, 2004 to \$976.00 for the nine months ended December 31, 2005. At February 3, 2006, the quoted price on the LME was \$1,415.00 per metric tonne. The Company is also experiencing higher costs for other raw materials, including, polypropylene. To the extent that lead remains at current levels and the Company is unable to pass on these higher material costs to its customers, its financial performance is adversely impacted.

*Energy Costs.* The Company relies on various sources of energy to support its manufacturing and distribution process principally natural gas at its smelters and diesel fuel for distribution of its products. The Company seeks to recoup these increased energy costs through surcharges. To the extent the Company is unable to pass on these higher energy costs to its customers, its financial performance is adversely impacted.

*Competition.* The global transportation and industrial energy battery markets, particularly in North America and Europe, are highly competitive. In recent years, competition has continued to intensify and is impacting the Company's ability to pass along increased prices to keep pace with rising production costs. This competition has been exacerbated by excess capacity and fluctuating lead prices as well as low-priced Asian imports impacting our markets.

*Exchange Rates.* The Company is exposed to foreign currency risk in most European countries, principally from fluctuations in the Euro and British Pound. The Company is also exposed, although to a lesser extent, to foreign currency risk in Australia and the Pacific Rim. Movements of exchange rates against the U.S. dollar can result in variations in the U.S. dollar value of non-U.S. sales, expenses, assets and liabilities. In some instances, gains in one currency may be offset by losses in another. Movements in European currencies impacted the Company's results for the periods presented herein. For the nine months ended December 31, 2005, approximately 51% of the Company's net sales were generated in Europe. Further, approximately 61% of the Company's aggregate accounts receivable and inventory as of December 31, 2005 were held by its European subsidiaries.

*Markets.* The Company is subject to concentrations of customers and sales in a few geographic locations and is dependent on customers in certain industries, including the automotive, telecommunications and material handling markets. Economic difficulties experienced in these markets and geographic locations impact the Company's financial results. The Company has adopted a position that it is no longer willing to accept business that provides unacceptable profit margins. Resulting pricing actions have caused and may cause additional customer losses.

*Seasonality and weather.* The Company sells a disproportionate share of its automotive aftermarket batteries during the fall and early winter (the Company's second and third fiscal quarters). Retailers buy automotive batteries during these periods so they will have sufficient inventory for cold weather periods. In addition, many of the Company's industrial battery customers in Europe do not place their battery orders until the end of the calendar year. The impact of seasonality on sales has the effect of increasing the Company's working capital requirements and also makes the Company more sensitive to fluctuations in the availability of liquidity.

Unusually cold winters or hot summers may accelerate battery failure and increase demand for automotive replacement batteries. Mild winters and cool summers may have the opposite effect. As a result, if the Company's sales are reduced by an unusually warm winter or cool summer, it is not possible for the Company to recover these sales in later periods. Further, if the Company's sales are adversely affected by the weather, the Company cannot make offsetting cost reductions to protect its liquidity and gross margins in the short-term because a large portion of the Company's manufacturing and distribution costs are fixed.

*Interest rates.* The Company is exposed to fluctuations in interest rates on its variable rate debt.

**Third Quarter of Fiscal 2006 Highlights and Outlook**

The Company's reported results continued to be impacted in the third quarter of fiscal 2006 by increases in the price of lead and other commodity costs that are primary components in the manufacture of batteries and energy costs used in the manufacturing and distribution of the Company's products.

In the North American market, the Company obtains the vast majority of its lead requirements from six Company-owned and operated secondary lead recycling plants. These facilities reclaim lead by recycling spent lead-acid batteries, which are obtained for recycling from the Company's customers and outside spent-battery collectors. This helps the Company in North America control the cost of its principal raw material as compared to purchasing lead at prevailing market prices. Similar to the rise in lead prices, however, the cost of spent batteries has also increased. For the third quarter of fiscal 2006, the average cost of spent batteries has increased approximately

45% versus the third quarter of fiscal 2005. Therefore, the higher market price of lead with respect to North American manufacturing continues to impact results. The Company continues to take selective pricing actions and attempts to secure higher spent battery return rates to help mitigate these risks.

In Europe, the Company's lead requirements are mainly obtained from third-party suppliers. Because of the Company's exposure to lead market prices in Europe and based on historical price increases and apparent volatility in lead prices, the Company has implemented several measures to offset higher lead prices including selective pricing actions, lead price escalators, lead hedging and entering into long-term lead supply contracts. In addition, the Company has automatic price escalators with many original equipment manufacturer ( OEM ) customers. The Company currently recycles a small portion of its lead requirements in its

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European facilities.

The Company expects that these higher lead and other commodity costs will continue to put pressure on the Company's financial performance. However, the selective pricing actions, lead price escalators in some contracts, lead hedging, long-term lead supply contracts and fuel surcharges are intended to help mitigate these risks. The implementation of selective pricing actions and price escalators generally lags the rise in market prices of lead and other commodities. Both price escalators and fuel surcharges are subject to the risk of customer acceptance.

In addition to managing of the impact of higher lead and other commodity costs on the Company's results, the key elements of the Company's underlying business plans and continued strategies for fiscal 2006 are:

(i) Successful execution and completion of the Company's ongoing restructuring plans, and organizational realignment of divisional and corporate functions resulting in further headcount reductions, principally in selling, general and administrative functions globally.

(ii) Actions to improve the Company's liquidity and operating cash flow through aggressive working capital reduction plans, the sales of non-strategic assets and businesses, streamlining cash management processes, implementing plans to minimize the cash costs of the Company's restructuring initiatives and closely managing capital expenditures.

(iii) Continuing to reduce costs, improve customer service and satisfaction through enhanced quality and reduced lead times. The Company is continuing to drive these strategies through its Take Charge initiative, including a limited engagement as with the principal consultant for maximum transferability of skills and knowledge to ensure sustainability, as well as its EXCELL lean supply chain initiative, improved and focused supplier procurement initiatives across the Company and reductions in salaried headcount and discretionary spending.

### **Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's condensed consolidated financial statements. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes that the critical accounting policies and estimates disclosed in the Company's Annual Report on Form 10-K (the "10-K") for the fiscal year ended March 31, 2005 affect the preparation of its condensed consolidated financial statements. The reader of this report should refer to the 10-K for further information.

Upon emergence from bankruptcy on May 5, 2004, the Company adopted Fresh Start accounting and reporting which resulted in material adjustments to the historical carrying amount of the Company's assets and liabilities. Fresh Start accounting and reporting was applied in accordance with SOP 90-7, which required the Company to allocate the reorganization value to the Company's assets based upon their estimated fair values. Each liability existing at the Plan confirmation date, other than deferred taxes, was stated at present values of amounts to be paid determined at appropriate current interest rates. The fair values of the assets, as determined for Fresh Start reporting, were based on estimates of future cash flows of these assets discounted at appropriate current rates. The Company engaged an independent appraiser to assist in the allocation of the reorganization value and in determining the fair market value of its property and equipment and intangible assets. The determination of the fair values of assets and liabilities was subject to significant estimation and assumption.

The Debtors' emergence from bankruptcy resulted in a new reporting entity, the Successor Company, as of the Effective Date. Consequently, the condensed consolidated financial statements for periods subsequent to the May 5, 2004 are not comparable with those of prior periods. All financial information as of and for all periods prior to May 5, 2004 is presented as pertaining to the Predecessor Company while all financial information after that date is presented as pertaining to the Successor Company. The condensed consolidated statements of operations reflect the results of the reorganization and Fresh Start adjustments in accordance with SOP 90-7 for the period April 1, 2004 to May 5, 2004 as Predecessor Company's information. For purposes of discussion of results of operations below, the period April 1,

2004 through May 5, 2004 (Predecessor Company) has been combined with the period May 6, 2004 through December 31, 2004 (Successor Company).

**Results of Operations**

***Three months ended December 31, 2005 compared with three months ended December 31, 2004***

*Overview*

Net loss for the third quarter of fiscal 2006 was \$27,658 versus the third quarter of fiscal 2005 net loss of \$439,040. Third quarter fiscal 2006 results include restructuring costs of \$6,511, continuing reorganization items in connection with the bankruptcy

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of \$1,311, a \$9,602 net loss on asset sales and a gain on revaluation of Warrants of \$1,750. Third quarter fiscal 2005 results include restructuring costs of \$5,713, reorganization items in connection with the bankruptcy of \$2,236, an income tax charge of \$34,484 primarily related to a change in valuation allowances, gain on revaluation of Warrants of \$5,813 and a goodwill impairment charge of \$399,388. In addition, net currency remeasurement (gain) loss of \$768 and (\$8,630), primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in the third quarter of fiscal 2006 and 2005, respectively. Third quarter of fiscal 2005 included a loss on foreign currency contract of \$16,201.

Net sales were \$733,442 in the third quarter of fiscal 2006 versus \$727,902 in the third quarter of fiscal 2005. Currency negatively impacted net sales in the third quarter of fiscal 2006 by approximately \$35,877. Net sales excluding currency impact were higher as a result of lead and other related pricing actions and higher volumes in the Company's Industrial businesses.

Transportation North America net sales were \$237,650 in the third quarter of fiscal 2006 versus \$216,092 in the third quarter of fiscal 2005. The increase resulted from higher volumes in the Aftermarket and OEM channels as well as the impact of pricing actions.

Transportation Europe and ROW net sales were \$219,709 in the third quarter of fiscal 2006 versus \$242,694 in the third quarter of fiscal 2005. Net sales for the quarter were adversely affected by \$18,330 of net foreign exchange rate fluctuations and by lower aftermarket channel volumes resulting from continued competitive activities partially offset by higher OEM channel volume.

Industrial Energy North America net sales in the third quarter of fiscal 2006 were \$67,292 versus \$55,617 in the third quarter of fiscal 2005. The increase was primarily attributable to volume growth and lead related and other pricing actions, and was partially offset by the recognition (in the third quarter of fiscal 2005) of approximately \$3,000 of previously deferred income on a customer agreement under which the contract ended and the Company fulfilled its obligation.

Industrial Energy Europe and ROW net sales in the third quarter of fiscal 2006 were \$208,791 versus \$213,499 in the third quarter of fiscal 2005. Currency negatively impacted net sales in the third quarter of fiscal 2006 by approximately \$17,547. Sales increased slightly on a local currency basis due to higher volumes and favorable pricing, but declined in USD due to an approximate 8% decline in the Euro in the third quarter of fiscal 2006 versus the third quarter of fiscal 2005.

*Gross Profit*

Gross profit was \$118,833 or 16% of net sales in the third quarter of fiscal 2006 versus \$125,751 or 17% of net sales in the third quarter of fiscal 2005. Currency negatively impacted gross profit in the third quarter of fiscal 2006 by approximately \$6,530. Gross profit in each of the Company's business segments was negatively impacted by higher lead costs and other commodity costs only partially recovered by higher average selling prices.

Transportation North America gross profit was \$27,184 or 11% of net sales in the third quarter of fiscal 2006 versus \$33,871 or 16% of net sales in the third quarter of fiscal 2005. The effect of higher raw material and logistics costs associated with freight were partially offset by higher average selling prices and a favorable change of approximately \$1,614 in the allocation of lead costs between Transportation North America and Industrial Energy North America.

Transportation Europe and ROW gross profit was \$33,646 or 15% of net sales in the third quarter of fiscal 2006 versus \$38,775 or 16% of net sales in the third quarter of fiscal 2005. Currency negatively impacted gross profit in the third quarter of fiscal 2006 by approximately \$2,832. The remainder of the decrease in the quarter was primarily due to lower sales volumes exacerbated by higher raw material costs partially offset by the benefit of increased productivity and other efficiencies.

Industrial Energy North America gross profit was \$14,089 or 21% of net sales in the third quarter of fiscal 2006 versus \$13,661 or 25% of net sales in the third quarter of fiscal 2005. Gross profit was higher primarily due to higher sales volume, partially offset by higher lead and other commodity costs not fully recovered through price increases, an unfavorable change of approximately \$1,614 in the allocation of lead costs between Transportation North America and Industrial Energy North America, and previously deferred income on a customer agreement under which the Company fulfilled its obligations in the third quarter of fiscal 2005.

Industrial Energy Europe and ROW gross profit was \$43,914 or 21% of net sales in the third quarter of fiscal 2006 versus \$39,444 or 18% of net sales in the third quarter of fiscal 2005. Currency negatively impacted Industrial Energy Europe and ROW gross profit in the third quarter of fiscal 2006 by approximately \$3,698. Gross profit was positively impacted by price increases, higher volume, and expanded military sales, partially offset by higher lead and other commodity costs.

*Expenses*

Expenses were \$141,620 in the third quarter of fiscal 2006 versus \$528,192 in the third quarter of fiscal 2005. The third quarter fiscal 2005 was negatively impacted by the impairment of goodwill in the amount of \$399,388. Expenses included restructuring charges of \$6,511 in the third quarter of fiscal 2006 and \$5,713 in the third quarter of fiscal 2005. Foreign currencies favorably impacted expenses by approximately \$2,293 in the third quarter of fiscal 2006. The change in expenses was attributable to the

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following matters: (i) third quarter fiscal 2005 included a loss on revaluation of foreign currency forward contract of \$16,201; (ii) interest, net increased \$6,676 principally due to higher interest rates and higher debt levels; (iii) fiscal 2006 and fiscal 2005 third quarter expenses included currency remeasurement loss (gain) of \$768 and (\$8,630), respectively, included in Other (income) expense, net; (iv) third quarter fiscal 2006 and 2005 expenses include gain on revaluation of Warrants of \$1,750 and \$5,813, included in Other (income) expense, net; and (v) third quarter fiscal 2006 and 2005 expenses include loss on sale of assets of \$9,602 and \$1,216, included in other (income) expense, net. The third quarter of fiscal 2005 was negatively impacted by a charge for the impairment of goodwill in the amount of \$399,388.

Transportation North America expenses were \$23,443 in the third quarter of fiscal 2006 versus \$142,820 in the third quarter of fiscal 2005. Expenses in the third quarter of last year were \$20,759 before a goodwill impairment charge of \$122,061. The increase in expenses before goodwill impairment was due mainly to increased branch distribution costs associated with higher volumes and increased cost of fuel.

Transportation Europe and ROW expenses were \$21,244 in the third quarter of fiscal 2006 versus \$142,058 in the third quarter of fiscal 2005. Expenses in the third quarter of fiscal 2005 were \$24,486 before a goodwill impairment charge of \$117,572. The decrease in expenses before goodwill impairment was due mainly to lower selling and marketing costs, lower headcount and a general reduction in other administrative expenses.

Industrial Energy North America expenses were \$18,334 in the third quarter of fiscal 2006 versus \$44,085 in the third quarter of fiscal 2005. Expenses in the third quarter of fiscal 2005 were \$6,701 before a goodwill impairment charge of \$37,384. The increase in expenses before goodwill impairment was due mainly to approximately \$10,100 of restructuring and impairment charges associated with closing a manufacturing facility in Kankakee, Illinois during the third quarter of fiscal 2006.

Industrial Energy Europe and ROW expenses were \$29,571 in the third quarter of fiscal 2006 versus \$146,008 in the third quarter of fiscal 2005. Currency favorably impacted Industrial Energy Europe and ROW expenses in the third quarter of fiscal 2006 by approximately \$2,534. Expenses in the third quarter of fiscal 2005 were \$23,637 before a goodwill impairment charge of \$122,371. The increase in expenses before goodwill impairment is due to higher selling, marketing and administrative expenses associated with higher volumes.

Unallocated expenses, net, which include shared service and corporate expenses, interest expense, currency remeasurement losses (gains), and gain on revaluation of Warrants, were \$49,028 in the third quarter of fiscal 2006 versus \$53,221 in the third quarter of fiscal 2005. Fiscal 2006 and 2005 third quarter expenses included a gain on revaluation of Warrants of \$1,750 and \$5,813, respectively. Fiscal 2006 and 2005 third quarter expenses also included currency remeasurement loss (gain) of \$768 and (\$8,630), respectively. The third quarter of fiscal 2005 included a \$16,201 loss on revaluation of foreign currency forward contract. Corporate expenses were \$31,606 and \$39,735 in the third quarters of fiscal 2006 and fiscal 2005, respectively. This decrease was primarily due to the Company's cost reduction programs partially offset by costs associated with Sarbanes-Oxley startup costs and corporate severance costs in fiscal year 2005. Interest expense, net was \$18,404 in the third quarter of fiscal 2006 versus \$11,728 in the third quarter of fiscal 2005. The increase is principally due to higher debt and interest cost levels.

Loss before reorganization items, income taxes, and minority interest was \$22,787, or 3% of net sales in the third quarter of fiscal 2006 versus \$402,441, or 55% of net sales in the third quarter of fiscal 2005, due to the items discussed above.

Transportation North America income (loss) before reorganization items, income taxes, and minority interest was \$3,741, or 2% of net sales in the third quarter of fiscal 2006 versus (\$108,949) or (50%) of net sales in the third quarter of fiscal 2005, due to the items discussed above. The third quarter of fiscal 2005 included a goodwill impairment charge of \$122,061.

Transportation Europe and ROW income (loss) before reorganization items, income taxes, and minority interest was \$12,402, or 6% of net sales in the third quarter of fiscal 2006 versus (\$103,283), or 42% of net sales in the third quarter of fiscal 2005, due to the items discussed above. The third quarter of fiscal 2005 included a goodwill impairment charge of \$117,572.

Industrial Energy North America income (loss) before reorganization items, income taxes, and minority interest was (\$4,245) or (6%) of net sales in the third quarter of fiscal 2006 versus (\$30,424), or (55%) of net sales in the third



quarter of fiscal 2005, due to the items discussed above. The third quarter of fiscal 2005 included a goodwill impairment charge of \$37,384.

Industrial Energy Europe and ROW income (loss) before reorganization items, income taxes, and minority interest was \$14,343, or 7% of net sales in the third quarter of fiscal 2006 versus (\$106,564), or (50%) of net sales in the third quarter of fiscal 2005, due to the items discussed above. The third quarter of fiscal 2005 included a goodwill impairment charge of \$122,371.

*Reorganization items*

Reorganization items, net, represent amounts the Company incurred and continues to incur as a result of the Chapter 11 filing. See Note 4 to the condensed consolidated financial statements.

**Table of Contents***Income Taxes*

In the third quarter of fiscal 2006, the Company recorded income tax expense of \$3,528 on a pre-tax loss of \$24,098. In the third quarter of fiscal 2005, income tax expense of \$34,484 was recorded on a pre-tax loss of \$404,677. The effective tax rate was (15.1%) and (8.5%) in the third quarter of fiscal 2006 and 2005, respectively. The effective tax rate for the third quarters of fiscal 2006 and fiscal 2005 were impacted by the generation of income in tax-paying jurisdictions, principally northern Europe, Australia and Canada, substantially offset on a consolidated basis as a result of recognition of valuation allowances on tax benefits generated from current period losses in the U.S., France, Italy and the United Kingdom.

**Nine months ended December 31, 2005 compared with nine months ended December 31, 2004***Overview*

Net loss for the first nine months of fiscal 2006 was \$96,390 versus the first nine months of fiscal 2005 net income of \$1,326,050. First nine months fiscal 2006 results include restructuring costs of \$16,051, continuing reorganization items in connection with the bankruptcy of \$4,398, net currency remeasurement loss of \$12,721, net loss on asset sales of \$12,270, and a gain on revaluation of Warrants of \$9,500. First nine months fiscal 2005 results include a \$399,388 goodwill impairment charge, restructuring costs of \$13,588, reorganization items in connection with the bankruptcy of \$24,088, gain on discharge of liabilities subject to compromise of \$1,558,839, gain on revaluation of Warrants of \$61,488, income tax charge of \$28,300 primarily resulting from change in valuation allowance and gain on Fresh Start accounting adjustments of \$228,371. In addition, net currency remeasurement gain of \$3,039 and revaluation of foreign currency contract of \$21,845, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in the first nine months of fiscal 2005.

*Net Sales*

Net sales were \$2,089,259 in the first nine months of fiscal 2006 versus \$1,978,036 in the first nine months of fiscal 2005. Currency negatively impacted net sales in the first nine months of fiscal 2006 by approximately \$16,115. Net sales excluding currency impact were higher as a result of lead and other related pricing actions and higher volumes in the Company's Industrial businesses and Transportation North America.

Transportation North America net sales were \$681,799 in the first nine months of fiscal 2006 versus \$643,019 in the first nine months of fiscal 2005. The increase resulted from higher sales volumes and the continued favorable impact of pricing actions.

Transportation Europe and ROW net sales were \$587,054 in the first nine months of fiscal 2006 versus \$598,007 in the first nine months of fiscal 2005. Currency negatively impacted net sales in the first nine months of fiscal 2006 by approximately \$8,606. Net sales for the first nine months of fiscal 2006 were lower than the first nine months of fiscal 2005 due to unfavorable market channel mix and lower volumes.

Industrial Energy North America net sales in the first nine months of fiscal 2006 were \$207,770 versus \$160,359 in the first nine months of fiscal 2005. The increase was primarily attributable to volume growth and lead related and other pricing actions, partially offset by the recognition (in the first nine months of fiscal 2005) of approximately \$3,000 of previously deferred income on a customer agreement under which the contract ended and the Company fulfilled its obligation.

Industrial Energy Europe and ROW net sales in the first nine months of fiscal 2006 were \$612,636 versus \$576,651 in the first nine months of fiscal 2005. Currency negatively impacted net sales in the first nine months of fiscal 2006 by approximately \$7,509. The increase was primarily due to higher volumes and higher average selling prices due to lead and other related pricing actions, partially offset by competitive pricing pressures in the OEM and aftermarket channels.

*Gross Profit*

Gross profit was \$324,942 or 16% of net sales in the first nine months of fiscal 2006 versus \$321,032 or 16% of net sales in the first nine months of fiscal 2005. Currency negatively impacted gross profit in the first nine months of fiscal 2006 by approximately \$3,223. Gross profit increased due to higher volumes partially offset by higher lead costs (average LME prices were \$976.00 per metric tonne in the first nine months of fiscal 2006 versus \$901.00 per metric tonne in the first nine months of fiscal 2005), and increases in other commodity costs only partially recovered by higher average selling prices.

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Transportation North America gross profit was \$86,580 or 13% of net sales in the first nine months of fiscal 2006 versus \$95,105 or 15% of net sales in the first nine months of fiscal 2005. The effect of higher lead and other commodity costs continued to affect margins and was partially offset by higher average selling prices and a favorable change of approximately \$4,643 in the allocation of lead costs between Transportation North America and Industrial Energy North America.

Transportation Europe and ROW gross profit was \$76,311, or 13% of net sales in the first nine months of fiscal 2006 versus \$87,921 or 15% of net sales in the first nine months of fiscal 2005. Currency negatively impacted gross profit in the first nine months of fiscal 2006 by approximately \$1,506. The decrease was primarily due to lower sales volumes and higher lead and other

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commodity costs.

Industrial Energy North America gross profit was \$41,140 or 20% of net sales in the first nine months of fiscal 2006 versus \$37,342 or 23% of net sales in the first nine months of fiscal 2005. Gross profit was higher primarily due to higher sales volume, partially offset by higher lead and other commodity costs not fully recovered through price increases, an unfavorable change of approximately \$4,643 in the allocation of lead costs between Transportation North America and Industrial Energy North America, and previously deferred income on a customer agreement under which the Company fulfilled its obligations in the third quarter of fiscal 2005. Product mix also negatively impacted gross margin.

Industrial Energy Europe and ROW gross profit was \$120,911 or 20% of net sales in the first nine months of fiscal 2006 versus \$100,664 or 18% of net sales in the first nine months of fiscal 2005. Currency positively impacted Industrial Energy Europe and ROW gross profit in the first nine months of fiscal 2006 by approximately \$1,717. Gross profit was positively impacted by price increases, higher volume, and expanded military sales, partially offset by higher lead and other commodity costs.

*Expenses*

Expenses were \$414,290 in the first nine months of fiscal 2006 versus \$729,853 in the first nine months of fiscal 2005. Expenses for the first nine months of fiscal 2005 included goodwill impairment of \$399,388. Expenses included restructuring charges of \$16,051 in the first nine months of fiscal 2006 and \$13,588 in the first nine months of fiscal 2005. Stronger foreign currencies favorably impacted expenses by approximately \$1,028 in the first nine months of fiscal 2006. The change in expenses was impacted by the following matters: (i) first nine months fiscal 2006 selling, marketing and advertising costs and general and administration costs were unfavorably impacted by recruiting costs, relocation costs, professional fees, and costs for Sarbanes-Oxley efforts; (ii) interest, net increased \$13,128 principally due to higher debt and interest levels; (iii) fiscal 2006 and fiscal 2005 first nine months expenses included currency remeasurement loss (gain) of \$12,721 and (\$3,039), respectively, included in Other (income) expense, net; (iv) first nine months fiscal 2006 and 2005 expenses include gains on revaluation of Warrants of \$9,500 and \$61,488, respectively, included in Other (income) expense, net and (v) nine months of fiscal 2005 include recognition of \$7,500 insurance recoveries included in other (income) expense, net; (vi) nine months of fiscal 2006 include \$12,270 of net loss on asset sales; and (vii) nine months of fiscal 2005 include \$21,845 of loss on foreign currency forward contract.

Transportation North America expenses were \$75,181 in the first nine months of fiscal 2006 versus \$191,750 in the first nine months of fiscal 2005. Expenses in the first nine months of fiscal 2005 were \$72,235 before a goodwill impairment charge of \$122,061. The increase in expenses was primarily due to higher branch operating costs partially offset by an improvement in customer collection of previously aged accounts receivable reducing current period bad debt costs.

Transportation Europe and ROW expenses were \$61,085 in the first nine months of fiscal 2006 versus \$182,495 in the first nine months of fiscal 2005. Currency favorably impacted Transportation Europe and ROW expenses in the first nine months of fiscal 2006 by approximately \$585. Expenses in the first nine months of fiscal 2005 were \$64,923 before a goodwill impairment charge of \$117,572. The decrease in expenses before goodwill impairment was due mainly to lower selling, and general and administrative costs.

Industrial Energy North America expenses were \$36,022 in the first nine months of fiscal 2006 versus \$60,570 in the first nine months of fiscal 2005. Expenses in the first nine months of fiscal 2005 were \$23,186 before a goodwill impairment charge of \$37,384. The increase in expenses before goodwill impairment was due mainly to approximately \$10,100 of restructuring and impairment charges associated with closing a manufacturing facility in Kankakee, Illinois during the third quarter of fiscal 2006.

Industrial Energy Europe and ROW expenses were \$89,570 in the first nine months of fiscal 2006 versus \$202,203 in the first nine months of fiscal 2005. Currency favorably impacted Industrial Energy Europe and ROW expenses in the first nine months of fiscal 2006 by approximately \$1,125. Expenses in the first nine months of fiscal 2005 were \$79,832 before a goodwill impairment charge of \$122,371. The increase in expenses before goodwill impairment was due mainly to the receipt of business interruption insurance proceeds of \$7,500 in fiscal 2005.

Unallocated expenses, net, which include shared service and corporate expenses, interest expense, currency remeasurement losses (gains), and gain on revaluation of Warrants, were \$152,432 in the first nine months of fiscal

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2006 versus \$92,835 in the first nine months of fiscal 2005. Fiscal 2006 and 2005 first nine months expenses included gains on revaluation of Warrants of \$9,500 and \$61,488, respectively. Fiscal 2005 expenses included a loss on revaluation of a foreign currency forward contract of \$21,845. Fiscal 2006 and 2005 first nine months expenses included currency remeasurement loss (gain) of \$12,721 and (\$3,039), respectively. Corporate expenses were \$98,048 and \$97,482 in the first nine months of fiscal 2006 and fiscal 2005, respectively. Interest expense, net was \$51,163 in the first nine months of fiscal 2006 versus \$38,035 in the first nine months of fiscal 2005. The increase is principally due to higher debt and interest levels.

Loss before reorganization items, income taxes, and minority interest was \$89,348, or 4% of net sales in the first nine months of fiscal 2006 versus \$408,821 or 21% of net sales in the first nine months of fiscal 2005, due to the items discussed above.

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Transportation North America income (loss) before reorganization items, income taxes, and minority interest was \$11,399, or 2% of net sales in the first nine months of fiscal 2006 versus (\$96,645) or (15%) of net sales in the first nine months of fiscal 2005, due to the items discussed above. The first nine months of fiscal 2005 included a goodwill impairment charge of \$122,061.

Transportation Europe and ROW income (loss) before reorganization items, income taxes, and minority interest was \$15,226 or 3% of net sales in the first nine months of fiscal 2006 versus (\$94,574) or (16%) of net sales in the first nine months of fiscal 2005, due to the items discussed above. The first nine months of fiscal 2005 included a goodwill impairment charge of \$117,572.

Industrial Energy North America income (loss) before reorganization items, income taxes, and minority interest was \$5,118, or 3% of net sales in the first nine months of fiscal 2006 versus (\$23,228) or (14%) of net sales in the first nine months of fiscal 2005, due to the items discussed above. The first nine months of fiscal 2005 included a goodwill impairment charge of \$37,384.

Industrial Energy Europe and ROW income (loss) before reorganization items, income taxes, and minority interest was \$31,341, or 5% of net sales in the first nine months of fiscal 2006 versus (\$101,539), or (18%) of net sales in the first nine months of fiscal 2005, due to the items discussed above. The first nine months of fiscal 2005 included a goodwill impairment charge of \$122,371.

*Reorganization items*

Reorganization items, net, represent amounts the Company incurred as a result of the Chapter 11 filing.

*Gain on discharge of liabilities subject to compromise*

In the first nine months of fiscal 2005, the Company recognized a \$1,558,839 gain on discharge of liabilities subject to compromise.

*Fresh Start accounting adjustments, net*

In the first nine months of fiscal 2005, as a result of our adoption of Fresh Start accounting, upon consummation of the Plan, the Company recorded certain adjustments to assets and liabilities to reflect their fair values. The Fresh Start adjustments resulted in a gain of \$228,371.

*Income Taxes*

In the first nine months of fiscal 2006, the Company recorded income tax expense of \$2,572 on a pre-tax loss of \$89,348. In the first nine months of fiscal 2005, income tax expense of \$28,300 was recorded on pre-tax income of \$1,354,301. The effective tax rate (3%) and 2% in the first nine months of fiscal 2006 and 2005, respectively. The effective tax rate for the first nine months of fiscal 2006 and fiscal 2005 was impacted by the generation of income in tax-paying jurisdictions, principally northern Europe, Australia and Canada, substantially offset on a consolidated basis as a result of recognition of valuation allowances on tax benefits generated from current period losses in the U.S., France, Italy and the United Kingdom. The effective tax rate for the nine months of fiscal 2005 was impacted by the gain on discharge of liabilities subject to compromise of \$1,558,839, which is exempt from tax in the United States, the non-taxable gain on Fresh Start accounting adjustments of \$228,371 and the non-deductibility of the \$399,388 goodwill impairment charge. The effective tax rate for the nine months of fiscal 2005 was also impacted by the recognition of \$34,500 valuation allowances on tax benefits generated from current year and prior year losses and certain deductible temporary differences in France based on the Company's assessment that it is more likely than not that the related tax benefits will now not be realized.

**Liquidity and Capital Resources**

As of December 31, 2005, the Company had cash and cash equivalents of \$36,872 and availability under the Revolving Loan Facility of \$12,147 as compared to cash and cash equivalents of \$76,696 and availability under the Revolving Loan Facility of \$68,814 at March 31, 2005. On February 3, 2006, total liquidity was approximately \$71,200, consisting of availability under the revolving term loan facility of \$27,500 and an estimated \$43,700 in cash and cash equivalents. It should be noted that cash and cash equivalents fluctuate substantially on a daily basis due in part to the timing of account receivable collections, and is subject to reconciliation of the Company's numerous global accounts.

On May 5, 2004, the Company entered into a \$600,000 Senior Secured Credit Agreement which included a \$500,000 Multi-Currency Term Loan Facility and a \$100,000 Multi-Currency Revolving Loan Facility including a

letter of credit sub-facility of up to \$40,000. The Credit Agreement is the Company's most important source of liquidity outside of its cash flows from operations. The Revolving Loan Facility matures on May 5, 2009, while the Term Loan Facility, which includes quarterly principal payments beginning in September 2005, matures on May 5, 2010. The Term Loan Facility and Revolving Loan Facility bear interest at LIBOR plus 5.25% per annum. Credit Agreement borrowings are guaranteed by substantially all of the subsidiaries of the Company and are secured by substantially all of the assets of the Company and the subsidiary guarantors.

The Credit Agreement requires the Company to comply with financial covenants, including a minimum consolidated earnings

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before interest, taxes, depreciation, amortization and restructuring ( Adjusted EBITDA ) covenant and a leverage ratio of consolidated debt to Adjusted EBITDA for the relevant periods. The Credit Agreement provides for different required covenant amounts and ratios for different periods. The Credit Agreement also contains other customary covenants, including reporting covenants and covenants that restrict the Company's ability to incur indebtedness, create or incur liens, sell or dispose of assets, make investments, pay dividends, change the nature of the Company's business or enter into related party transactions.

On February 1, 2006, the Company obtained amendments to the Credit Agreement which provided \$46,200 of additional borrowings, eliminated scheduled amortization payments during the term of the facility, eliminated most financial covenants, relaxed the covenant related to Adjusted EBITDA, modified covenants for the maximum capital expenditures and leverage ratios for permitted acquisitions, expanded the amount of non-core asset sale proceeds to be retained by the Company and enhanced existing call protection for the lenders as well as extended such call protection to include outstanding amounts of the Company's revolving loan facility.

As of February 9, 2006, the Company believes, based upon its financial forecasts and plans, that it will comply with the Credit Agreement covenants for at least through December 31, 2006. It should be noted, however, that in the past management has had difficulty in accurately predicting the Company's performance and covenant compliance. This uncertainty with respect to the Company's ability to maintain compliance with its financial covenants throughout fiscal 2006 resulted in the Company's receiving a going concern modification to the audit opinion for fiscal 2005, and the Company cannot be certain that a going concern modification will not be issued for fiscal 2006. Failure to comply with the Credit Agreement covenants, without waiver, would result in further defaults under the Credit Agreement. Should the Company be in default, it is not permitted to borrow under the Credit Agreement, which would have a very negative effect on liquidity. Although the Company has been able to obtain waivers of prior defaults, there can be no assurance that it can do so in the future or, if it can, what the cost and terms of obtaining such waivers would be. Future defaults would, if not waived, allow the Credit Agreement lenders to accelerate the loans and declare all amounts due and payable. Any such acceleration would also result in a default under the Indentures for the Company's notes and their potential acceleration.

Risks and uncertainties could cause the Company's performance to differ from management's estimates. As discussed above under Factors Which Affect the Company's Financial Performance Seasonality and weather, the Company's business is seasonal. During late summer and fall (second and third quarters), the Company builds inventory in anticipation of increased sales in the winter months. This inventory build increases the Company's working capital needs. During these quarters, because working capital needs are already high, unexpected costs or increases in costs beyond predicted levels would place a strain on the Company's liquidity and impact its ability to comply with its financial covenants.

In March 2005, the Company issued \$290,000 in aggregate principal amount of 10.5% Senior Secured Notes due 2013. Interest is payable semi-annually on March 15 and September 15 for approximately \$15,225. The 10.5% Senior Secured Notes are redeemable at the option of the Company, in whole or in part, on or after March 15, 2009, initially at 105.25% of the principal amount, plus accrued interest, declining to 100% of the principal amount, plus accrued interest on or after March 15, 2011. The 10.5% Senior Secured Notes are redeemable at the option of the Company, in whole or in part, subject to payment of a make whole premium, at any time prior to March 15, 2009. In addition, until May 15, 2008, up to 35% of the 10.5% Senior Secured Notes are redeemable at the option of the Company, using the net proceeds of one or more qualified equity offerings. In the event of a change of control or the sale of certain assets, the Company may be required to offer to purchase the 10.5% Senior Secured Notes from the note holders. Those notes are secured by a junior priority lien on the assets of the U.S. parent company, including the stock of its subsidiaries. The Indenture for these notes contains financial covenants which limit the ability of the Company and its subsidiaries to among other things incur debt, grant liens, pay dividends, invest in non-subidiaries, engage in related party transactions and sell assets. Under the Indenture, proceeds from asset sales (to the extent in excess of a \$5,000 threshold) must be applied to offer to repurchase notes to the extent such proceeds exceed \$20,000 in the aggregate and are not applied within 365 days to retire Credit Agreement borrowings or the Company's pension contribution obligations that are secured by a first priority lien on the Company's assets or to make investments or capital expenditures.



Also, in March 2005, the Company issued Floating Rate Convertible Senior Subordinated Notes due September 18, 2013, with an aggregate principal amount of \$60,000. These notes bear interest at a per annum rate equal to the 3-month LIBOR, adjusted quarterly, minus a spread of 1.5%. Interest is payable quarterly. The notes are convertible into the Company's common stock at a conversion rate of 57.5705 shares per \$1 principal amount, subject to adjustments in certain events, and in the event of a change in control, the Company is required to offer to repurchase such notes.

At December 31, 2005, the Company had outstanding letters of credit with a face value of \$43,908 and surety bonds with a face value of \$30,099. The majority of the letters of credit and surety bonds have been issued as collateral or financial assurance with respect to certain liabilities the Company has recorded, including but not limited to environmental remediation obligations and self-insured workers compensation reserves. Failure of the Company to satisfy its obligations with respect to the primary obligations secured by the letters of credit or surety bonds could entitle the beneficiary of the related letter of credit or surety bond to demand payments pursuant to such instruments. The letters of credit generally have terms up to one year. The Company expects limited

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availability of new surety bonds from traditional sources, which could impact the Company's liquidity needs in future periods. Pursuant to authorization from the Bankruptcy Court, the Company reached agreement with the surety to maintain its current surety bonds through July 31, 2006. Collateral held by the surety in the form of letters of credit at December 31, 2005, pursuant to the terms of the agreement, was \$30,088.

*Sources of Cash*

The Company's liquidity requirements have been met historically through operations, borrowed funds and the proceeds of sales of accounts receivable and sale-leaseback transactions. Additional cash has been generated in recent years from the sale of non-core businesses and assets.

The Company generated \$19,657 and \$23,762 in cash from the sale of non-core businesses and other assets during the nine months ended December 31, 2005 and 2004, respectively. The asset sales in both fiscal 2006 and fiscal 2005 principally relate to the sale of surplus land and buildings.

Cash flows provided by financing activities were \$25,156 and \$35,885 during the nine months ended December 31, 2005 and 2004, respectively. Cash flows provided by financing activities in fiscal 2006 relate to an increase in short term borrowings and drawings on the Revolving Loan Facility, partially offset by the Company's settlement of a foreign currency forward contract with a maturity of May 9, 2005 requiring a cash payment of \$12,084. Cash flows provided by financing activities in fiscal 2005 relate primarily to net borrowings from the Credit Agreement net of refinancing of the Predecessor Company's Replacement DIP Credit Facility and repayment of the 9.125% Senior Notes, offset by financing costs incurred in conjunction with the Credit Agreement.

Going forward, the Company's principal sources of liquidity will be cash from operations, borrowings under the Credit Agreement and proceeds from certain asset sales. The Credit Agreement requires that 50% of the proceeds from asset sales be mandatorily applied to pay down outstanding amounts under the Term Loans, except for an amount up to \$30,000 of proceeds from the sale of certain assets identified in the February 1, 2006 amendment to the Credit Agreement, of which the Company can retain 100% of such proceeds.

*Uses of Cash*

The Company's liquidity outflows arise primarily from the funding of working capital needs, obligations on indebtedness, capital expenditures and restructuring initiatives. Greatest cash demands from operations have historically occurred during the months of June through October.

Cash used in operating activities during the nine months ended December 31, 2005 and 2004 amounted to \$51,530 and \$20,834, respectively. Comparative cash flows were negatively impacted by the effect of higher lead and other commodity costs and the resultant impact upon the Company's working capital requirements. Cash flows for both periods included restructuring costs and professional fees associated with the Company's reorganization. Historically during late summer and fall (second and third quarters), the Company builds inventory in anticipation of increased sales in the winter months. This inventory build increases the Company's working capital needs.

The Company expects that it will have ongoing liquidity needs to support its operational restructuring programs during fiscal 2006 and fiscal 2007, including payment of remaining accrued restructuring costs of approximately \$16,861 as of December 31, 2005. The Company's ability to successfully implement these restructuring strategies on a timely basis may be impacted by its access to sources and availability of liquidity.

Cash contributions to the Company's pension plans are generally made in accordance with minimum regulatory requirements. Because of the past downturn experienced in global equity markets and ongoing benefit payments, the Company's plans are currently significantly under-funded. Based on current assumptions and regulatory requirements, the Company's minimum future cash contribution requirements for its plans are expected to increase significantly in future fiscal years. The Company has received from the Internal Revenue Service (the "IRS") a temporary waiver of its minimum funding requirements for its North American plans for calendar years 2003 and 2004, amounting to approximately \$50,000, net and has granted to the Pension Benefit Guaranty Corporation a second priority lien on domestic personal property, including stock of its U.S. and direct foreign subsidiaries, to secure the unfunded liability. The temporary waiver defers the Company's minimum contributions for 2003 and 2004 and allows such contributions to be paid over a subsequent five-year period through 2010. Based upon the temporary waiver, the Company expects its minimum future aggregate cash contributions to its pension plans from fiscal 2006 through fiscal 2010 will total approximately \$210,000 to \$230,000, including \$32,500 in fiscal 2006. As of December 31, 2005, \$24,600 of the

required fiscal 2006 contributions of \$32,500 have been paid.

Prior to and during the Company's Chapter 11 proceeding, the Company experienced a tightening of trade credit availability and terms. The Company has not obtained any significant improvement in trade credit terms since its emergence. The Company's going-concern modification to the audit opinion for fiscal 2005 could result in further tightening of its trade credit. Although the Company does not believe such tightening had a significant impact during the quarter ended December 31, 2005, the Company

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estimates that available liquidity was reduced by approximately \$9,000 as a result of changes in trade terms.

Capital expenditures were \$37,861 and \$51,729 during the nine months ended December 31, 2005 and 2004, respectively.

**Financial Instruments and Market Risk**

From time to time, the Company uses forward contracts to economically hedge certain currency exposures and certain lead purchasing requirements. The forward contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not apply hedge accounting to such commodity contracts as prescribed by SFAS 133. The Company expects that it may increase the use of financial instruments, including fixed and variable rate debt as well as swap, forward and option contracts to finance its operations and to hedge interest rate, currency and certain lead purchasing requirements in the future. The swap, forward, and option contracts would be entered into for periods consistent with related underlying exposures and would not constitute positions independent of those exposures. The Company has not, and does not intend to enter into contracts for speculative purposes nor be a party to any leveraged instruments.

The Company's ability to utilize financial instruments may be restricted because of tightening, and/or elimination of credit availability with counter-parties. If the Company is unable to utilize such instruments, the Company may be exposed to greater risk with respect to its ability to manage exposures to fluctuations in foreign currencies, interest rates, and lead prices.

**Accounts Receivable Factoring Arrangements**

In the ordinary course of business, the Company utilizes accounts receivable factoring arrangements in countries where programs of this type are typical. Under these arrangements, the Company may sell certain of its trade accounts receivable to financial institutions. The arrangements in virtually all cases, do not contain recourse provisions against the Company for its customers' failure to pay. The Company sold approximately \$35,080 million and \$0 million of foreign currency trade accounts receivable as of December 31, 2005 and March 31, 2005, respectively. Changes in the level of receivables sold from year to year are included in the change in accounts receivable within cash flow from operations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risks**

Changes to the quantitative and qualitative market risks as of December 31, 2005 are described in Item 2 above, Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources. Also, see the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005 for further information.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and acting chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of senior management, including the chief executive officer and the acting chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based upon, and as of the date of this evaluation, the chief executive officer and the acting chief financial officer concluded that our disclosure controls and procedures were not effective, because of the material weaknesses discussed below. In light of the material weaknesses described within the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the

periods presented.

The certifications of our principal executive officer and acting principal financial officer required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 are attached as exhibits to this Quarterly Report on Form 10-Q. The disclosures set forth in this Item 4 contain information concerning the evaluation of our disclosure controls and procedures, internal control over financial reporting and changes in internal control over financial reporting referred to in those certifications. Those certifications should be read in conjunction with this Item 4 for a more complete understanding of the matters covered by the certifications.

**Changes in Internal Control Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our 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. Because of its inherent limitations, internal

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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 connection with its evaluation of the effectiveness of the Company's internal control over financial reporting as of March 31, 2005, management of the Company identified material weaknesses with respect to controls over period-end account reconciliations, reviews and analysis and controls over period-end accounting for income taxes. These material weaknesses are described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005.

With the exception of the remediation actions described below, there have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2005 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. Our management has discussed the material weaknesses described in our Annual Report and other deficiencies with our audit committee. In an effort to remediate the identified material weaknesses and other deficiencies, we continue to implement a number of changes to our internal control over financial reporting including the following:

We are enhancing established policies and procedures for accounting review of month-end close, account reconciliation processes, journal entries, write-offs, restructuring related entries, impairment reviews and tax related entries. These policies and procedures among many others have been codified in a Global Financial Manual that was rolled out in early November, 2005, and;

We have taken steps to reduce the complexity of our consolidation processes, including push-down of responsibility for current consolidation activities to the appropriate levels in the organization.

Additionally, in response to the material weaknesses identified in our Annual Report, we are proceeding with additional remedial measures, including, but not limited to the following:

Improving our documentation and training related to policies and procedures for the controls related to our significant accounts and processes;

We have finalized an update of our documentation of key controls in most major operating locations of the Company and expect to complete this process early in the fourth fiscal quarter.

Detailed testing of compliance with identified key controls has been carried out throughout the third quarter and identified exceptions have been and will continue to be remediated in advance of further scheduled testing in our fiscal fourth quarter.

We have hired additional accounting personnel to focus on our ongoing remediation initiatives and compliance efforts;

Engaging expert resources to assist with worldwide tax planning and compliance;

Re-allocating and/or relocating duties of finance personnel to enhance review and monitoring procedures.

While the Company believes that the remedial actions will result in correcting the material weaknesses in our internal control over financial reporting, the exact timing of when the conditions will be corrected is dependent upon future events, which may or may not occur.

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**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR  
PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Except for historical information, this report may be deemed to contain forward-looking statements. The Company desires to avail itself of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the Act) and is including this cautionary statement for the express purpose of availing itself of the protection afforded by the Act.

Examples of forward-looking statements include, but are not limited to (a) projections of revenues, cost of raw materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, the effect of currency translations, capital structure and other financial items, (b) statements of plans of and objectives of the Company or its management or Board of Directors, including the introduction of new products, or estimates or predictions of actions by customers, suppliers, competitors or regulating authorities, (c) statements of future economic performance, (d) statements of assumptions, such as the prevailing weather conditions in the Company's market areas, underlying other statements and statements about the Company or its business and (e) statements regarding the ability to comply with or alternatively obtain amendments under the Company's debt agreements.

Factors that could cause actual results to differ materially from these forward looking statements include, but are not limited to, the following general factors such as: (i) the Company's ability to implement and fund based on current liquidity business strategies and restructuring plans, (ii) unseasonable weather (warm winters and cool summers) which adversely affects demand for automotive and some industrial batteries, (iii) the Company's substantial debt and debt service requirements which may restrict the Company's operational and financial flexibility, as well as imposing significant interest and financing costs (iv) the Company's ability to comply with the covenants in its debt agreements or obtain waivers of noncompliance, (v) the litigation proceedings to which the Company is subject, the results of which could have a material adverse effect on the Company and its business, (vi) the realization of the tax benefits of the Company's net operating loss carry forwards, of which is dependent upon future taxable income, (vii) the fact that lead, a major constituent in most of the Company's products, experiences significant fluctuations in market price and is a hazardous material that may give rise to costly environmental and safety claims, (viii) competitiveness of the battery markets in North America and Europe, (ix) the substantial management time and financial and other resources needed for the Company's consolidation and rationalization of acquired entities, (x) risks involved in foreign operations such as disruption of markets, changes in import and export laws, currency restrictions, currency exchange rate fluctuations and possible terrorist attacks against U.S. interests, (xi) the Company's exposure to fluctuations in interest rates on its variable debt, (xii) the Company's ability to maintain and generate liquidity to meet its operating needs, (xiii) general economic conditions, (xiv) the ability to acquire goods and services and/or fulfill labor needs at budgeted costs, (xv) the Company's reliance on a single supplier for its polyethylene battery separators, (xvi) the ability to negotiate a resolution of the claims raised by the U.S. Attorney's Office for the Southern District of Illinois regarding the \$27,500 fine, (xvii) the Company's ability to successfully pass along increased prices to its customers and (xviii) the Company's ability to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002.

Therefore, the Company cautions each reader of this Report carefully to consider those factors set forth above and those factors described in Amendment No. 1 to the Company's Registration Statement on Form S-3 filed with the SEC on September 14, 2005, because such factors have, in some instances, affected and in the future could affect, the ability of the Company to achieve its projected results and may cause actual results to differ materially from those expressed herein.

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**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings***

See Note 13 to the condensed consolidated financial statements.

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

None

**Item 3. *Defaults Upon Senior Securities***

None

**Item 4. *Submission of Matters to a Vote of Security Holders***

None

**Item 5. *Other Information***

None

**Item 6. *Exhibits***

- 10.1 Sixth Amendment and Covenant to Credit Agreement, dated as of January 25, 2006, among Exide Technologies, a Delaware corporation, Exide Global Holding Netherlands C.V., a limited partnership organized under the laws of the Netherlands, the lenders party thereto, and Deutsche Bank AG New York Branch, as Administrative Agent, incorporated by reference to Exhibit 99.1 to the Company's Report on 8-K dated February 1, 2006.
- 10.2 Performance Unit Award Summary Document, incorporated by reference to Exhibit 10.1 to the Company's Report on 8-K dated December 1, 2005.
- 10.3 Form of Exide Technologies Employee Performance Unit Award Agreement, incorporated by reference to Exhibit 10.2 to the Company's Report on 8-K dated December 1, 2005.
- 31.1 Certification of Gordon Ulsh, President and Chief Executive Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Phillip A. Damaska, Acting Chief Financial Officer and Vice President Corporate Controller, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 32 Certifications pursuant to Section 906 of Sarbanes-Oxley Act of 2002.



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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.

Date: February 9, 2006

EXIDE TECHNOLOGIES

By: /S/ Phillip A. Damaska  
Phillip A. Damaska  
Acting Chief Financial Officer and  
Vice President Corporate Controller

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