

EXIDE TECHNOLOGIES  
Form 10-Q  
February 14, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

**For the fiscal quarter ended December 31, 2004**

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

Commission File Number 1-11263

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**EXIDE TECHNOLOGIES**

(Exact Name of Registrant as Specified in Its Charter)

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

**Crossroads Corporate Center**

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

**08648**

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3150 Brunswick Pike, Suite 230

Lawrenceville, New Jersey  
(Address of principal executive offices)

(Zip Code)

(609) 512-3000

(Registrant's telephone number, including area code)

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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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

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

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 10, 2005, 24,407,068 shares of common stock were outstanding.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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	<b>Successor Company for the Three Months Ended December 31, 2004</b>	<b>Predecessor Company for the Three Months Ended December 31, 2003</b>
NET SALES	\$ 727,902	\$ 653,016
COST OF SALES	602,151	510,925
Gross profit	125,751	142,091
EXPENSES:		
Selling, marketing and advertising	69,003	65,143
General and administrative	47,365	43,181
Restructuring and impairment (Note 19)	5,713	12,662
Goodwill Impairment (Note 10)	399,388	
Other (income) expense, net (Note 15)	(5,005)	(20,619)
Interest expense, net (Note 14)	11,728	24,758
	528,192	125,125
Income (loss) before reorganization items, income taxes and minority interest	(402,441)	16,966
REORGANIZATION ITEMS, NET (Note 8)	2,236	21,605
INCOME TAX PROVISION (Note 24)	34,484	4,080
MINORITY INTEREST	(121)	604
Net loss	\$ (439,040)	\$ (9,323)
NET LOSS PER SHARE (Note 20)		
Basic and Diluted	\$ (17.56)	\$ (0.34)

<b>WEIGHTED AVERAGE SHARES</b>		
Basic and Diluted	25,000	27,383

The accompanying notes are an integral part of these statements.

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## EXIDE TECHNOLOGIES AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE PERIOD MAY 6, 2004 TO DECEMBER 31, 2004 (SUCCESSOR COMPANY),

THE PERIOD APRIL 1, 2004 TO MAY 5, 2004 (PREDECESSOR COMPANY) AND

THE NINE MONTHS ENDED DECEMBER 31, 2003 (PREDECESSOR COMPANY)

(Unaudited, in thousands, except per-share data)

	Successor Company for the Period May 6, 2004 to December 31, 2004	Predecessor Company for the Period April 1, 2004 to May 5, 2004	Predecessor Company for the Nine Months Ended December 31, 2003
NET SALES	\$ 1,763,429	\$ 214,607	\$ 1,825,015
COST OF SALES	1,477,867	179,137	1,439,981
Gross profit	285,562	35,470	385,034
EXPENSES:			
Selling, marketing and advertising	178,617	24,504	195,036
General and administrative	108,601	17,940	127,460
Restructuring and impairment (Note 19)	12,986	602	19,974
Goodwill Impairment (Note 10)	399,388		
Other (income) expense, net (Note 15)	(57,042)	6,222	(34,715)
Interest expense, net (Note 14)	29,165	8,870	74,451
	671,715	58,138	382,206
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle	(386,153)	(22,668)	2,828
REORGANIZATION ITEMS, NET (Note 8)	5,654	18,434	45,917
FRESH START ACCOUNTING ADJUSTMENTS, NET (Note 4)		(228,371)	
GAIN ON DISCHARGE OF LIABILITIES SUBJECT TO COMPROMISE (Note 4)		(1,558,839)	
INCOME TAX PROVISION (BENEFIT) (Note 24)	30,782	(2,482)	4,639
MINORITY INTEREST	(75)	26	322
Net income (loss) before cumulative effect of change in accounting principle	(422,514)	1,748,564	(48,050)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Note 5)			15,593
Net income (loss)	\$ (422,514)	\$ 1,748,564	\$ (63,643)
NET INCOME (LOSS) PER SHARE, BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Note 20)			
Basic and Diluted	\$ (16.90)	\$ 63.86	\$ (1.75)

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<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER SHARE (Note 20)</b>			
Basic and Diluted	\$	\$	\$ (0.57)
<b>NET INCOME (LOSS) PER SHARE (Note 20)</b>			
Basic and Diluted	\$ (16.90)	\$ 63.86	\$ (2.32)
<b>WEIGHTED AVERAGE SHARES</b>			
Basic and Diluted	25,000	27,383	27,383

The accompanying notes are an integral part of these statements.

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited, in thousands, except per-share data)

	Successor Company December 31, 2004	Predecessor Company March 31, 2004
	<u>2004</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 26,081	\$ 37,413
Restricted cash	2,005	15,469
Receivables, net of allowance for doubtful accounts of \$26,044 and \$24,433, respectively	715,839	667,026
Inventories (Note 11)	460,239	414,516
Prepaid expenses and other	24,832	24,372
Deferred financing costs, net		3,498
Deferred income taxes	36,917	34,035
	<u>1,265,913</u>	<u>1,196,329</u>
<b>Total current assets</b>	<b>1,265,913</b>	<b>1,196,329</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>839,606</b>	<b>543,124</b>
	<u>839,606</u>	<u>543,124</u>
<b>OTHER ASSETS:</b>		
Goodwill, net (Note 10)		527,705
Other intangibles, net (Note 10)	194,501	46,440
Investments in affiliates	6,922	6,695
Deferred financing costs, net		1,645
Deferred income taxes	43,552	104,703
Other (Note 12)	35,963	45,167
	<u>280,938</u>	<u>732,355</u>
<b>Total assets</b>	<b>\$ 2,386,457</b>	<b>\$ 2,471,808</b>
	<u>\$ 2,386,457</u>	<u>\$ 2,471,808</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings (Note 13)	\$ 17,308	\$ 8,624
Current maturities of long-term debt (Note 13)	5,017	736,165
Accounts payable	342,334	295,987
Accrued expenses	378,223	425,947
Warrants liability (Note 3)	12,813	
	<u>755,695</u>	<u>1,466,723</u>
<b>Total current liabilities</b>	<b>755,695</b>	<b>1,466,723</b>
<b>LONG-TERM DEBT (Note 13)</b>	<b>560,417</b>	<b>21,574</b>
<b>NONCURRENT RETIREMENT OBLIGATIONS</b>	<b>332,884</b>	<b>193,525</b>
<b>NONCURRENT DEFERRED TAX LIABILITY</b>	<b>98,018</b>	
<b>OTHER NONCURRENT LIABILITIES</b>	<b>114,774</b>	<b>53,726</b>
<b>LIABILITIES SUBJECT TO COMPROMISE (Note 9)</b>		<b>1,481,120</b>



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Total liabilities	1,861,788	3,216,668
<b>COMMITMENTS AND CONTINGENCIES (Note 18)</b>		
MINORITY INTEREST	13,159	24,909
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Predecessor Company common stock, \$0.01 par value, 100,000 shares authorized, 27,383 shares issued and outstanding at March 31, 2004		274
Successor Company common stock, \$0.01 par value, 25,000 shares authorized, 24,162 shares issued and outstanding at December 31, 2004	234	
Additional paid-in capital	888,157	570,589
Retained earnings (Accumulated deficit)	(422,514)	(1,046,087)
Notes receivable - stock award plan		(665)
Accumulated other comprehensive income (loss)	45,633	(293,880)
Total stockholders' equity (deficit)	511,510	(769,769)
Total liabilities and stockholders' equity (deficit)	\$ 2,386,457	\$ 2,471,808

The accompanying notes are an integral part of these statements.

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, in thousands)

	<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>Predecessor Company for the Nine Months Ended December 31, 2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ (422,514)	\$ 1,748,564	\$ (63,643)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	84,194	7,848	72,023
Impairment of Goodwill	399,388		
Cumulative effect of change in accounting principle			15,593
Gain on discharge of liabilities subject to compromise		(1,558,839)	
Fresh Start accounting adjustments, net		(228,371)	
Unrealized gain on Warrants	(61,488)		
Net loss (gain) on asset sales	1,227		(4,806)
Provision for doubtful accounts	2,167	473	4,825
Deferred income taxes	680		
Non-cash provision for restructuring	108	18	56
Reorganization items, net	5,654	18,434	45,917
Insurance proceeds	2,143		
Minority interest	(75)	26	322
Amortization of deferred financing costs		1,251	15,649
Changes in assets and liabilities, excluding effects of Fresh Start accounting, acquisitions and divestitures			
Receivables	(41,745)	45,924	33,381
Inventories	(12,408)	(10,873)	10,659
Prepaid expenses and other	(2,378)	286	(14,153)
Payables	32,464	(20,967)	(11,308)
Accrued expenses	(28,982)	(20,564)	(40,470)
Noncurrent liabilities	(3,443)	(294)	(4,361)
Other, net	31,360	9,898	(38,802)
<b>Net cash provided by (used in) operating activities</b>	<b>(13,648)</b>	<b>(7,186)</b>	<b>20,882</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(44,577)	(7,152)	(44,252)
Proceeds from sales of assets	20,962	2,800	19,538
<b>Net cash used in investing activities</b>	<b>(23,615)</b>	<b>(4,352)</b>	<b>(24,714)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in short-term borrowings	4,174	2,425	3,504

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Repayments under 9.125% Senior Notes (Deutschemark denominated)	(110,082)		
Borrowings under DIP Credit Facility			693,677
Repayments under DIP Credit Facility			(703,239)
Borrowings under Replacement DIP Credit Facility	121,258		
Repayments under Replacement DIP Credit Facility	(452,875)		
Borrowings under Senior Secured Credit Facility	168,593	500,000	
Repayments under Senior Secured Credit Facility	(169,332)		
European asset securitization			7,538
Increase (decrease) in other debt	(2,036)	(2,412)	1,120
Financing costs and other	(682)	(23,146)	(400)
	<u>717</u>	<u>35,168</u>	<u>2,200</u>
Net cash provided by (used in) financing activities			
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,031	(1,447)	5,420
	<u>3,031</u>	<u>(1,447)</u>	<u>5,420</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(33,515)	22,183	3,788
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	59,596	37,413	39,766
	<u>59,596</u>	<u>37,413</u>	<u>39,766</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 26,081	\$ 59,596	\$ 43,554
	<u>\$ 26,081</u>	<u>\$ 59,596</u>	<u>\$ 43,554</u>

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, 2004**

**(In thousands, except share and per-share data)**

**(Unaudited)**

**(1) BASIS OF PRESENTATION**

The unaudited 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. The accompanying unaudited condensed consolidated financial 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, 2004 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, adjusted for adoption of certain accounting policies required as part of Fresh Start accounting. See Note 4. 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, 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.

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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. The excess of the reorganization value over the fair value of specific tangible and identified intangible net assets was allocated to goodwill.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

These unaudited 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 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 18. Principally as a result of the dramatic increase in lead costs year on year and the resultant adverse impact upon the Company's results, in November 2004, the Company was required to obtain amendments to certain financial covenants with respect to earnings before interest, taxes, depreciation, amortization and restructuring (EBITDAR) and leverage contained in its Senior Secured Credit Facility (the Credit Agreement). Due to the fact that the Company failed to satisfy its leverage ratio covenant as of December 31, 2004 under the Credit Agreement, in February 2005, the Company received a waiver of the leverage ratio covenant from its lenders, as well as amendments relating to the Company's proposed senior note offering. Although there can be no assurances, the Company believes, taking into account the Credit Agreement amendments and based upon its updated financial forecasts and plans, that it will comply with the covenants contained in its Credit Agreement for the foreseeable future.

The accompanying interim unaudited 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. Accordingly, all pre-petition liabilities subject to compromise were segregated in the Predecessor Company's condensed consolidated balance sheet as of March 31, 2004 and classified as Liabilities Subject To Compromise. Liabilities not subject to compromise were separately classified. Revenues, expenses, realized gains and losses and provision for losses resulting from the reorganization are reported separately as Reorganization items, net, in the unaudited condensed consolidated statements of operations.

Since the Company's emergence from bankruptcy resulted in a new reporting entity as of the Effective Date, the unaudited 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 unaudited 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. See Note 4. Also, in accordance with SOP 90-7, changes in accounting principles required under GAAP within twelve months of emerging from bankruptcy have been adopted at the date of emergence. See Note 21.

**(2) EMERGENCE FROM CHAPTER 11 BANKRUPTCY PROTECTION AND RECAPITALIZATION**

The following is a summary of certain transactions which became operative on the Effective Date pursuant to consummation of the Plan.

Except to the extent otherwise provided in the Plan, all notes, instruments, certificates, and other documents evidencing (i) the Company's 10% senior notes due 2005, (ii) the Company's 2.9% convertible notes due 2005, (iii) equity interests in the Debtors, including, but not limited to, all issued, unissued, authorized or outstanding shares of stock, together with any Warrants, options or contract rights to purchase or acquire such interests at any time, were cancelled, and the obligations of the Debtors thereunder or in any way related thereto were discharged.

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The Company agreed to issue (i) 25,000,000 shares of new common stock, par value \$0.01 per share for distribution in accordance with the Plan, and (ii) warrants initially exercisable for 6,250,000 shares of new common stock (the Warrants ). Pursuant to the terms of the Plan, the common stock and Warrants are to be distributed as follows:

holders of pre-petition Senior Secured Global Credit Facility claims received collectively 22,500,000 shares of new common stock; and

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

Under the claims reconciliation and allowance process set forth in the Plan, 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.

Although predictions regarding the allowance and classification of claims are inherently difficult to make, based on the Company's review to date of the available information, the Company believes the remaining reserve is reasonable and adequate, except to the extent discussed in Note 18. To the extent the reserved shares of new common stock and Warrants are ultimately insufficient to provide payment for such outstanding claims, the Company may issue additional shares of new common stock and Warrants. In that event, the Company will also issue shares of new common stock to the holders of pre-petition credit facility claims sufficient to preserve the relative value of their recoveries under the terms of the Plan.

Holders of administrative claims, claims derived from the Company's \$500,000 secured super priority debtor-in-possession credit agreement and priority tax claims are being paid in full in cash pursuant to the terms of the Plan.

The Company adopted an Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws.

The Company's Board of Directors was reconstituted to consist of seven members, as specified in the Plan.

The Company entered into a new \$600,000 Senior Secured Credit Facility. See Note 13.

**(3) 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



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Warrants have been accounted for and classified as a liability in the condensed consolidated balance sheet. 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 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 at December 31, 2004 based upon quoted market prices. This mark-to-market resulted in recognition of unrealized gains of \$5,813 and \$61,488 for the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004,

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

respectively, which are reported in Other (income) expense in the condensed consolidated statements of operations. Future results of operations will be subject to volatility from changes in the market value of such Warrants.

**(4) FRESH START REPORTING**

The Company adopted Fresh Start reporting in accordance with SOP 90-7 upon emergence from bankruptcy on the Effective Date. Fresh Start accounting required the Company to allocate the reorganization value to its assets based upon their estimated fair values in accordance with 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. Adopting Fresh Start reporting resulted in material adjustments to the historical carrying values of the Company's assets and liabilities. The estimated enterprise value of the Company of \$1,500,000, which served as the basis for the Plan approved by the Bankruptcy Court, was used to determine the reorganization value, which was estimated at \$2,729,404. The portion of reorganization value which could not be attributed to specific tangible or identified intangible assets was \$399,388. In accordance with SFAS No. 142 ( SFAS 142 ), Goodwill and Other Intangible Assets , this amount was reported as Goodwill in the unaudited condensed consolidated balance sheet as of the Effective Date. Liabilities as of the Effective Date were stated at the present values of amounts to be paid. The determination of fair values of assets and liabilities is subject to significant estimation and assumptions.

The estimated fair values of the Company's assets and liabilities were based upon the work of independent appraisers and actuaries, as well as internal valuation estimates of future cash flows discounted at appropriate current rates.

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table below provides a reconciliation of the Predecessor Company's unaudited condensed consolidated balance sheet as of May 5, 2004 to that of the Successor Company on May 5, 2004, reflecting the reorganization and Fresh Start reporting adjustments:

	<u>Predecessor Company</u>	<u>Debt Restructuring</u>	<u>Fresh Start Adjustments and Recapitalization</u>	<u>Successor Company</u>
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 35,617	\$ 23,979(5)	\$	\$ 59,596
Restricted cash	16,043			16,043
Receivables, net	605,697			605,697
Inventories	416,968		2,458(3)	419,426
Prepaid expenses and other	25,006		(2,517)(3)	22,489
Deferred financing costs, net		3,322(5)	(3,322)(3)	
Deferred income taxes	33,188			33,188
<b>Total current assets</b>	<b>1,132,519</b>	<b>27,301</b>	<b>(3,381)</b>	<b>1,156,439</b>
Property, plant and equipment, net	526,849		300,051(3)	826,900
Goodwill	513,335		(113,947)(4)	399,388
Other intangibles, net	46,347		152,546(3)	198,893
Investments in affiliates	6,701			6,701
Deferred financing costs, net		19,824(5)	(19,824)(3)	
Deferred income taxes	106,588		(11,609)(3)	94,979
Other	46,576		(472)(3)	46,104
<b>Total assets</b>	<b>\$ 2,378,915</b>	<b>\$ 47,125</b>	<b>\$ 303,364</b>	<b>\$ 2,729,404</b>
<b>Current Liabilities:</b>				
Short-term borrowings	\$ 10,805	\$	\$	\$ 10,805
Current maturities of long-term debt	730,940	(727,068)(1)		3,872
Accounts payable	268,149	(1,629)(1)		266,520
Accrued expenses	404,284	(7,711)(1)	2,293(3)	398,866
Warrants liability			74,300(2)	74,300
<b>Total current liabilities</b>	<b>1,414,178</b>	<b>(736,408)</b>	<b>76,593</b>	<b>754,363</b>
Long-term debt	32,872	500,000(5)		532,872
Noncurrent retirement obligations	189,582	128,293(1)	(487)(3)	317,388
Other noncurrent liabilities	53,080	77,246(1)	(17,405)(3)	112,921
Noncurrent deferred tax liability			111,650(3)	111,650
Liabilities subject to compromise	1,480,845	(1,480,845)(1)		
<b>Total liabilities</b>	<b>3,170,557</b>	<b>(1,511,714)</b>	<b>170,351</b>	<b>1,829,194</b>
Minority interest	24,363		(12,544)(3)	11,819
<b>Total stockholders' equity (deficit)</b>	<b>(816,005)</b>	<b>1,558,839(2)</b>	<b>145,557(2)</b>	<b>888,391</b>

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Total liabilities and stockholders equity (deficit)	\$ 2,378,915	\$ 47,125	\$ 303,364	\$ 2,729,404
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- (1) To record assumption or discharge of Liabilities subject to compromise and cancellation of Predecessor Company debt, compromised pursuant to the plan of reorganization
  - (2) To record gain on discharge of Liabilities subject to compromise, gain on Fresh Start accounting adjustments, cancellation of debt, cancellation of Predecessor Company common stock, close-out of remaining equity balances of the Predecessor Company in accordance with the recapitalization provisions of Fresh Start accounting, and issuance of Successor Company common stock and Warrants.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (3) To adjust assets and liabilities to fair value.
- (4) The unamortized balance of goodwill of the Predecessor Company has been eliminated and reorganization value in excess of amounts allocable to identified tangible and intangible net assets has been classified as goodwill.
- (5) To record exit debt financing pursuant to the Senior Secured Credit Facility

The Plan is expected to reduce the Successor Company's future annual interest expense by approximately \$60,000. In addition, due to the Fresh Start adjustments to property, plant and equipment and intangibles, annual depreciation and amortization expense will increase by approximately \$30,000.

The fair value of goodwill and intangible assets reported in the Successor Company's unaudited condensed consolidated balance sheet as of the Effective Date were based upon the Company's estimates of future cash flows and other factors including discount rates to determine the fair value of the respective assets.

Principally as a result of a continuing gap between the market value of the Company's securities and the Company's enterprise value under the Plan and a sustained increase in lead costs and the resultant impact upon the Company's results and future projections, in the third quarter of fiscal 2005 the Company recognized a goodwill impairment charge in accordance with SFAS 142. See Note 10.

**(5) ASSET RETIREMENT OBLIGATIONS**

Effective April 1, 2003, the Predecessor Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143). The provisions of SFAS 143 address financial accounting and reporting requirements for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs and require companies to record an asset and related liability for the cost associated with the retirement of long-lived tangible assets if a legal liability to retire the asset exists.

The adoption of SFAS 143 resulted in a charge, which is reflected in the unaudited condensed consolidated statement of operations for the nine months ended December 31, 2003 as a cumulative effect of change in accounting principle of \$15,593, or \$0.57 per share. The charge resulted from certain commitments made by the Predecessor Company in accordance with permit requirements for its North American lead recycling and hazardous waste facilities. The Company is obligated under these permits to undertake agreed-upon remediation and decommissioning activities in the event of a facility closure. The recorded asset retirement obligation is based upon estimated investigation, remediation and decommissioning costs. These estimates are determined through a combination of methods including outside estimates of likely expense and the Company's historical experience in the management of these matters. Future findings or changes in estimates could result in either an increase or decrease in the asset retirement obligation.

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(6) DEBTORS FINANCIAL INFORMATION**

The unaudited condensed combined financial statements of the Debtors are presented below. These statements reflect the financial position, results of operations and cash flows of the combined Debtor subsidiaries, including certain amounts and activities between the Debtors and non-Debtor subsidiaries of the Company which are eliminated in the Company's unaudited condensed consolidated financial statements. The unaudited condensed combined financial statements of the Debtors are presented as follows:

**DEBTORS CONDENSED COMBINED STATEMENT OF OPERATIONS****(Unaudited, in thousands)**

	<b>Predecessor Company For the Period April 1, 2004 to May 5, 2004</b>	<b>Predecessor Company For the Nine Months Ended December 31, 2003</b>
NET SALES	\$ 81,291	\$ 720,164
COST OF SALES	67,578	585,711
Gross profit	13,713	134,453
EXPENSES:		
Selling, marketing and advertising	8,456	73,032
General and administrative	6,045	50,435
Restructuring	65	2,251
Other (income) expense, net	1,306	(8,389)
Interest expense, net	6,238	42,619
Loss before reorganization items, income taxes and cumulative effect of change in accounting principle	(8,397)	(25,495)
REORGANIZATION ITEMS, net (Note 8)	18,434	43,374
INCOME TAX PROVISION		
Net loss before cumulative effect of change in accounting principle	(26,831)	(68,869)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NOTE 5)		15,593
Net loss	\$ (26,831)	\$ (84,462)



**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DEBTORS CONDENSED COMBINED BALANCE SHEETS**

(Unaudited, in thousands)

	<b>Predecessor Company March 31, 2004</b>
	<b><u>March 31, 2004</u></b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 6,530
Receivables, net	147,783
Intercompany receivables	35,456
Inventories	129,802
Prepaid expenses and other	20,934
	<b><u>340,505</u></b>
<b>Total current assets</b>	<b>340,505</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>237,874</b>
	<b><u>510,063</u></b>
<b>OTHER ASSETS:</b>	
Goodwill and other intangibles, net	40,965
Investments in affiliates	2,048
Deferred financing costs, net	301
Intercompany notes receivable	432,279
Other	34,470
	<b><u>510,063</u></b>
<b>Total assets</b>	<b>\$ 1,088,442</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 69,726
Accrued interest payable	60,276
Accrued expenses	121,642
Current maturities of long-term debt (DIP Facility)	331,617
	<b><u>583,261</u></b>
<b>Total current liabilities</b>	<b>583,261</b>
<b>NONCURRENT RETIREMENT OBLIGATIONS</b>	<b>32,112</b>
<b>OTHER NONCURRENT LIABILITIES</b>	<b>15,593</b>
<b>LIABILITIES SUBJECT TO COMPROMISE</b>	<b>1,481,120</b>
	<b><u>2,112,086</u></b>
<b>Total liabilities</b>	<b>2,112,086</b>



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STOCKHOLDERS DEFICIT

Total stockholders deficit	(1,023,644)
Total liabilities and stockholders deficit	\$ 1,088,442

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DEBTORS CONDENSED COMBINED STATEMENT OF CASH FLOWS**

(Unaudited, in thousands)

	<b>Predecessor Company For the Period April 1, 2004 to May 5, 2004</b>	<b>Predecessor Company For the Nine Months Ended December 31, 2003</b>
	<u>                    </u>	<u>                    </u>
<b>CASH RECEIPTS:</b>		
Customer receipts	\$ 86,245	\$ 752,590
Other third party receipts	1,073	13,001
Borrowings under DIP Credit Facility	199,157	693,677
Intercompany receipts from non-Debtor entities	33,379	146,911
	<u>                    </u>	<u>                    </u>
Total cash receipts	319,854	1,606,179
	<u>                    </u>	<u>                    </u>
<b>CASH DISBURSEMENTS:</b>		
Supplier payments	31,851	262,624
Repurchase of securitized accounts receivable		
Financing costs, fees and interest	2,100	9,083
Capital expenditures	980	17,615
Freight and logistics	7,926	91,856
Leasing and rental costs	2,199	32,993
Payroll and benefits	30,404	250,405
Professional / consulting fees	7,064	39,120
Taxes	713	9,107
Utilities	3,360	44,527
Other disbursements	12,371	70,010
Intercompany loans to non-Debtor entities	146,360	79,762
Repayments under DIP Credit Facility	77,899	703,239
	<u>                    </u>	<u>                    </u>
Total cash disbursements	323,227	1,610,341
	<u>                    </u>	<u>                    </u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,373)	(4,162)
CASH AT BEGINNING OF PERIOD	6,530	8,434
	<u>                    </u>	<u>                    </u>
CASH AT END OF PERIOD	\$ 3,157	\$ 4,272
	<u>                    </u>	<u>                    </u>

**(7) COMPREHENSIVE INCOME (LOSS)**

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

	<u>For the Three Months Ended</u>			<b>Predecessor Company</b>	
	<b>Successor Company December 31, 2004</b>	<b>Predecessor Company December 31, 2003</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>For the Nine Months Ended December 31, 2003</b>
Net income (loss)	\$ (439,040)	\$ (9,323)	\$ (422,514)	\$ 1,748,564	\$ (63,643)
Change in cumulative translation adjustment	38,316	41,879	42,104	(7,591)	76,033
Additions and change in fair value of cash flow hedges	3,033		3,963		
Reclassification to earnings of cash flow hedges	(151)		(434)		
<b>Total comprehensive income (loss)</b>	<b>\$ (397,842)</b>	<b>\$ 32,556</b>	<b>\$ (376,881)</b>	<b>\$ 1,740,973</b>	<b>\$ 12,390</b>

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has entered into certain forward contracts to hedge the purchase price on a portion of the Company's externally purchased lead. Such contracts extend through the first quarter of fiscal 2006. These contracts are accounted for as cash flow hedges, in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted.

**(8) REORGANIZATION ITEMS**

Reorganization items represent amounts the Company incurred as a result of the Chapter 11 process and are presented separately in the unaudited condensed consolidated statements of operations.

	For the Three Months Ended		Successor Company For the Period May 6, 2004 to December 31, 2004	Predecessor Company For the Period April 1, 2004 to May 5, 2004	Predecessor Company For the Nine Months Ended December 31, 2003
	Successor Company December 31, 2004	Predecessor Company December 31, 2003			
Professional fees	\$ 2,725	\$ 20,979	\$ 6,743	\$ 18,515	\$ 44,709
Employee costs		900			2,110
Preference Payments	(489)		(489)		
Interest income		(274)		(81)	(902)
Income from rejected contract			(600)		
Total reorganization items, net	\$ 2,236	\$ 21,605	\$ 5,654	\$ 18,434	\$ 45,917
Gain on settlement of liabilities subject to compromise and recapitalization (Note 4)				(1,558,839)	
Fresh Start accounting adjustments (Note 4)				(228,371)	
Loss (gain) on reorganization items	\$ 2,236	\$ 21,605	\$ 5,654	\$ (1,768,776)	\$ 45,917

Net cash paid for reorganization items during the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004 (Successor Company) was \$2,305 and \$33,967, respectively. Net cash paid for the period April 1, 2004 to May 5, 2004 and the three and nine months ended December 31, 2003 (Predecessor Company) was \$6,074, \$10,291 and \$29,278, respectively.

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

*Professional fees*

Professional fees include financial, legal, 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 of the Predecessor Company 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.

*Employee costs*

The Company implemented a Bankruptcy Court-approved retention plan that provided for cash incentives to key members of the Company's management team. The retention plan was a milestone-based plan established to encourage employees to continue their employment through the reorganization process.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*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.

*Income from rejected contract*

In connection with the bankruptcy, the Company received \$600 upon rejection of a contract providing retirement benefits to a former employee.

*Preference Payments*

In the three months ended December 31, 2004, the Successor Company received refunds of \$489 related to payments made to suppliers by the Predecessor Company prior to the bankruptcy filing.

**(9) LIABILITIES SUBJECT TO COMPROMISE**

Under U.S. bankruptcy law, actions by creditors to collect indebtedness the Debtors owed prior to the Petition Date were stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors. During the Chapter 11 proceedings the Debtors received approval from the Bankruptcy Court to pay certain pre-petition liabilities including certain employee salaries, wages and benefits and other obligations. All pre-petition liabilities of the Debtors were classified as liabilities subject to compromise in the unaudited condensed consolidated balance sheet of the Predecessor Company

Amounts that the Predecessor Company has recorded are in many instances different from amounts filed by the creditors. Differences between amounts scheduled by the Debtors and claims by creditors are being investigated and will be resolved in connection with the claims reconciliation process. Until the process is complete, the ultimate number and amount of allowable claims cannot be ascertained. In this regard, it should be noted that the claims reconciliation process may result in material adjustments to current estimates of allowable claims. The ultimate resolution of these claims will be based upon the final plan of reorganization that was approved by the Bankruptcy Court. See Note 2.

The following table summarizes the components of the liabilities classified as Liabilities subject to compromise in the unaudited condensed consolidated balance sheet:

	<b>Predecessor Company</b>
	<b>March 31, 2004</b>
	<hr/>
Accounts payable	\$ 66,072
Accrued interest payable	19,403
Accrued expenses	52,266
Retirement obligations	128,293
Long-term debt (Note 13)	1,081,293
Other liabilities	133,793
	<hr/>
Total liabilities subject to compromise	\$ 1,481,120
	<hr/>

**(10) ACCOUNTING FOR GOODWILL AND INTANGIBLES**

Effective April 1, 2001, the Company adopted SFAS 141 and SFAS No. 142 Goodwill and Other Intangible Assets ( SFAS 142 ). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies the criteria applicable to intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill.

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## EXIDE TECHNOLOGIES AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment, at least annually. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment.

Under the provisions of Fresh Start reporting, goodwill of the Predecessor Company was eliminated as of the Effective Date. The Company allocated reorganization value to the Company's assets based upon their estimated fair values in accordance with SFAS 141. The estimated fair value of the Company's identifiable intangible assets was based upon the work of independent appraisers as well as internal valuation estimates of future cash flows discounted at appropriate current rates. Identified intangible assets included tradenames and trademarks, customer relationships and technology. Identified intangible assets with finite lives are being amortized under the straight-line method over their applicable estimated useful lives, estimated to be between ten and forty years. The excess of reorganization value over the fair value of identified tangible and intangible net assets was allocated to Goodwill of the Successor Company.

The Company completed its most recent annual impairment assessment of goodwill effective December 31, 2004, utilizing its updated five-year business plan as the basis for development of discounted cash flows and an estimate of fair values. The Company's impairment assessment also considered the market value of the Company's securities as of December 31, 2004. As a result of the comparison of the book carrying values of its reporting units, including goodwill, against these estimated fair values, the Company determined on a preliminary basis that goodwill was fully impaired and a write-down of the entire \$399,388 balance of goodwill was required. The Company will complete its analysis and update its preliminary estimate during the fourth quarter.

Summarized goodwill activity is as follows:

Goodwill, net at April 1, 2004 Predecessor Company	\$ 527,705
Currency translation	(14,370)
Fresh Start elimination of Predecessor Company goodwill	(513,335)
	<hr/>
Goodwill, net at May 5, 2004 Predecessor Company	
Fresh Start adjustment Successor Company	399,388
Impairment	(399,388)
	<hr/>
Goodwill, net at December 31, 2004 Successor Company	\$
	<hr/>

At December 31, 2004 net intangible assets of the Successor Company included trademarks and tradenames of \$56,331 which are not subject to amortization, trademarks and tradenames which are subject to amortization of \$12,138, customer relationships which are subject to amortization of \$103,037, as well as technology subject to amortization of \$22,995. The gross amount of identified intangibles at December 31, 2004 was \$198,893 and the related accumulated amortization was \$4,392. Amortization expense was \$1,647 and \$4,392 for the three months ended December 31, 2004 and for the period May 6, 2004 to December 31, 2004, respectively. Annual amortization expense for each of the next five years is expected to be \$6,600.



**(11) INVENTORIES**

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

	<b>Successor Company December 31, 2004</b>	<b>Predecessor Company March 31, 2004</b>
	<u>          </u>	<u>          </u>
Raw materials	\$ 70,392	\$ 69,858
Work-in-process	83,203	79,006
Finished goods	306,644	265,652
	<u>          </u>	<u>          </u>
	<u>\$ 460,239</u>	<u>\$ 414,516</u>

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In connection with the adoption of Fresh Start reporting, inventories were stepped up to fair value resulting in an adjustment of \$3,500, all of which was charged to cost of sales in the Successor Company's condensed consolidated statement of operations for the period May 6, 2004 to December 31, 2004.

**(12) OTHER ASSETS**

Other assets consist of:

	<b>Successor Company December 31, 2004</b>	<b>Predecessor Company March 31, 2004</b>
	<u>                    </u>	<u>                    </u>
Deposits	\$ 11,100	\$ 20,082
Pension assets		699
Capitalized software, net	11,872	13,490
Loan to affiliate	4,930	4,935
Other	8,061	5,961
	<u>                    </u>	<u>                    </u>
	<b>\$ 35,963</b>	<b>\$ 45,167</b>
	<u>                    </u>	<u>                    </u>

Deposits above principally represent amounts drawn and 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.

**(13) DEBT**

At December 31, 2004 and March 31, 2004, short-term borrowings of \$17,308 and \$8,624, 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 secured 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 at December 31, 2004 comprised the following:

	<b>Successor Company December 31, 2004</b>
Senior Secured Credit Facility	\$ 522,728
Other, including capital lease obligations and other loans at interest rates generally ranging from 0.0% to 11.0% due in installments through 2015(1)	42,706
<b>Total</b>	<b>565,434</b>
Less current maturities	5,017
	<b>\$ 560,417</b>

Total debt at December 31, 2004 was \$582,742.

(1) Includes various operating lines of credit and working capital facilities maintained by certain of the Company's non-U.S. subsidiaries.

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Total long-term debt at March 31, 2004 comprised the following:

	<b>Predecessor Company March 31, 2004</b>
	<b><u>March 31, 2004</u></b>
<b>Debt Not Subject To Compromise:</b>	
Replacement DIP Credit Facility Borrowings at LIBOR plus 3.75%	\$ 331,618
Senior Secured Global Credit Facility (Europe) Borrowings primarily at LIBOR plus 4.75% to 5.25%	274,956
9.125% Senior Notes (Deutsche mark denominated, due April 15, 2004)	110,082
Other, including capital lease obligations and other loans at interest rates generally ranging from 0.0% to 11.0% due in installments through 2015(1)	41,083
	<b><u>757,739</u></b>
Total debt not subject to compromise	757,739
Less current maturities (included in total debt not subject to compromise above)	736,165
	<b><u>\$ 21,574</u></b>
<b>Debt Subject To Compromise:</b>	
Senior Secured Global Credit Facility (U.S.) Borrowings primarily at LIBOR plus 4.75% to 5.25%	\$ 458,965
10% Senior Notes, due April 15, 2005	300,000
Convertible Senior Subordinated Notes, due December 15, 2005	321,132
Other	1,196
	<b><u>1,081,293</u></b>
Total debt subject to compromise (Note 9)	<b><u>\$ 1,081,293</u></b>

(1) Includes various operating lines of credit and working capital facilities maintained by certain of the Company's non-U.S. subsidiaries.

Total debt at March 31, 2004 was \$1,847,656 (including amounts subject to compromise).

*Successor Company*

In connection with the emergence from Chapter 11, the Successor Company entered into a \$600,000 Credit Agreement which includes 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 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 bears interest at LIBOR plus 3.5% per annum and EURO-LIBOR plus 4.0% per annum for the U.S. Dollar and Euro components, respectively. The Revolving Loan Facility bears interest at LIBOR plus 4.0% per annum. As of the Effective Date, the Company had \$500,000 outstanding under the Term Loan Facility and had not

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drawn on the Revolving Loan Facility. Proceeds of the Term Loan Facility were used to finance the repayment of the Replacement DIP Credit Facility and to finance various costs and expenses associated with the exit financing and the Plan. Absent the refinancing described above, the Company would have required amendment of certain covenants under the Replacement DIP Credit Facility.

The Credit Agreement requires the Company to comply with financial covenants with respect to certain ratios and tests, as defined in the Credit Agreement, including interest coverage, leverage, EBITDAR, asset coverage and capital expenditures. Principally as a result of the dramatic increase in lead costs year on year and the resultant adverse impact upon the Company's results, in November 2004, the Company was required to obtain

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

amendments to certain financial covenants with respect to EBITDAR and leverage contained in the Credit Agreement. In addition, the Credit Agreement was amended with respect to the treatment of proceeds from insurance recoveries. Due to the fact that the Company failed to satisfy its leverage ratio covenant as of December 31, 2004 under the Credit Agreement, in February 2005, the Company received a waiver of the leverage ratio covenant from its lenders, as well as amendments relating to the Company's proposed senior note offering. Although there can be no assurances, the Company believes, taking into account the Credit Agreement amendments and based upon its updated financial forecasts and plans, that it will comply with these covenants for the foreseeable future. Failure to comply with such covenants, without waiver, would result in an event of default under the Credit Agreement. If the Company were not able to maintain compliance with these covenants, it would have to consider additional actions, including refinancings, asset sales and further restructurings. 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 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.

Total availability under the Credit Agreement as of December 31, 2004 was \$65,755, reflecting borrowings under the Revolving Loan Facility and the issuance of \$32,888 outstanding letters of credit, principally to support certain environmental and workers' compensation obligations of the Company.

*Predecessor Company*

On April 15, 2002, when the Predecessor Company filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code, affected borrowings were reclassified to Liabilities Subject to Compromise, in accordance with SOP 90-7. See Note 9. In connection with the Plan these obligations were discharged. In addition, the Company's European borrowings by non-debtor subsidiaries under the Predecessor Company's Senior Secured Global Credit Facility were settled pursuant to the Plan.

**(14) INTEREST EXPENSE, NET**

Interest income of \$113 and \$1,377 is included in Interest expense, net for the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004, respectively (Successor Company). Interest income of \$21, \$251 and \$896 is included in Interest expense, net for the period April 1, 2004 to May 5, 2004 and the three and nine months ended December 31, 2003, respectively (Predecessor Company). Interest income earned as a result of assumed excess cash balances due to the Chapter 11 filing is recorded in Reorganization items, net in the unaudited condensed consolidated statements of operations for the period April 1, 2004 to May 5, 2004 and the three and nine months ended December 31, 2003. See Note 8.

As of the Petition Date, the Company ceased accruing interest on certain unsecured pre-petition debt classified as Liabilities subject to compromise in the unaudited 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

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contractual amount on pre-petition debt that was not charged to results of operations for the period April 1, 2004 to May 5, 2004 and the three and nine months ended December 31, 2003 was approximately \$3,339, \$10,241 and \$31,052 respectively.

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Other (income) expense, net comprises:

	<u>For the Three Months Ended</u>		<u>Successor</u>	<u>Predecessor</u>	<u>Predecessor</u>
	<u>Successor</u>	<u>Predecessor</u>	<u>Company</u>		<u>Company</u>
	<u>December 31,</u>	<u>December 31,</u>	<u>For the Period</u>	<u>For the Period</u>	<u>For the</u>
	<u>2004</u>	<u>2003</u>	<u>May 6, 2004 to</u>	<u>April 1, 2004 to</u>	<u>Nine Months</u>
			<u>December</u>	<u>May 5, 2004</u>	<u>Ended</u>
			<u>31,</u>		<u>December 31,</u>
			<u>2004</u>		<u>2003</u>
Losses on sales of accounts receivable	\$	\$	\$	\$	\$
Net loss (gain) on asset sales	1,216	(1,502)	1,227		(4,806)
Equity income	(411)	(554)	(1,044)	(164)	(1,600)
Currency (gain) loss	(8,630)	(22,816)	(9,322)	6,283	(40,244)
Loss on revaluation of foreign currency forward contract	16,201		21,845		
Gain on revaluation of Warrants	(5,813)		(61,488)		
Other	(7,568)	1,085	(8,260)	103	2,626
	<u>\$ (5,005)</u>	<u>\$ (20,619)</u>	<u>\$ (57,042)</u>	<u>\$ 6,222</u>	<u>\$ (34,715)</u>

In the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004, the Successor Company recognized unrealized gains on the revaluation of the Warrants of \$5,813 and \$61,488, respectively. See Note 3.

In the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004, the Successor Company recognized net currency gains of \$8,630 and \$9,322, primarily from the remeasurement of U.S. dollar-denominated borrowings under the European tranche of its Credit Agreement, partially offset by currency losses on Euro-denominated intercompany borrowings in the United Kingdom.

In the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004, the Successor Company recognized net losses of \$16,201 and \$21,845, respectively, on the mark-to-market of a foreign currency forward contract. The contract has a maturity of May 9, 2005.

In the period April 1, 2004 to May 5, 2004, the Predecessor Company recognized net currency losses, primarily from the remeasurement of U.S. dollar-denominated intercompany borrowings in the United Kingdom. In the three and six months ended December 31, 2003, the Predecessor Company recognized net currency gains, primarily from the remeasurement of U.S. dollar denominated borrowings in Europe.



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On September 24, 2004, the Company experienced a fire at one of its facilities in Europe. While damage to the facility was contained, the Company has experienced disruption to certain of its business operations and activities as the Company restores production capacity and diverts production to alternative sites. During the third quarter of fiscal 2005, the Company recognized \$7,500 insurance recoveries, included in Other above. This represents partial reimbursement for both business interruption and replacement of property damaged by the fire. The Company expects that any further financial impact of such business disruption will be substantially recovered through insurance coverage.

On April 15, 2003, the Company sold its European non-lead battery assets for proceeds of \$16,300. Of this amount, \$12,600 was held in escrow pursuant to the Predecessor Company's borrowing arrangements and was included in Restricted cash in the unaudited condensed consolidated balance sheet at March 31, 2004. This sale resulted in a gain of \$3,175. Restrictions on these funds were removed following the Company's emergence from Chapter 11 and the cash was used to fund working capital requirements and reduce debt.

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## EXIDE TECHNOLOGIES AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Losses on sales of receivables represent expenses related to the Predecessor Company's receivables sales facility in Europe.

**(16) EMPLOYEE BENEFITS**

The following sets forth the Components of the Company's net periodic pension benefit cost:

	For the Three Months Ended		Successor Company	Predecessor Company	Predecessor Company
	Successor Company December 31, 2004	Predecessor Company December 31, 2003	For the Period May 6, 2004 to December 31, 2004	For the Period April 1, 2004 to May 5, 2004	For the Nine Months Ended December 31, 2003
Service cost	\$ 2,699	\$ 2,533	\$ 7,018	\$ 856	\$ 7,599
Interest cost	8,835	8,084	22,899	2,798	24,252
Expected return on plan assets	(5,415)	(4,483)	(14,083)	(1,638)	(13,449)
Amortization		2,529		839	7,587
Net periodic benefit cost (a)	\$ 6,119	\$ 8,663	\$ 15,834	\$ 2,855	\$ 25,989

(a) Excludes the cost of settlements of \$516 in the three months ended December 31, 2004.

The following sets forth the components of the Company's net periodic cost for other post-retirement benefits:

	For the Three Months Ended		Successor Company	Predecessor Company	Predecessor Company
	Successor Company December 31, 2004	Predecessor Company December 31, 2003	For the Period May 6, 2004 to December 31, 2004	For the Period April 1, 2004 to May 5, 2004	For the Nine Months Ended December 31, 2003
Service cost	\$ 23	\$ 17	\$ 43	\$	\$ 52
Interest cost	399	443	1,016	131	1,330
Amortization		(94)		(31)	(283)

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Net periodic benefit cost	\$ 422	\$ 366	\$ 1,059	\$ 100	\$ 1,099
	▬	▬	▬	▬	▬

Cash contributions to the Company's pension plans are generally made in accordance with minimum regulatory requirements. Because of the downturn experienced in global equity markets and ongoing benefit payments, the Company's North American plans are currently significantly under-funded. Based on current assumptions and regulatory requirements, the Company's minimum future cash contribution requirements for its North American plans are expected to increase significantly in future fiscal years. On November 17, 2004, the Company received written notification of a tentative determination from the Internal Revenue Service ( IRS ) granting 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, under Section 412(d) of the Internal Revenue Code, subject to providing a lien satisfactory to the Pension Benefit Guaranty Corporation ( PBGC ) within sixty days of such written notice to secure such waived amounts, as well as other customary conditions. On January 15, 2005, the Company submitted to the IRS a request for modification of its funding waiver application to secure an additional 60 days to negotiate an acceptable lien with the PBGC. The temporary waiver provides for deferral of the Company's minimum contributions for those years to be paid over a subsequent five-year period. Based upon the temporary waiver, the Company expects its minimum future cash contributions will total approximately \$180,000 to \$200,000 from fiscal 2006 to fiscal 2010, including \$33,000 in fiscal 2006.

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(17) 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 18.

**(18) COMMITMENTS AND CONTINGENCIES**

For a discussion of other legal proceedings and environmental matters previously reported, see the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004. In addition, the Company is involved in various other claims and litigation incidental to the conduct of its business. The Company does not believe that any such claims or litigation to which the Company is a party, either individually or in the aggregate, will have a material adverse effect on the Company's financial conditions, cash flows or results of operations. Similarly, the Company budgets for capital expenditures and operating costs related to requirements under various Environmental, Health & Safety laws and believes that these expenditures will not have a material adverse effect on its financial condition, cash flows or results of operations, but cannot guarantee that additional expenditures will not be needed to ensure compliance with such Environmental, Health & Safety laws.

*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.

On January 20, 2005, the Company made its third distribution of new common stock and Warrants. Although predictions regarding the allowance and classification of claims are inherently difficult to make, based on the Company's review to date of the available information, and except as noted below in this Note 18, the Company believes the remaining reserve is reasonable and adequate, except to the extent discussed in this Note 18. To the extent the reserved shares of new common stock and Warrants are ultimately insufficient to provide payment for such outstanding claims, the Company may issue additional shares of new common stock and Warrants. In that event, the Company will also issue shares of new common stock to the holders of pre-petition credit facility claims sufficient to preserve the relative value of their recoveries under the terms of the Plan.

*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

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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 for \$27,900. Also, 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. The U.S. Attorney's Office recently 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 has supplied correspondence and other materials responsive to this request.

*Pre-Petition Litigation Settlements*

The Company previously disclosed in its most recent Report on Form 10-K for fiscal year 2004 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.

*Legal Proceedings*

In April 2003, the Company sold its Torrejon, Spain nickel-cadmium plant. The Torrejon courts are conducting an investigation of two petitions submitted to determine whether criminal charges should be filed for alleged endangerment of workers' health at the former Torrejon plant. The petitions contain criminal allegations against former employees but only allegations of civil liability against the Company. The Company has retained counsel in the event that any charges ultimately are filed.

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 requested further investigation by the Anti-Smuggling Bureau. The results of the additional investigation are scheduled to be re-submitted to the Prosecutor's Office on approximately February 18, 2005. The Company is awaiting the conclusion of the investigation.

*Environmental Matters*

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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 Agency 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 95 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.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

In October 2004, the U.S. Environmental Protection Agency (EPA), in the course of negotiating the government's pre-petition claim with the Company, notified the Company of the possibility of additional cleanup costs associated with the remediation of the Hamburg, Pennsylvania properties of approximately \$35,000. To date, the EPA has not made a formal claim for this amount or provided support for these estimates. Although the Company does not believe there is a basis for this claim, if the government proceeds with an action and prevails, the amounts of this claim, when added to all other reserved claims, could result in an inadequate reserve of new common stock and Warrants to resolve all such claims. 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 18. Because the Company does not believe there is a basis for this claim and because of its pre-petition status, 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, 2004 and March 31, 2004, the amount of such reserves on the Company's consolidated balance sheet was approximately \$62,900 and \$94,200, respectively. These reserves have been adjusted in Fresh Start reporting to the extent that the Company believes such obligations have been discharged under the Plan and to reflect the discounting of reserves, where appropriate under SOP 90-7. See Note 4. 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.

*Guarantees*

At December 31, 2004, the Company had outstanding letters of credit with a face value of \$32,888 and surety bonds with a face value of \$39,564. 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. The agreement, as amended, requires the Company to increase the collateral held by the surety in several stages: forty percent collateralization of outstanding bonds within fifteen days of the Company closing its exit financing agreements; seventy percent collateralization of outstanding bonds by August 1, 2004; and full collateralization by August 1, 2005. Collateral held by the surety in the form of letters of credit at December 31, 2004, pursuant to the terms of the agreement, was \$29,185.





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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, 2004, bank guarantees with a face value of \$19,244 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:

<b>Predecessor Company</b>	
Balance at March 31, 2004	\$ 58,668
Accrual for warranties provided during the period	4,390
Settlements made (in cash or credit) during the period	(4,305)
Currency translation	(665)
	<u>          </u>
Balance at May 5, 2004	<u>\$ 58,088</u>
<b>Successor Company</b>	
Balance at May 5, 2004	\$ 58,088
Accrual for warranties provided during the period	30,384
Settlements made (in cash or credit) during the period	(40,285)
Currency translation	3,277
	<u>          </u>
Balance at December 31, 2004	<u>\$ 51,464</u>

**(19) RESTRUCTURING AND IMPAIRMENT**

During fiscal 2005, 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.

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During the third quarter of fiscal 2005, the Successor Company recognized restructuring and impairment charges of \$5,713, representing \$3,885 for severance costs, including a \$516 loss on settlement of pension obligations at the Maple, Ontario plant, \$1,818 for related closure costs and \$10 for a non-cash charge related to the write-down of machinery and equipment. These charges principally resulted from actions related to Industrial Energy Europe consolidation efforts, the announced closure of the Company's Casalnuovo, Italy Industrial Energy Europe facility, Corporate severance and headcount reductions in Transportation Europe. Approximately sixty positions have been eliminated in connection with the third quarter fiscal 2005 plans. For a discussion of the Company's business segments, see Note 22.

During the second quarter of fiscal 2005, the Successor Company recognized restructuring and impairment charges of \$4,826, representing \$3,583 for severance, \$1,229 for related closure costs and \$14 for a non-cash charge related to the write-down of machinery and equipment. These charges principally resulted from actions related to corporate severance and headcount reductions in Transportation Europe. Approximately seventy positions have been eliminated in connection with the second quarter fiscal 2005 plans.

During the period May 6, 2004 through June 30, 2004, the Successor Company recognized restructuring and impairment charges of \$2,447, representing \$1,042 for severance, \$1,321 for related closure costs and \$84 for a

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non-cash charge related to the write-down of machinery and equipment. These charges principally resulted from actions related to Industrial Energy Europe consolidation efforts, the announced closure of the Company's Casalnuovo, Italy Industrial Energy Europe facility, Corporate severance and headcount reductions in Transportation Europe. Twenty five positions have been eliminated in connection with the May 6, 2004 through June 30, 2004 period plans.

During the period April 1, 2004 through May 5, 2004, the Predecessor Company recognized restructuring and impairment charges of \$602, representing \$190 for severance, \$394 for related closure costs and \$18 for a non-cash charge related to the write-down of machinery and equipment. These charges principally resulted from actions related to Industrial Energy Europe consolidation efforts, the announced closure of the Company's Casalnuovo, Italy Industrial Energy Europe facility, Corporate severance and headcount reductions in Transportation Europe. Five positions have been eliminated in connection with the April 1, 2004 through May 5, 2004 period plans.

Summarized restructuring reserve activity follows:

	<b>Severance Costs</b>	<b>Closure Costs</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Predecessor Company</b>			
Balance at March 31, 2004	\$ 29,574	\$ 12,925	\$ 42,499
Charges, April 1, 2004 to May 5, 2004	190	394	584
Payments and currency translation	(4,900)	(1,556)	(6,456)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at May 5, 2004	\$ 24,864	\$ 11,763	\$ 36,627
	<u>          </u>	<u>          </u>	<u>          </u>
	<b>Severance Costs</b>	<b>Closure Costs</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Successor Company</b>			
Balance at May 5, 2004	\$ 24,864	\$ 11,763	\$ 36,627
Charges, May 6, 2004 to December 31, 2004	8,510	4,368	12,878
Payments and currency translation	(26,691)	(6,045)	(32,736)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at December 31, 2004	\$ 6,683	\$ 10,086	\$ 16,769
	<u>          </u>	<u>          </u>	<u>          </u>

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.

**(20) 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 per share of the Successor Company for the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004. 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 of the Predecessor Company for the period April 1, 2004 to May 5, 2004 because

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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. See Note 2. For the three and nine months ended December 31, 2003, the Predecessor 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.

**(21) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In May 2003, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ( SFAS 150 ). SFAS 150 addresses how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The Company adopted SFAS 150 as of July 1, 2003. See Note 3 regarding the accounting for the Company's Warrants issued in connection with the Company's Plan.

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 into law. In May 2004, the FASB issued FASB Staff Position No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which provides guidance on accounting for the federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. This guidance is effective for periods beginning after June 15, 2004. As required by SOP 90-7, the Company adopted this guidance upon application of Fresh Start reporting. The adoption did not have a material impact on the Company's unaudited condensed consolidated financial statements.

In March 2004, the EITF reached consensus on Issue No. 03-6. This Issue is intended to clarify what is a participating security for purposes of applying SFAS 128, Earnings Per Share. The Issue also provides further guidance on how to apply the two-class method of computing earnings per share (EPS) once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. The guidance in this Issue is effective for reporting periods beginning after March 31, 2004 and, where applicable, requires the restatement of previously reported EPS. The statement does not currently impact the Company's computation of EPS.

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 interim or annual reporting period that begins after June 15, 2005. The Company will adopt SFAS 123R effective July 1, 2005. The Company is currently assessing the impact 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

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Company will adopt SFAS 151 effective July 1, 2005. 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

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

**(22) SEGMENT INFORMATION**

The Company previously reported its results for three global business segments, Transportation, Motive Power and Network Power. Effective April 1, 2004, the Company consolidated Motive Power and Network Power into one business unit, Industrial Energy, coincident with organizational changes the Company enacted. In light of ongoing organizational changes, effective October 1, 2004, the Company split its two then-existing business units into separate geographic regions. The Company now reports its results for four business segments, Transportation North America, Transportation Europe and Rest of World ( ROW ), Industrial Energy North America and Industrial Energy Europe and ROW. Segment results for the three and nine months ended December 31, 2003 and the period April 1, 2004 to May 5, 2004 have been reclassified to conform to the current presentation. The Company will continue to evaluate its reporting segments pending the current changes and such 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, fuel-cell load leveling, 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.

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



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

	<b>For the Three Months Ended December 31, 2004</b>					
	<b>Transportation</b>		<b>Industrial Energy</b>		<b>Other (a)</b>	<b>Consolidated</b>
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>		
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>	<b>Other (a)</b>	<b>Consolidated</b>
<b>Successor Company</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, minority interest and cumulative effect of change in accounting principle (b)	(108,949)	(103,283)	(30,424)	(106,564)	(53,221)	(402,441)
<b>For the Three Months Ended December 31, 2003</b>						
	<b>Transportation</b>		<b>Industrial Energy</b>		<b>Other (a)</b>	<b>Consolidated</b>
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>		
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>	<b>Other (a)</b>	<b>Consolidated</b>
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>	<b>Other (a)</b>	<b>Consolidated</b>
<b>Predecessor Company</b>						
Net Sales	\$ 204,642	\$ 217,305	\$ 49,870	\$ 181,199	\$	\$ 653,016
Gross Profit	39,852	48,987	11,858	41,394		142,091
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle (c)	21,589	28,913	3,225	560	(37,321)	16,966
<b>For the Period May 6, 2004 to December 31, 2004</b>						
	<b>Transportation</b>		<b>Industrial Energy</b>		<b>Other (a)</b>	<b>Consolidated</b>
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>		
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>	<b>Other (a)</b>	<b>Consolidated</b>
	<b>North America</b>	<b>Europe and ROW</b>	<b>North America</b>	<b>Europe and ROW</b>	<b>Other (a)</b>	<b>Consolidated</b>
<b>Successor Company</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, minority interest and cumulative effect of change in accounting principle (d)	(99,058)	(95,265)	(24,835)	(103,453)	(63,542)	(386,153)

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

	Transportation		Industrial Energy		Other (a)	Consolidated
	North America	Europe and	North America	Europe and		
		ROW		ROW		
Predecessor Company						
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, minority interest and cumulative effect of change in accounting principle (e)	2,413	691	1,607	1,914	(29,293)	(22,668)

For the Nine Months Ended December 31, 2003

	Transportation		Industrial Energy		Other (a)	Consolidated
	North America	Europe and	North America	Europe and		
		ROW		ROW		
Predecessor Company						
Net Sales	\$ 611,132	\$ 538,730	\$ 154,333	\$ 520,820	\$	\$ 1,825,015
Gross Profit	112,068	117,862	35,904	119,200		385,034
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle (f)	50,942	62,036	9,800	18,570	(138,520)	2,828

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**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- 
- (a) Other includes shared services and corporate expenses, interest expense, net, currency remeasurement loss (gain) and losses on sales of accounts receivable.
  - (b) Includes restructuring charges of \$612, \$3,150, \$1,296 and \$655 within Transportation North America, Transportation Europe and ROW, Industrial Energy Europe and ROW and Other, respectively (see Note 19). Includes gain on revaluation of Warrants of \$5,813 within Other. Includes goodwill impairment charges of \$122,061, \$117,572, \$37,384 and \$122,371 within Transportation North America, Transportation Europe and ROW, Industrial Energy North America and Industrial Energy Europe and ROW, respectively. See Note 10.
  - (c) Includes restructuring charges of \$340, \$775, \$6, \$10,166 and \$1,375 within Transportation North America, Transportation Europe and ROW, Industrial Energy North America, Industrial Energy Europe and ROW and Other, respectively (see Note 19).
  - (d) Includes restructuring charges of \$844, \$6,652, \$2,614 and \$2,876 within Transportation North America, Transportation Europe and ROW, Industrial Energy Europe and ROW and Other, respectively (see Note 19). Includes gain on revaluation of Warrants of \$61,488 within Other. Includes goodwill impairment charges of \$122,061, \$117,572, \$37,384 and \$122,371 within Transportation North America, Transportation Europe and ROW, Industrial Energy North America and Industrial Energy Europe and ROW, respectively. See Note 10.
  - (e) Includes restructuring charges of \$65, \$354, \$277 and \$(94) within Transportation North America, Transportation Europe and ROW, Industrial Energy Europe and ROW and Other, respectively (see Note 19).
  - (f) Includes restructuring charges of \$1,642, \$1,389, \$6, \$14,670 and \$2,267 within Transportation North America, Transportation Europe and ROW, Industrial Energy North America, Industrial Energy Europe and ROW and Other, respectively (see Note 19).

**(23) STOCK GRANTS AND OPTIONS**

On October 13, 2004, the Board of Directors adopted the 2004 Stock Incentive Plan (the 2004 Plan ) to provide incentives and awards to employees and directors of the Company, as well as certain consultants. Under the 2004 Plan, all employees are eligible to receive awards. The 2004 Plan permits the granting of options, restricted shares and performance awards. The maximum number of shares that the Company may issue is 3,125,000 for all awards, but not more than 850,000 shares for restricted share and performance awards. During the three months ended December 31, 2004, the Company awarded 486,900 options and 92,500 shares of restricted stock to certain eligible employees.

Under the terms of the 2004 Plan, options are subject to a three-year vesting schedule and shares of restricted stock are subject to a five-year vesting schedule. The vesting schedules are subject to certain change in control provisions, including full vesting if an employee is terminated within 12 months of a change in control. The per share exercise price for the options was set at \$15.82, which was calculated based on a 10-day trailing average closing price of the Company s common stock as listed on the NASDAQ National Market immediately prior to the grant date.

Also, pursuant to the 2004 Plan and as part of their annual compensation, each non-employee member of the Company s Board of Directors will receive 2,112 options valued at \$20,000 and 1,264 shares of restricted stock valued at \$20,000. Awards are subject to a one-year vesting period and will vest on October 13, 2005. In the event that a director whose term expires in 2005 is not re-elected at the Company s annual meeting of shareholders in August 2005, such director s options and restricted stock shall fully vest as of the date of the annual meeting. The per share exercise price for the options and the restricted stock price were calculated based on a 10-day trailing average closing price of the Company s common stock as listed on the NASDAQ National Market immediately prior to the grant date.

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The 2004 Plan and all awards granted thereunder are subject to shareholder approval at the Company's annual meeting scheduled for August 2005. As a consequence, for accounting purposes the awards will not have a measurement date under SFAS No. 123, "Accounting for Stock-Based Compensation" until that time. As provided for in SFAS No. 123, the Company utilizes the intrinsic value method of expense recognition under APB Opinion No. 25.

**(24) INCOME TAXES**

In connection with the recent update of the Company's five-year business plan, including the impact of the sustained increase in lead costs, the Company re-evaluated the carrying value of certain deferred tax assets in its foreign jurisdictions during the third quarter of fiscal 2005. A \$34,500 charge to adjust valuation allowances against previously recognized deferred tax assets was recorded and is included in income tax provision in the unaudited condensed consolidated statements of operations for the three months ended December 31, 2004 and the period May 6, 2004 to December 31, 2004.

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### **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 quarterly report on Form 10-Q. In particular, this discussion should be read in conjunction with Note 1. Basis of Presentation and Note 2. Emergence From Chapter 11 Bankruptcy Protection and Recapitalization which describe the filing by Exide Technologies and certain of its domestic subsidiaries of voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code on April 15, 2002 and the financial restructuring associated with the Company's emergence from Chapter 11, effective May 5, 2004.

Generally accepted accounting principles would suggest that results of the Predecessor Company and Successor Company should not be combined. However, in order to provide a meaningful comparison for purposes of the following discussion of results of operations, the results of the Predecessor Company for the period April 1, 2004 through May 5, 2004 have been combined with the results of the Successor Company for the period subsequent to emergence.

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 Purpose of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995, included in this Report on Form 10-Q 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 legal contingencies, see Part II, Item 1. Legal Proceedings.

## **Executive Overview**

### **Business**

The Company has previously reported its results for three global business segments, Transportation, Motive Power and Network Power. Effective April 1, 2004, the Company consolidated Motive Power and Network Power into one business unit, Industrial Energy, coincident with organizational changes the Company enacted. In light of ongoing organizational changes, effective October 1, 2004, the Company split its two then-existing business units into separate geographic regions. The Company now reports its results for four business segments, Transportation North America, Transportation Europe and Rest of World ( ROW ), Industrial Energy North America and Industrial Energy Europe and ROW. Segment results for the three and nine months ended December 31, 2003 have been reclassified to conform to the current presentation. The Company will continue to evaluate its reporting segments pending the current changes and such 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, fuel-cell load leveling, electric utilities, railroads, uninterruptible power supply (UPS), lift trucks, mining and other commercial vehicles.

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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.* Lead is the primary material by weight used in the manufacture of batteries, currently representing approximately one-third of the Company's cost of goods sold. The market price of lead fluctuates. 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 which may cause customer demand for our products to be reduced and our revenues and gross margins to decline. Since March 31, 2003, lead prices quoted on the London Metal Exchange ( LME ) have increased from \$457 per metric tonne to over \$990 per metric tonne at December 31, 2004, a change of over 100%. At March 31, 2004, lead prices were \$829 per metric tonne. To the extent the Company is unable to pass on these higher material costs to its customers, the Company's financial performance and outlook would be 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 the Company continues to come under increasing pressure for price reductions. This competition has been exacerbated by excess capacity and increasing lead prices as well as low-priced Asian imports impacting the Company's 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. 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, 2004, approximately 54% of the Company's net sales were generated in Europe. Further, approximately 69% of the Company's aggregate accounts receivable and inventory as of December 31, 2004 were denominated in European currencies.

*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 have and continue to impact the Company's financial results.

*Weather.* Unusually cold winters or hot summers accelerate automotive battery failure and increase demand for automotive replacement batteries.

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

### **First Nine Months of Fiscal 2005 Highlights and Outlook**

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The Company's reported results for the first nine months of fiscal 2005 were impacted by two principal considerations: (i) the impact of Fresh Start accounting and reporting on the reported basis of the Company's assets and liabilities, which were based upon enterprise values and reorganization values of approximately \$1.5 billion and \$2.7 billion, respectively and (ii) the impact of material increases in the price of lead, which is a primary component in the manufacture of batteries and makes up approximately one-third of the Company's cost of goods sold. Since March 31, 2003, lead prices quoted on the LME have increased from \$457 per metric tonne to over \$990 per metric tonne at December 31, 2004, a change of over 100%. At March 31, 2004, lead prices were \$829 per metric tonne.



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In the North American market, the Company obtains 90% 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, but not at the same rate as raw lead. Therefore the Company expects that the higher market price of lead with respect to North American manufacturing will nevertheless continue to have some impact on results. The Company has and continues to take selective pricing actions and 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 higher world lead prices, the Company expects that lead in Europe will cost the Company significantly more than previously anticipated in fiscal 2005. Because of the Company's exposure to lead market prices in Europe, 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 already has automatic price escalators with many original equipment manufacturers ( OEM ) customers. The Company currently recycles a small portion of its lead requirements in its European facilities.

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

In addition to management of the impact of higher lead prices on the Company's results, the key elements of the Company's underlying business plans and strategies for fiscal 2005 are

(i) Successful execution and completion of the Company's restructuring plans, including plant closures in Spain, Italy and Germany and ongoing headcount reductions, principally in Selling, General and Administrative functions globally.

(ii) Actions to improve the Company's operating cash flow through aggressive working capital reduction plans, the sales of non-strategic assets and businesses, streamlining cash management processes and implementing plans to minimize the cash costs of the Company's restructuring initiatives. These programs are even more significant to the Company currently, as rising lead prices have an adverse impact upon the Company's working capital needs as a result of lengthy order-to-cash conversion cycles.

(iii) Continuing to reduce costs, improve quality and reduce lead times to our customers. The Company is continuing to drive these strategies through its EXCELL lean supply chain initiative, aggressive supplier procurement initiatives across the Company and reductions in salaried headcount and discretionary spending.

(iv) Moving to secure new business with new customers and developing new markets, including expansion into Russia, China and Mexico.

## **Critical Accounting Policies and Estimates**

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The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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.

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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, 2004 affect the preparation of its unaudited condensed consolidated financial statements. The reader of this report should refer to the 10-K for further information.

As a result of the Company's Chapter 11 filing in the Bankruptcy Court, the condensed consolidated financial statements of both the Successor Company and the Predecessor Company for the periods presented herein have been prepared in accordance with SOP 90-7. SOP 90-7 requires an entity to distinguish pre-petition liabilities as subject to compromise from post-petition liabilities on its consolidated balance sheet. In addition, the Company's consolidated statement of operations reflects ongoing operations separately from any revenues, expenses, realized gains and losses, and provisions resulting from the reorganization, otherwise known as reorganization items.

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. Deferred taxes were reported in conformance with existing generally accepted accounting principles. Debt issued in connection with the Plan was recorded at fair value. The determination of the fair values of assets and liabilities was subject to significant estimation and assumption. The Plan is expected to reduce the Successor Company's future annual interest expense by approximately \$60,000. In addition, due to the Fresh Start adjustments to property, plant and equipment and finite-lived intangibles, annual depreciation and amortization expense will increase by approximately \$30,000.

The Debtors' emergence from bankruptcy resulted in a new reporting entity, the Successor Company, as of the Effective Date. Consequently, the unaudited 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 unaudited 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, 2004 compared with three months ended December 31, 2003*

*Overview*

Net loss for the third quarter of fiscal 2005 was \$439,040 versus the third quarter of fiscal 2004 net loss of \$9,323. Third quarter fiscal 2005 results include a goodwill impairment charge of \$399,388, restructuring costs of \$5,713, reorganization items in connection with the bankruptcy of \$2,236, an income tax charge of \$34,500 resulting from a change in valuation allowances and gain on revaluation of Warrants of \$5,813. Third quarter fiscal 2004 results include restructuring costs of \$12,662 and reorganization items in connection with the bankruptcy of \$21,605. In addition, net currency remeasurement (losses) gains of \$(7,571) and \$22,816, primarily on U.S. dollar denominated debt in Europe and an

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outstanding foreign currency forward contract, have been recognized in Other (income) expense, net in the third quarter of fiscal 2005 and 2004, respectively.

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### *Net Sales*

Net sales were \$727,902 in the third quarter of fiscal 2005 versus \$653,016 in the third quarter of fiscal 2004. Currency positively impacted net sales in the third quarter of fiscal 2005 by approximately \$36,200. Net sales were higher by approximately \$24,700 as a result of lead related pricing actions.

Transportation North America net sales were \$216,092 in the third quarter of fiscal 2005 versus \$204,642 in the third quarter of fiscal 2004. Third party lead sales revenues in North America for the third quarter of fiscal 2005 were \$4,660 higher than the third quarter of fiscal 2004 due to rising lead prices. Transportation North America net sales also increased due to higher unit volumes, principally in the original equipment channel and higher average selling prices from lead related pricing actions.

Transportation Europe and ROW net sales were \$242,694 in the third quarter of fiscal 2005 versus \$217,305 in the third quarter of fiscal 2004. Currency positively impacted net sales in the third quarter of fiscal 2005 by approximately \$19,200. Average selling prices for the third quarter of fiscal 2005 were higher than the third quarter of fiscal 2004, primarily from the effect of lead-related pricing adjustments, while sales volumes declined in the aftermarket channel.

Industrial Energy North America net sales in the third quarter of fiscal 2005 were \$55,617 versus \$49,870 in the third quarter of fiscal 2004. The increase was primarily attributable to higher material handling applications, lead related pricing actions and recognition of \$2,950 previously deferred income on a customer agreement under which the contract ended and the Company fulfilled its obligations in the third quarter of fiscal 2005.

Industrial Energy Europe and ROW net sales in the third quarter of fiscal 2005 were \$213,499 versus \$181,199 in the third quarter of fiscal 2004. Currency positively impacted net sales in the third quarter of fiscal 2005 by approximately \$17,000. Higher material handling application volumes and higher average selling prices due to lead related pricing actions were partially offset by lower telecommunication market volumes, competitive pricing pressures in the original equipment and aftermarket channels and lost sales due to the interruption of business due to a fire at one of the Company's manufacturing facilities.

### *Gross Profit*

Gross profit was \$125,751 or 17.3% of net sales in the third quarter of fiscal 2005 versus \$142,091 or 21.8% of net sales in the third quarter of fiscal 2004. Currency positively impacted gross profit in the third quarter of fiscal 2005 by approximately \$6,200. Gross profit in each of the Company's business segments was negatively impacted by higher lead costs (average LME prices were \$959 per metric tonne in the third quarter of fiscal 2005 versus \$634 per metric tonne in the third quarter of fiscal 2004), only partially being recovered by higher average selling prices. The estimated net impact on gross profit of higher lead costs not recovered through pricing actions was approximately \$9,800. The Company therefore estimates that it recovered approximately sixty five to seventy percent of these higher lead costs through pricing and related actions during the third quarter of fiscal 2005. Cost of goods sold was also negatively impacted by higher depreciation due to Fresh Start Reporting by approximately \$5,500.

Transportation North America gross profit was \$33,871 or 15.7% of net sales in the third quarter of fiscal 2005 versus \$39,852 or 19.5% of net sales in the third quarter of fiscal 2004. The effect of higher lead costs only partially recovered by higher average selling prices and higher costs

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of goods sold and depreciation due to Fresh Start reporting were partially offset by the impact of higher sales volumes and higher third party lead sales due to increased lead prices.

Transportation Europe and ROW gross profit was \$38,775, or 16.0% of net sales in the third quarter of fiscal 2005 versus \$48,987 or 22.5% of net sales in the third quarter of fiscal 2004. Currency positively impacted gross profit in the third quarter of fiscal 2005 by approximately \$3,000. The decrease was primarily due to lower sales volumes, higher lead costs only partially recovered through higher selling prices and higher costs of goods sold and depreciation due to Fresh Start reporting.

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Industrial Energy North America gross profit was \$13,661 or 24.6% of net sales in the third quarter of fiscal 2005 versus \$11,858 or 23.8% of net sales in the third quarter of fiscal 2004. Gross profit was higher primarily due to higher sales volume, previously deferred income on a customer agreement under which the Company fulfilled its obligations in the third quarter of fiscal 2005 and the impact of headcount and cost reduction programs, partially offset by higher lead costs not being recovered through price increases and higher cost of goods sold and depreciation due to Fresh Start reporting.

Industrial Energy Europe and ROW gross profit was \$39,444 or 18.5% of net sales in the third quarter of fiscal 2005 versus \$41,394 or 22.8% of net sales in the third quarter of fiscal 2004. Currency positively impacted Industrial Energy Europe and ROW gross profit in the second quarter of fiscal 2005 by approximately \$3,200. Gross profit was negatively impacted by competitive pricing pressures, higher lead costs not being recovered through price increases, higher cost of goods sold and depreciation due to Fresh Start reporting and lost sales due to the interruption of business due to a fire at one of the Company's manufacturing facilities offset partially by the impact of higher sales volume and headcount and cost reduction programs.

*Expenses*

Expenses were \$528,192 in the third quarter of fiscal 2005 versus \$125,125 in the third quarter of fiscal 2004. Expenses included a goodwill impairment charge of \$399,388 in the third quarter of fiscal 2005 and restructuring charges of \$5,713 in the third quarter of fiscal 2005 and \$12,662 in the third quarter of fiscal 2004. Excluding these items, expenses were \$123,091 and \$112,463 in the third quarters of fiscal 2005 and 2004, respectively. Stronger foreign currencies unfavorably impacted expenses by approximately \$6,500 in the third quarter of fiscal 2005. The change in expenses was impacted by the following matters: (i) third quarter fiscal 2005 selling, marketing and advertising costs and general and administration costs were favorably impacted by the Company's cost-reduction programs, primarily through headcount reductions; (ii) third quarter fiscal 2004 expenses include a \$3,168 loss on the sale of receivables under the Company's prior securitization facility, included in Other (income) expense, net; (iii) interest, net decreased \$13,030 principally due to the debt discharged under the Company's Plan of Reorganization; (iv) fiscal 2005 and fiscal 2004 third quarter expenses included currency remeasurement gains of \$8,630 and \$22,816, respectively, included in Other (income) expense, net; (v) third quarter fiscal 2005 expenses include a loss on revaluation of a foreign currency forward contract of \$16,201, included in Other (income) expense, net; (vi) third quarter fiscal 2005 expenses include a gain on revaluation of Warrants of \$5,813, included in Other (income) expense, net; and (vii) third quarter fiscal 2005 expenses include recognition of \$7,500 insurance recoveries and the resulting gain from the involuntary conversion of assets related to the interruption of business due to a fire at an Industrial Energy Europe and ROW manufacturing facility, included in Other (income) expense, net.

Transportation North America expenses were \$142,820 in the third quarter of fiscal 2005 versus \$18,263 in the third quarter of fiscal 2004. The increase in expenses was primarily due to a goodwill impairment charge of \$122,061, increased fuel costs and higher branch operating costs.

Transportation Europe and ROW expenses were \$142,058 in the third quarter of fiscal 2005 versus \$20,074 in the third quarter of fiscal 2004. Currency unfavorably impacted Transportation Europe and ROW expenses in the third quarter of fiscal 2005 by approximately \$2,600. The increase in expenses was primarily due to a goodwill impairment charge of \$117,572, increased restructuring costs associated with headcount reduction programs in Europe and higher fuel and distribution costs.

Industrial Energy North America expenses were \$44,085 in the third quarter of fiscal 2005 versus \$8,633 in the third quarter of fiscal 2004. The increase in expenses was primarily due to a goodwill impairment charge of \$37,384, partially offset by the effects of cost-reduction programs, primarily through headcount reductions.

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Industrial Energy Europe and ROW expenses were \$146,008 in the third quarter of fiscal 2005 versus \$40,834 in the third quarter of fiscal 2004. Currency unfavorably impacted Industrial Energy Europe and ROW



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expenses in the third quarter of fiscal 2005 by approximately \$1,900. The increase in expenses was primarily due to a goodwill impairment charge of \$122,371, partially offset by the effects of cost-reduction programs, primarily through headcount reductions, and lower restructuring costs and the recognition of \$7,500 insurance recoveries and the resulting gain from the involuntary conversion of assets related to the interruption of business due to a fire at one of the Company's manufacturing facilities, included in Other (income) expense, net.

Unallocated expenses, net, which include shared service and corporate expenses, interest expense, currency remeasurement losses (gains), losses on sales of receivables and losses (gains) on revaluation of Warrants, were \$53,221 in the third quarter of fiscal 2005 versus \$37,321 in the third quarter of fiscal 2004. Fiscal 2005 third quarter expenses included a loss on revaluation of a foreign currency forward contract of \$16,201 and a gain on revaluation of warrants of \$5,813. Fiscal 2005 and fiscal 2004 third quarter expenses included currency remeasurement gains of \$8,630 and \$22,816, respectively. Currency unfavorably impacted unallocated expenses in the third quarter of fiscal 2005 by approximately \$2,000. Corporate expenses were \$39,735 and \$32,211 in the third quarter of fiscal 2005 and fiscal 2004, respectively. The increase was primarily due to costs associated with Sarbanes Oxley implementation and corporate severance costs, partially offset by the favorable impact of the Company's cost reduction programs, primarily through headcount reductions. Interest expense, net was \$11,728 in the third quarter of fiscal 2005 versus \$24,758 in the third quarter of fiscal 2004. The decrease is principally due to the debt discharged under the Company's Plan of Reorganization.

Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$402,441), or (55.3)% of net sales in the third quarter of fiscal 2005 versus \$16,966, or 2.6% of net sales in the third quarter of fiscal 2004, due to the items discussed above.

Transportation North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$108,949), or (50.4)% of net sales in the third quarter of fiscal 2005 versus \$21,589, or 10.5% of net sales in the third quarter of fiscal 2004, due to the items discussed above.

Transportation Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$103,283), or (42.6)% of net sales in the third quarter of fiscal 2005 versus \$28,913, or 13.3% of net sales in the third quarter of fiscal 2004, due to the items discussed above.

Industrial Energy North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$30,424), or (54.7)% of net sales in the third quarter of fiscal 2005 versus \$3,225, or 6.5% of net sales in the third quarter of fiscal 2004, due to the items discussed above.

Industrial Energy Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$106,564), or (49.9)% of net sales in the third quarter of fiscal 2005 versus \$560, or 0.3% of net sales in the third quarter of fiscal 2004, due to the items discussed above.

*Reorganization items*

Reorganization items, net, represent amounts the Company incurred as a result of the Chapter 11 filing and are presented separately in the unaudited condensed consolidated statements of operations. Reorganization items in the third quarter of fiscal 2005 and 2004 were \$2,236 and \$21,605, respectively. These items comprise: professional fees including financial and legal services, success fees payable to the Company's

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advisors related to Chapter 11 bankruptcy emergence, employee retention costs for key members of management, income from refund of preference payments made to suppliers prior to the bankruptcy filing, income associated with rejection of certain executory contracts and interest income earned as a result of having assumed excess cash balances due to the Chapter 11 filing. See Note 8 to the unaudited condensed consolidated financial statements.

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*Income Taxes*

In the third quarter of fiscal 2005, an income tax provision of \$34,484 was recorded on a pre-tax loss of \$404,677. In the third quarter of fiscal 2004, an income tax provision of \$4,080 was recorded on a pre-tax loss of \$4,639. The effective tax rate was (8.5)% and (87.9)% in the third quarter of fiscal 2005 and 2004, respectively. The effective tax rate for the third quarters of fiscal 2005 and fiscal 2004 were impacted by the generation of income in tax-paying jurisdictions, principally Europe, Australia and Canada, with limited or no 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. and the United Kingdom. The effective tax rate for fiscal 2005 was impacted by the non-deductibility of the \$399,388 goodwill impairment charge. The effective tax rate for the third quarter 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.

***Nine months ended December 31, 2004 compared with nine months ended December 31, 2003***

*Overview*

Net income for the nine months of fiscal 2005 was \$1,326,050 versus net loss for the nine months of fiscal 2004 of \$63,643. The nine months of fiscal 2005 results include a goodwill impairment charge of \$399,388, restructuring costs of \$13,588, reorganization items in connection with the bankruptcy of \$24,088, an income tax charge of \$34,500 resulting from a change in valuation allowances, gain on discharge of liabilities subject to compromise of \$1,558,839, gain on Warrants of \$61,488 and gain on Fresh Start accounting adjustments of \$228,371. The nine months fiscal 2004 results include restructuring costs of \$19,974, reorganization items in connection with the bankruptcy of \$45,917 and cumulative effect of change in accounting principle of \$15,593. In addition, net currency remeasurement (losses) gains of \$(18,806) and \$40,244, primarily on U.S. dollar denominated debt in Europe and an outstanding foreign currency forward contract, have been recognized in Other (income) expense, net in the nine months of fiscal 2005 and 2004, respectively.

*Net Sales*

Net sales were \$1,978,036 in the nine months of fiscal 2005 versus \$1,825,015 in the nine months of fiscal 2004. Currency positively impacted net sales in the nine months of fiscal 2005 by approximately \$87,400. Net sales were higher by approximately \$43,700 as a result of lead related pricing actions.

Transportation North America net sales were \$643,019 in the nine months of fiscal 2005 versus \$611,132 in the nine months of fiscal 2004. Third party lead sales revenues for the nine months of fiscal 2005 were \$19,416 higher than the nine months of fiscal 2004 due to rising lead prices. Transportation North America net sales also increased due to higher unit volumes, principally in the original equipment channel and higher average selling prices from lead related pricing actions.

Transportation Europe and ROW net sales were \$598,007 in the nine months of fiscal 2005 versus \$538,730 in the nine months of fiscal 2004. Currency positively impacted Transportation net sales in the nine months of fiscal 2005 by approximately \$44,600. European selling prices for the nine months of fiscal 2005 were higher than the nine months of fiscal 2004, primarily from the effect of lead-related pricing adjustments, partially offset by the impact of lower sales volumes in the original equipment and aftermarket channels.

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Industrial Energy North America net sales in the nine months of fiscal 2005 were \$160,359 versus \$154,333 in the nine months of fiscal 2004. The increase was primarily due to higher material handling application volumes, lead related pricing actions and the recognition of \$2,950 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 net sales in the nine months of fiscal 2005 were \$576,651 versus \$520,820 in the nine months of fiscal 2004. Currency positively impacted Industrial Energy Europe and ROW

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net sales in the nine months of fiscal 2005 by approximately \$42,800. Higher material handling application volumes and higher average selling prices due to lead related pricing actions were partially offset by lower telecommunication market volumes and competitive pricing pressures within both the original equipment and aftermarket channels.

### *Gross Profit*

Gross profit was \$321,032 in the nine months of fiscal 2005 versus \$385,034 in the nine months of fiscal 2004. Gross margin was 16.2% in the nine months of fiscal 2005 and 21.1% in the nine months of fiscal 2004. Currency positively impacted gross profit in the nine months of fiscal 2005 by approximately \$16,400. Gross profit in each of the Company's business segments was negatively impacted by higher lead costs (average LME prices were \$901 dollars per metric tonne in the nine months of fiscal 2005 versus \$534 dollars per metric tonne in the nine months of fiscal 2004), only partially being recovered by higher average selling prices. The estimated net impact on gross profit of higher lead costs not recovered through pricing actions was approximately \$49,800. The Company therefore estimates that it recovered approximately fifty percent of these higher lead costs through pricing and related actions.

Transportation North America gross profit was \$95,105 or 14.8% of net sales in the nine months of fiscal 2005 versus \$112,068 or 18.3% of net sales in the nine months of fiscal 2004. The effect of higher lead costs only partially being recovered by higher average selling prices, higher costs of goods sold and depreciation due to Fresh Start reporting, and the unfavorable effects of products sales mix were partially offset by the impact of slightly higher sales volumes and higher third party lead sales due to increased lead prices.

Transportation Europe and ROW gross profit was \$87,921 or 14.7% of net sales in the nine months of fiscal 2005 versus \$117,862 or 21.9% of net sales in the nine months of fiscal 2004. Currency positively impacted Transportation Europe and ROW gross profit in the nine months of fiscal 2005 by approximately \$8,600. The decrease was primarily due to lower sales volumes, higher lead costs only partially recovered through higher selling prices and higher costs of goods sold and depreciation due to Fresh Start reporting.

Industrial Energy North America gross profit was \$37,342 or 23.3% of net sales in the nine months of fiscal 2005 versus \$35,904 or 23.3% of net sales in the nine months of fiscal 2004. Gross profit was higher primarily due to higher sales volume, previously deferred income on a customer agreement under which the Company fulfilled its obligations in the third quarter of fiscal 2005 and the impact of headcount and cost reduction programs, partially offset by higher lead costs not being recovered through price increases and higher cost of goods sold and depreciation due to Fresh Start reporting.

Industrial Energy Europe and ROW gross profit was 100,664 or 17.5% of net sales in the nine months of fiscal 2005 versus \$119,200 or 22.9% of net sales in the nine months of fiscal 2004. Currency positively impacted Industrial Energy Europe and ROW gross profit in the nine months of fiscal 2005 by approximately \$7,800. Gross profit was negatively impacted by competitive pricing pressures, higher lead costs not being recovered through price increases and higher cost of goods sold and depreciation due to Fresh Start reporting offset partially by the impact of higher sales volume and headcount and cost reduction programs.

### *Expenses*

Expenses were \$729,853 in the nine months of fiscal 2005 versus \$382,206 in the nine months of fiscal 2004. Expenses included a goodwill impairment charge of \$399,388 in the nine months of fiscal 2005 and restructuring charges of \$13,588 in the nine months of fiscal 2005 and

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\$19,974 in the nine months of fiscal 2004. Excluding these items, expenses were \$316,877 and \$362,232 in the nine months of fiscal 2005 and 2004, respectively. Stronger foreign currencies unfavorably impacted expenses by approximately \$17,200 in the nine months of fiscal 2005. The change in expenses was impacted by the following matters: (i) nine months of fiscal 2005 selling, marketing and advertising costs and general and administration costs were favorably impacted by

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the Company's cost-reduction programs, primarily through headcount reductions; (ii) nine months of fiscal 2004 expenses include a \$3,175 gain on the sale of the Company's European non-lead battery assets and a \$9,309 loss on the sale of receivables under the Company's prior securitization facility, included in Other (income) expense, net; (iii) interest, net decreased \$36,416 principally due to the debt discharged under the Company's Plan of Reorganization; (iv) fiscal 2005 and fiscal 2004 nine months expenses included currency remeasurement gains of \$3,039 and \$40,244, respectively, included in Other (income) expense, net; (v) nine months of fiscal 2005 expenses include a loss on revaluation of a foreign currency forward contract of \$21,845, included in Other (income) expense, net; (vi) nine months of fiscal 2005 expenses include a gain on revaluation of Warrants of \$61,488 included in Other (income) expense, net; and (vii) nine months of fiscal 2005 expenses include recognition of \$7,500 insurance recoveries and the resulting gain from the involuntary conversion of assets related to the interruption of business due to a fire at an Industrial Energy Europe and ROW manufacturing facility, included in Other (income) expense, net.

Transportation North America expenses were \$191,750 in the nine months of fiscal 2005 versus \$61,126 in the nine months of fiscal 2004. The increase in expenses was primarily due to a goodwill impairment charge of \$122,061, increased fuel costs and higher branch operating costs.

Transportation Europe and ROW expenses were \$182,495 in the nine months of fiscal 2005 versus \$55,826 in the nine months of fiscal 2004. Currency unfavorably impacted expenses in the nine months of fiscal 2005 by approximately \$5,800. The increase in expenses was primarily due to a goodwill impairment charge of \$117,572, increased restructuring costs associated with headcount reduction programs and higher fuel and distribution costs.

Industrial Energy North America expenses were \$60,570 in the nine months of fiscal 2005 versus \$26,104 in the nine months of fiscal 2004. The increase in expenses was primarily due to a goodwill impairment charge of \$37,384, partially offset by the effects of cost-reduction programs, primarily through headcount reductions.

Industrial Energy Europe and ROW expenses were \$202,203 in the nine months of fiscal 2005 versus \$100,630 in the nine months of fiscal 2004. Currency unfavorably impacted expenses in the nine months of fiscal 2005 by approximately \$5,400. The increase in expenses was primarily due to a goodwill impairment charge of \$122,371, partially offset by the effects of cost-reduction programs, primarily through headcount reductions, and lower restructuring costs and the recognition of \$7,500 insurance recoveries and the resulting gain from the involuntary conversion of assets related to the interruption of business due to a fire at one of the Company's manufacturing facilities, included in Other (income) expense, net.

Unallocated expenses, net, which include shared service and corporate expenses, interest expense, currency remeasurement losses (gains), losses on sales of receivables and losses (gains) on revaluation of Warrants were \$92,835 in the nine months of fiscal 2005 versus \$138,520 in the nine months of fiscal 2004. Fiscal 2005 nine months expenses included a loss on revaluation of a foreign currency forward contract of \$21,845 and a gain on revaluation of Warrants of \$61,488. Fiscal 2005 and fiscal 2004 nine months expenses included currency remeasurement gains of \$3,039 and \$40,244, respectively. Currency unfavorably impacted unallocated expenses in the nine months of fiscal 2005 by approximately \$6,000. Corporate expenses were \$97,482 and \$95,004 in the nine months of fiscal 2005 and fiscal 2004, respectively. The increase was primarily due to unfavorable currency impact, costs associated with Sarbanes Oxley implementation and corporate severance costs, partially offset by the favorable impact of the Company's cost reduction programs, primarily through headcount reductions. Interest expense, net was \$38,035 in the nine months of fiscal 2005 versus \$74,451 in the nine months of fiscal 2004. The decrease is principally due to the debt discharged under the Company's Plan of Reorganization.

Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$408,821), or (20.7)% of net sales in the nine months of fiscal 2005 versus \$2,828, or 0.2% of net sales in the nine months of fiscal 2004, due to the items discussed above.





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Transportation North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$96,645), or (15.0)% of net sales in the nine months of fiscal 2005 versus \$50,942, or 8.3% of net sales in the nine months of fiscal 2004, due to the items discussed above.

Transportation Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$94,574), or (15.8)% of net sales in the nine months of fiscal 2005 versus \$62,036, or 11.5% of net sales in the nine months of fiscal 2004, due to the items discussed above.

Industrial Energy North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$23,228), or (14.5)% of net sales in the nine months of fiscal 2005 versus \$9,800, or 6.3% of net sales in the nine months of fiscal 2004, due to the items discussed above.

Industrial Energy Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$101,539), or (17.6)% of net sales in the nine months of fiscal 2005 versus \$18,570, or 3.6% of net sales in the nine months of fiscal 2004, due to the items discussed above.

### *Reorganization items*

Reorganization items, net, represent amounts the Company incurred as a result of the Chapter 11 filing and are presented separately in the unaudited condensed consolidated statements of operations. Reorganization items in the nine months of fiscal 2005 and 2004 were \$24,088 and \$45,917, respectively. These items comprise: professional fees including financial and legal services, success fees payable to the Company's advisors related to Chapter 11 bankruptcy emergence, employee retention costs for key members of management, income from refund of preference payments made to suppliers prior to the bankruptcy filing, income associated with rejection of certain executory contracts and interest income earned as a result of having assumed excess cash balances due to the Chapter 11 filing. See Note 8 to the unaudited condensed consolidated financial statements.

### *Gain on discharge of liabilities subject to compromise*

On the Effective Date, the Company recognized a \$1,558,839 gain on discharge of liabilities subject to compromise and recapitalization as a result of transactions contemplated by the Plan.

### *Fresh Start accounting adjustments*

As a result of our adoption of Fresh Start accounting, upon consummation of the Plan on the Effective Date, 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.

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### *Income Taxes*

In the nine months of fiscal 2005, an income tax provision of \$28,300 was recorded on pre-tax income of \$1,354,301. In the nine months of fiscal 2004, an income tax provision of \$4,639 was recorded on a pre-tax loss of \$43,089. The effective tax rate was 2.1% and (10.8)% in the nine months of fiscal 2005 and 2004, respectively. The effective tax rate for the nine months of fiscal 2005 and fiscal 2004 were impacted by the generation of income in tax-paying jurisdictions, principally Europe, Australia and Canada, with limited or no 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. and the United Kingdom. The effective tax rate for the nine months of fiscal

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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. The effective tax rate for the nine months of fiscal 2004 was impacted by the \$3,175 gain on the sale of the Company's European non-lead battery assets, which was a non-taxable transaction.

**Liquidity and Capital Resources***Capital Structure and Liquidity*

On May 5, 2004, the Effective Date, the Company entered into a new \$600,000 Senior Secured Credit Agreement (the "Credit Agreement") which includes 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 Revolving Loan Facility matures on May 5, 2009, while the Term Loan Facility, which includes quarterly principal payments beginning in December 2005, matures on May 5, 2010. The Term Loan Facility bears interest at LIBOR plus 3.5% per annum and EURO-LIBOR plus 4.0% per annum for the U.S. Dollar and Euro components, respectively. The Revolving Loan Facility bears interest at LIBOR plus 4.0% per annum. As of the Effective Date, the Company had \$500,000 outstanding under the Term Loan Facility and had not drawn on the Revolving Loan Facility.

Proceeds of the Term Loan Facility were used to finance the repayment of the Replacement DIP Credit Facility and to finance various costs and expenses associated with the exit financing and the Plan.

The Credit Agreement requires the Company to comply with financial covenants with respect to certain ratios and tests, as defined in the Credit Agreement, including interest coverage, leverage, earnings before interest, taxes, depreciation, amortization and restructuring (EBITDAR), asset coverage and capital expenditures. Principally as a result of the dramatic increase in lead costs year on year and the resultant adverse impact upon the Company's results, in November 2004 the Company was required to obtain amendments to certain financial covenants with respect to EBITDAR and leverage contained in the Credit Agreement. In addition, the Credit Agreement was amended with respect to the treatment of proceeds from insurance recoveries. Due to the fact that the Company failed to satisfy its leverage ratio covenant as of December 31, 2004 under the Credit Agreement, in February 2005, the Company received a waiver of the leverage ratio covenant from its lenders, as well as amendments relating to the Company's proposed senior note offering. Although there can be no assurances, the Company believes, based upon its financial forecast and plans, that it will comply with these covenants for the foreseeable future. Failure to comply with such covenants, without waiver, would result in an event of default under the Credit Agreement. If the Company were not able to maintain compliance with these covenants, it would have to consider additional actions, including refinancing, asset sales and further restructurings. 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 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.

Total availability under the Credit Agreement as of December 31, 2004 was \$65,755. There was no availability under the Credit Agreement as of February 10, 2005. Availability decreased principally due to increased borrowings under the Revolving Loan Facility to fund working capital requirements associated with the seasonality of the business.

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At December 31, 2004, the Company had outstanding letters of credit with a face value of \$32,888 and surety bonds with a face value of \$39,564. The majority of the letters of credit and surety bonds have been issued as

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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 agreement with the surety to maintain its current surety bonds through July 31, 2006. The agreement, as amended, requires the Company to increase the collateral held by the surety in several stages: forty percent collateralization of outstanding bonds within fifteen days of the Company closing its exit financing agreements; seventy percent collateralization of outstanding bonds by August 1, 2004; and full collateralization by August 1, 2005. Collateral held by the surety in the form of letters of credit at February 10, 2005, pursuant to the terms of the agreement, was \$29,185.

### *Sources of Cash*

The Company's liquidity requirements have been met historically through operating cash flows, 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 \$23,762 and \$19,538 in cash from the sale of non-core businesses and other assets in the nine months of fiscal 2005 and fiscal 2004, respectively. In the nine months of fiscal 2004, the Company sold its European non-lead battery assets for proceeds of \$16,300. Of this amount, \$12,600 was held in escrow pursuant to the Company's borrowing arrangements and was included in Restricted cash in the unaudited condensed consolidated balance sheet at March 31, 2004. Restrictions on these funds were removed following the Company's emergence from Chapter 11 and the cash was used to fund working capital requirements and reduce debt. Other asset sales in both fiscal 2005 and fiscal 2004 principally relate to the sale of surplus land and buildings.

Cash flows provided by financing activities were \$35,885 and \$2,200 in the nine months of fiscal 2005 and fiscal 2004, respectively. Cash flows provided by financing activities in the nine months of 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. Cash flows provided by financing activities in the nine months of fiscal 2004 relate primarily to net borrowings and under the European asset securitization facility and other short-term borrowings.

Total debt at December 31, 2004 was \$582,742, as compared to \$1,847,656 at March 31, 2004. See Note 13 to the unaudited condensed consolidated financial statements for the composition of such debt. On the Effective Date, indebtedness of the Debtors classified as subject to compromise, amounting to approximately \$1,081,293, was discharged or exchanged for new common stock and Warrants, in accordance with the Plan. In addition, the Company's European borrowings by non-debtor subsidiaries under the Predecessor Company's Senior Secured Global Credit Facility were settled pursuant to the Plan.

Going forward, in addition to operating cash flows, the Company's principal sources of liquidity will be the Credit Agreement, the Company's proposed senior note offering plus proceeds from any asset sales.

### *Uses of Cash*

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The Company's liquidity needs arise primarily from the funding of working capital needs, obligations on indebtedness, pension obligations and capital expenditures. Because of the seasonality of the Company's business, more cash has been typically generated in the third and fourth fiscal quarters than the first and second fiscal quarters. Greatest cash demands from operations have historically occurred during the months of June through October.

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Cash flows used in operating activities were \$20,834 in the nine months of fiscal 2005. This compares to cash flows provided by operating activities of \$20,882 in the nine months of fiscal 2004. Comparative cash flows were negatively impacted by the effect of higher lead costs and the resultant impact upon the Company's working capital requirements and higher payments of accrued expenses, including restructuring costs and professional fees associated with the Company's reorganization.

The Company expects that it will have ongoing liquidity needs to support its operational restructuring programs during fiscal 2005 and fiscal 2006, including payment of remaining accrued restructuring costs of approximately \$16,800 as of December 31, 2004. The Company's ability to successfully implement these restructuring strategies on a timely basis may be impacted by its access to sources of liquidity.

Cash contributions to the Company's pension plans are generally made in accordance with minimum regulatory requirements. Because of the downturn experienced in global equity markets and ongoing benefit payments, the Company's North American plans are currently significantly under-funded. Based on current assumptions and regulatory requirements, the Company's minimum future cash contribution requirements for its North American plans are expected to increase significantly in future fiscal years. On November 17, 2004, the Company received written notification of a tentative determination from the Internal Revenue Service ( IRS ) granting 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, under Section 412(d) of the Internal Revenue Code, subject to providing a lien satisfactory to the Pension Benefit Guaranty Corporation ( PBGC ) within sixty days of such written notice to secure such waived amounts, as well as other customary conditions. On January 15, 2005, the Company submitted to the IRS a request for modification of its funding waiver application to secure an additional 60 days to negotiate an acceptable lien with the PBGC. The temporary waiver provides for deferral of the Company's minimum contributions for those years to be paid over a subsequent five-year period. Based upon the temporary waiver, the Company expects its minimum future cash contributions will total approximately \$180,000 to \$200,000 from fiscal 2006 to fiscal 2010, including \$33,000 in fiscal 2006.

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.

Capital expenditures were \$51,729 and \$44,252 in the nine months of fiscal 2005 and fiscal 2004, respectively.

The Company has an outstanding foreign currency forward contract with a maturity of May 9, 2005. As of December 31, 2004 the foreign currency forward contract had an unrealized loss of \$21,845, which absent changes in the Euro \ U.S. Dollar exchange rate and/or amendment of the contract terms, would require cash settlement in May 2005. As of February 10, 2005 the foreign currency forward contract had an unrealized loss of \$11,875.

## **Financial Instruments and Market Risk**

The Company uses forward contracts to 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 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.

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On May 5, 2004 the Company entered into a contract to swap the U.S. dollar principal on the European tranche of its Credit Agreement by entering into a foreign currency forward. The forward contract has a term of



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approximately one year, with a maturity of May 9, 2005. The notional amount of the contract is \$172,500 (sell Euro 143,249; buy \$172,500). The forward contract hedges the Company's exposure to foreign currency fluctuations from changes in the U.S. dollar value of the European tranche of its Credit Agreement.

The Company also entered into various short-term forward contracts to hedge the Company's exposure to foreign currency fluctuations from changes in the U.S. dollar value of intercompany loans from Exide Technologies, the U.S. parent, to its European subsidiaries.

The Company has entered into certain forward contracts to hedge the purchase price of lead on a portion of the Company's externally purchased lead. Such contracts extend through the first quarter of fiscal 2006. These contracts are accounted for as cash flow hedges, in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted. At December 31, 2004 the Company had contracts outstanding to purchase 59 thousand metric tonnes of lead at an average settlement price of Euro 702 per metric tonne.

## **Related Parties**

The services of Lisa J. Donahue, Chief Restructuring Officer, until May 5, 2004 were provided to the Company pursuant to a Services Agreement, dated October 25, 2001, between the Company and AP Services, LLC. Under the Services Agreement, the Company was charged an hourly fee for Ms. Donahue's and other temporary employees' services, and Ms. Donahue, a principal in AP Services, LLC, was compensated independently by AP Services, LLC. The agreement with AP Services, LLC also provides for payment of a one-time success fee upon the Company's emergence from bankruptcy. AP Services, LLC is an affiliate of AlixPartners, LLC, a financial advisory and consulting firm specializing in corporate restructuring, which was retained by the Company in connection with its financial restructuring. Ms. Donahue is also a principal in AlixPartners, LLC. Fees incurred by the Company during the nine months of fiscal 2005 and 2004 under the Services Agreement were \$5,326 and \$6,118, respectively.

## **Other**

On September 24, 2004, the Company experienced a fire at one of its facilities in Europe. While damage to the facility was contained, the Company has experienced disruption to certain of its business operations and activities as the Company restores production capacity and diverts production to alternative sites. During the third quarter of fiscal 2005, the Company recognized \$7,500 insurance recoveries. This represents partial reimbursement for both business interruption and replacement of property damaged by the fire. The Company expects that any further financial impact of such business disruption will be substantially recovered through insurance coverage.

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

Changes to the quantitative and qualitative market risks as of December 31, 2004 are described in Management's Discussion and Analysis - Liquidity and Capital Resources. Also, see the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004 for further information.

**Item 4. Controls and Procedures**

The Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in applicable rules of the Securities and Exchange Commission) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer, together with the other members of management participating in the evaluation, concluded that the Company's disclosure controls and procedures are effective to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as

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amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Section 404 of the Sarbanes Oxley Act of 2002, and the rules and regulations thereunder, will require management of the Company to furnish a report on our internal controls over financial reporting beginning with our Annual report on Form 10-K for the year ending March 31, 2005. This internal control report will contain an assessment by our management of the effectiveness of our internal controls over financial reporting (including the disclosure of any material weaknesses) and a statement that our independent auditors have attested to and reported on management's evaluation of such internal controls.

We are currently reviewing and documenting our internal control processes and procedures and have begun testing such controls. This process has identified certain controls and areas of our control environment in which we need to undertake remediation efforts. Due to the number of controls to be examined, the complexity of the project, the time and effort required to complete remediation and the subjectivity in determining the effectiveness of controls and the significance of deficiencies, we can not be certain at this time that all of our controls will be documented and tested or that such controls will be considered effective by management, or if considered effective by our management, that our auditors will agree with such assessment. Management is working to complete all testing and remediation within the Sarbanes Oxley Act deadline.

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

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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 and (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.

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 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 litigation proceedings to which the Company is subject, the results of which could have a material adverse effect on the Company and its business, (v) the realization of the tax benefits of the Company's net operating loss carry forwards, of which is dependent upon future taxable income, (vi) 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, (vii) competitiveness of the battery markets in North America and Europe, (viii) the substantial management time and financial and other resources needed for the Company's consolidation and rationalization of acquired entities, (ix) 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, (x) the Company's exposure to fluctuations in interest rates on its variable debt, (xi) general economic conditions, (xii) the ability to acquire goods and services and/or fulfill labor needs at budgeted costs, (xiii) the Company's reliance on a single supplier for its polyethylene battery separators, (xiv) the Company's ability to obtain an extension from the Internal Revenue Service for its temporary waiver application for 2003 and 2004 pension funding requirements in order to negotiate a lien acceptable to the Pension Benefit Guaranty Corporation, (xv) our ability to attract and retain key personnel, and (xvi) 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 hereinabove set forth, 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***

For a discussion of other legal proceedings and environmental matters previously reported, see the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004. In addition, the Company is involved in various other claims and litigation incidental to the conduct of its business. The Company does not believe that any such claims or litigation to which the Company is a party, either individually or in the aggregate, will have a material adverse effect on the Company's financial conditions, cash flows or results of operations. Similarly, the Company budgets for capital expenditures and operating costs related to requirements under various Environmental, Health & Safety laws and believes that these expenditures will not have a material adverse effect on its financial condition, cash flows or results of operations, but cannot guarantee that additional expenditures will not be needed to ensure compliance with such Environmental, Health & Safety laws.

*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.

On January 20, 2005, the Company made its third distribution of new common stock and Warrants. Although predictions regarding the allowance and classification of claims are inherently difficult to make, based on the Company's review to date of the available information, and except as noted below in this Item 1, the Company believes the remaining reserve is reasonable and adequate. To the extent the reserved shares of new common stock and Warrants are ultimately insufficient to provide payment for such outstanding claims, the Company may issue additional shares of new common stock and Warrants. In that event, the Company will also issue shares of new common stock to the holders of pre-petition credit facility claims sufficient to preserve the relative value of their recoveries under the terms of the Plan.

*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 \$27.5 million 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 for \$27,900. Also, 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. The U.S. Attorney's Office recently 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 has supplied correspondence and other materials responsive to this request.



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### *Pre-Petition Litigation Settlements*

The Company previously disclosed in its most recent Report on Form 10-K for fiscal year 2004 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.

### *Legal Proceedings*

In April 2003, the Company sold its Torrejon, Spain nickel-cadmium plant. The Torrejon courts are conducting an investigation of two petitions submitted to determine whether criminal charges should be filed for alleged endangerment of workers' health at the former Torrejon plant. The petitions contain criminal allegations against former employees but only allegations of civil liability against the Company. The Company has retained counsel in the event that any charges ultimately are filed.

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 requested further investigation by the Anti-Smuggling Bureau. The results of the additional investigation are scheduled to be re-submitted to the Prosecutor's Office on approximately February 18, 2005. The Company is awaiting the conclusion of the investigation.

### *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 Agency 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 ninety-five federally defined Superfund or state equivalent sites. At forty-four 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.

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

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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.



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In October 2004, the U.S. Environmental Protection Agency ( EPA ), in the course of negotiating the government s pre-petition claim with the Company, notified the Company of the possibility of additional cleanup costs associated with the remediation of the Hamburg, Pennsylvania properties of approximately \$35 million. To date, the EPA has not made a formal claim for this amount or provided support for these estimates. Although the Company does not believe there is a basis for this claim, if the government proceeds with an action and prevails, the amounts of this claim, when added to all other reserved claims, could result in an inadequate reserve of new common stock and Warrants to resolve all such claims. The Company would still retain the right to perform and pay for such cleanup activities in this matter, which would preserve the existing reserved common stock and Warrants discussed in Note 18. Because the Company does not believe there is a basis for this claim and because of its pre-petition status, 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, 2004 and March 31, 2004, the amount of such reserves on the Company s unaudited condensed consolidated balance sheet was approximately \$63.8 million and \$94.2 million. These reserves have been adjusted in Fresh Start reporting to the extent the Company believes such obligations have been discharged under the Plan and to reflect the discounting of reserves, where appropriate under SOP 90-7. See Note 4. 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.

***Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities***

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***

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- 4.4 Second Amendment and Waiver to Credit Agreement, dated as of February 14, 2005, among Exide Technologies, a Delaware corporation, Exide Global Holding Netherlands C.V., a limited partnership organized under the laws of the Netherlands, the Lenders from time to time party hereto and Deutsche Bank AG New York Branch, as Administrative Agent.
- 31.1 Certification of Craig H. Muhlhauser, President and Chief Executive Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 31.2 Certification of J. Timothy Gargaro, Executive Vice President and Chief Financial Officer, 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.

EXIDE TECHNOLOGIES

By: /s/ J. TIMOTHY GARGARO  
**J. Timothy Gargaro**  
Executive Vice President and Chief Financial Officer  
Date: February 14, 2005

EXIDE TECHNOLOGIES

By: /s/ IAN J. HARVIE  
**Ian J. Harvie**  
Vice President and Corporate Controller  
Date: February 14, 2005