

EXIDE TECHNOLOGIES  
Form 10-K/A  
March 01, 2005  
Table of Contents

---

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

---

**FORM 10-K/A**

---

**FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended March 31, 2004

OR

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

For the transition period from            to

Commission File Number 1-11263

---

# Exide Technologies

(Exact Name of Registrant as Specified in Its Charter)

---

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**23-0552730**  
(I.R.S. Employer  
Identification No.)

**Crossroads Corporate Center, 3150 Brunswick Pike, Suite 230 Lawrenceville, New Jersey 08648**

**Telephone: (609) 512-3000**

(Address, including zip code, and telephone number, including area code, of Registrant's Principal Executive Offices)

---

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

**None**

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

**Common Stock, \$.01 par value**

**Warrants to subscribe for Common Stock**

---

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the Registrant's old voting stock held by non-affiliates of the Registrant as of September 30, 2003, based on the average bid and asked prices of the Registrant's old common stock on the over-the-counter market on such date of \$0.03 per share, was approximately \$684,577.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

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 distribution of securities confirmed by a Court. Yes  No

As of June 24, 2004, there were outstanding 23,414,327 shares of the Registrant's new common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

---

**Table of Contents**

**EXIDE TECHNOLOGIES**

**TABLE OF CONTENTS**

**PART II**

- Item 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
- Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**SIGNATURES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE**

**Table of Contents**

**Explanatory Note:** This Form 10-K/A amends Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and certain footnotes to the financial statements filed with our Annual Report on Form 10-K filed with the Securities and Exchange Commission on June 29, 2004 (the Original Form 10-K ) and includes a revised report of our independent registered public accounting firm with respect to such financial statements. As a result of this, the Section 302 and Section 906 certifications filed as exhibits to the Original 10-K have been re-executed as of the date of this Form 10-K/A. Except for the aforementioned amendments, this Form 10-K/A does not modify or update other disclosures in the Original Form 10-K, including the nature and character of such disclosures, to reflect events occurring, or items discovered, after the original filing date of the Original Form 10-K. Accordingly, this Form 10-K/A should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the original filing date of the Original Form 10-K, including any amendments to those filings.

## **Table of Contents**

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

(in thousands, except per share data)

#### **Important Matters**

After April 15, 2002, the Debtors operated their businesses and managed their properties as debtors-in-possession throughout the course of the bankruptcy case. The Debtors, along with the Official Committee of Unsecured Creditors filed the Plan with the Bankruptcy Court on February 27, 2004 and, on April 21, 2004, the Bankruptcy Court confirmed the Plan. As of the Effective Date, the Debtors substantially consummated the transactions provided for in the Plan. See Item 1. Business - Emergence from Chapter 11 Bankruptcy Protection, which contains a summary of certain transactions that became effective on the Effective Date.

The Consolidated Financial Statements for fiscal 2004 and 2003 contained herein have been prepared in accordance with Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7). The Consolidated Financial Statements for fiscal 2002 are not prepared in accordance with SOP 90-7 because the Chapter 11 cases were filed in fiscal 2003. See Note 1 to the Consolidated Financial Statements. The amounts reported in subsequent financial statements will materially change due to the restructuring of the Company's assets and liabilities as a result of the Plan and the application of the provisions of SOP 90-7 with respect to reporting upon emergence from Chapter 11 (fresh start accounting). Financial statements for periods subsequent to the Company's emergence from Chapter 11 will not be comparable with those of prior periods.

#### **External Factors That Affect Our Financial Performance**

*Competition.* The global transportation, motive power and network power 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 fluctuating lead prices as well as low-priced Asian imports impacting our markets.

*Exchange Rates.* The Company is exposed to foreign currency risk in most European countries, principally from fluctuations in the Euro and British Pound. The Company is also exposed, although to a lesser extent, to foreign currency risk in Australia and the Pacific Rim. Movements of exchange rates against the U.S. dollar can result in variations in the U.S. dollar value of non-U.S. sales. 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.

*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.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

*Seasonality and weather.* The Company sells most of its automotive aftermarket batteries during the fall and early winter (the Company's second and third fiscal quarters). Retailers buy automotive batteries during these periods so they will have enough inventory when cold weather strikes. In addition, many of the Company's industrial battery customers in Europe do not place their battery orders until the end of the calendar year. The seasonality of the Company's business increases its working capital requirements.

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

## **Table of Contents**

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

*Lead.* Lead is the primary material by weight used in the manufacture of batteries, representing approximately one-third of the Company's cost of goods sold. The market price of lead 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.

## **Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's 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.

The Company believes the following critical accounting policies and estimates affect the preparation of its Consolidated Financial Statements.

*Inventory Reserves.* The Company writes down its inventory to estimated market value based upon assumptions of future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. During the third quarter of fiscal 2002, the Company began a company-wide effort to reduce inventory levels. Based on those findings, the Company concluded that it would not recover the carrying costs of certain of this excess inventory. This excess inventory has been written down to its estimated recoverable value. As this effort continues, the Company may determine that actual recoveries differ from those estimated.

*Valuation of Long-lived Assets.* The Company's long-lived assets include property, plant and equipment, goodwill and identified intangible assets. Long-lived assets (other than goodwill and indefinite lived intangible assets) are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value may not be recoverable. Goodwill and indefinite-lived intangible assets are reviewed for impairment on both an annual basis and whenever changes in circumstances indicate the carrying value may not be recoverable. The fair value of goodwill and indefinite-lived intangible assets are 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. If these assets or their related assumptions change in the future, the Company may be required to record impairment charges. An erosion of future business results in any of the Company's business units could create impairment in goodwill or other long-lived assets and require a significant write down in future periods.

*Employee Benefit Plans.* The Company's pension plans and postretirement benefit plans are accounted for using actuarial valuations required by SFAS No. 87, *Employers' Accounting for Pensions* ( SFAS 87 ) and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* ( SFAS 106 ) . The Company considers accounting for employee benefit plans critical because management is required to make significant subjective judgments about a number of actuarial assumptions, including discount rates, compensation growth, long-term return on plan assets, retirement, turnover, health care cost trend rates and mortality rates. Depending on the assumptions and estimates used, the pension and postretirement benefit expense could vary within a range of outcomes and have a material effect on reported results. In addition, the assumptions can materially affect accumulated benefit obligations and future cash funding. For a detailed discussion of the Company's retirement benefits, see Employee Benefit Plans herein and Note 14 to the Consolidated Financial Statements.





## **Table of Contents**

*Deferred Taxes.* The Company records valuation allowances to reduce its deferred tax assets to amounts that are more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for valuation allowances, if the Company were to determine that it would be able to realize deferred tax assets in the future in excess of the Company's net recorded amount, an adjustment to the net deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the net deferred tax asset would decrease income in the period such determination was made. The Company has historically recorded full valuation allowances against deferred tax assets in the U.S. and the United Kingdom.

*Revenue recognition.* The Company records sales when revenue is earned. Shipment terms are generally FOB shipping point and revenue is recognized when product is shipped to the customer. In limited cases, terms are FOB destination and in these cases, revenue is recognized when product is delivered to the customer's delivery site. The Company records sales net of estimated reserves for warranties, discounts, customer allowances and returns.

*Warranty Reserves.* The Company recognizes a provision for the estimated cost of product warranties in the period in which the related revenue is recognized. While the Company engages in product quality programs and processes, including independent testing of product performance and compliance to ratings, the Company's warranty obligations are affected by product failure rates and customers' in-store return policies and procedures. In addition, should actual product return rates or the lag between the date of sale and claim/return date differ from the Company's estimates, revisions to estimated warranty reserves would be required.

*Environmental Reserves.* The Company is subject to numerous environmental laws and regulations in all the countries in which it operates. In addition, the Company can be held liable for investigation and remediation of sites impacted by its past operating activities. In certain countries including the United States, the Company maintains reserves for the reasonable cost of addressing these liabilities. 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.

Because environmental liabilities are not accrued until a liability is determined to be probable and reasonably estimable and there is a constructive obligation to remediate, 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 result in either an increase or decrease in the reserves and have a significant impact on the Company's liquidity.

*Purchase Commitments.* The Company has three worldwide supply agreements expiring in December 2009 to purchase its polyethylene battery separators. The supply agreements were entered into in fiscal 2000 with Daramic, the party that purchased the Company's battery separators manufacturing operation, as a condition of the sale of those operations. At the time of the sale, the agreements contained minimum annual purchase commitments in excess of the Company's requirements. Accordingly, the Company established a reserve, and reduced the gain on sale of the manufacturing operations, for commitments in excess of the Company's requirements and for the contractual purchase prices in excess of market. The Company currently has a reserve for the incremental purchase requirements over the remaining life of the agreement in excess of the Company's projected requirements. Whenever there is a significant change in the Company's unit volume outlook based on changes to its business plan, this reserve will be adjusted.

*Litigation.* The Company has legal contingencies that have a high degree of uncertainty. When a contingency becomes probable and reasonably estimable, a reserve is established. Numerous lawsuits have been filed against the Company for which the liabilities are not considered probable and/or reasonably estimable. Consequently, no reserves have been established for these matters. If future litigation or other resolution of these matters result in liability to the Company, such liability could have a significant impact on the Company's future results and liquidity.



---

**Table of Contents**

*Recently Issued Accounting Standards.*

Effective April 1, 2003, the Company adopted Statement of Financial Accounting Standards ( 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 consolidated statements of operations as a cumulative effect of change in accounting principle of \$15,593, or \$0.57 per share in the first quarter of fiscal 2004. The charge results from certain commitments made by the 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. The pro forma impact on net loss before cumulative effect of change in accounting principle for the year ended March 31, 2003 would have been immaterial.

In May 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections . This Statement requires gains and losses from extinguishments of debt to be classified as an extraordinary item only if the criterion in Opinion 30 has been met. Further, lease modification with economic effects similar to sale-leaseback transactions must be accounted for in the same manner as sale-leaseback transactions. While the technical corrections to existing pronouncements are not substantive in nature, in some instances they may change accounting practice. The provisions of this Statement related to the rescission of SFAS No. 4 and the amendment of SFAS No. 13 are effective beginning in fiscal 2003 and for transactions occurring after May 15, 2002, respectively, and did not have a material impact on the Company's Consolidated Financial Statements. All other provisions are effective for financial statements issued on or after May 15, 2002, and did not have a material impact on the Company's Consolidated Financial Statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Exit or Disposal Activities ( SFAS 146 ). SFAS 146 provides guidance on the recognition and measurement of liabilities for costs associated with exit or disposal activities that are initiated after December 31, 2002, including restructuring activities that were previously accounted for pursuant to the guidance that the emerging Issues Task Force ( EITF ) set forth in EITF Issue No. 94-3. The Company has applied the provisions of this statement to restructuring activities following the Effective Date.

In January 2003, the FASB issued FASB Interpretation No. ( FIN ) 46, Consolidation of Variable Interest Entities, an Interpretation of ARB 51 . This Interpretation addresses consolidation by business enterprises of certain variable interest entities ( VIEs ). The Interpretation was effective immediately for all enterprises with variable interests in VIEs created after January 31, 2003. For variable interests in special purpose entities created before February 1, 2003, the provisions of this Interpretation became applicable on December 31, 2003. For all other variable interests in VIEs created before February 1, 2003, the provisions of this Interpretation were applicable on March 31, 2004. Further, the disclosure requirements of the Interpretation were applicable for all financial statements initially issued after January 31, 2003, regardless of the date on which the VIE was created. The Company has performed an evaluation to identify such entities and does not believe that it has arrangements with any entities that fall within the scope of this standard, other than the special purpose entity established in connection with the Company's European accounts receivable securitization facility, which was accounted for as a secured borrowing in accordance with the requirements of SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities , until refinanced in February 2004.

## **Table of Contents**

In April 2003, the FASB issued SFAS No. 149, Amendment of FASB Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to language used in FIN No. 45, and amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after June 30, 2003.

In May 2003, the 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. As of March 31, 2004, and for the year then ended, the Company had no such financial instruments outstanding.

In May 2003, the Emerging Issues Task Force ( EITF ) reached a consensus on Issue No. 01-08, Determining Whether an Arrangement Contains a Lease. EITF Issue No. 01-08 provides guidance on how to determine if an arrangement contains a lease that is within the scope of SFAS 13, Accounting for Leases. The Company adopted EITF Issue No. 01-08 as of July 1, 2003. The adoption of EITF Issue No. 01-08 did not have a material impact on the Company's Consolidated Financial Statements.

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) 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. The Company expects that application of this guidance will not have a material impact on the Company's Consolidated Financial Statements.

## **Results of Operations**

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 fiscal years 2004, 2003 and 2002 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.

### ***Fiscal Year Ended March 31, 2004 compared with Fiscal Year Ended March 31, 2003***

#### *Overview*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Net loss for fiscal 2004 was \$114,083, or \$4.17 per diluted share versus fiscal 2003 net loss of \$140,885, or \$5.14 per diluted share. Included in fiscal 2004 consolidated net loss were reorganization items in connection with the bankruptcy of \$67,042, restructuring costs of \$52,708 (\$35,326 after tax) and a charge of \$15,593 for the cumulative effect of a change in accounting principle. Included in the consolidated net loss for fiscal 2003 were reorganization items of \$36,370, restructuring costs of \$25,658 and a non-cash charge of \$37,000 for goodwill impairment resulting from an evaluation of results and updated projections of the Industrial Energy Europe and ROW segment, following the deterioration of this segment's performance. In addition, currency remeasurement gains of \$43,846 and \$22,753, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in fiscal 2004 and 2003, respectively.

## **Table of Contents**

### *Net Sales*

Net sales were \$2,500,493 for fiscal 2004 versus \$2,361,101 in fiscal 2003. Currency positively impacted net sales for fiscal 2004 by approximately \$229,000. The strength of the Euro in the Company's European markets also resulted in competitive pricing pressures from Asian imports, negatively impacting average selling prices.

Transportation North America net sales were \$817,710 for fiscal 2004 versus \$833,493 for fiscal 2003. Revenues declined slightly due to reduced unit volumes in both the aftermarket and original equipment channels.

Transportation Europe and ROW net sales were \$760,512 for fiscal 2004 versus \$660,417 for fiscal 2003. Volumes declined in the original equipment channel following the loss of certain original equipment business. Selling prices were lower in fiscal 2004, principally because of competitive pricing pressures. Currency positively impacted Transportation Europe and ROW net sales in fiscal 2004 by approximately \$120,000.

Industrial Energy North America net sales were \$210,572 for fiscal 2004 versus \$199,856 for fiscal 2003. The increase was primarily due to higher material handling application volumes and higher telecommunications market volumes.

Industrial Energy Europe and ROW net sales were \$711,699 for fiscal 2004 versus \$667,335 for fiscal 2003. Sales volumes were lower due to lower European material handling application shipments, reductions from strong European military shipments in fiscal 2003 and weakness in the Asian market, including disruption of the Company's Chinese operations. Sales were also negatively impacted by competitive pricing pressures in Europe, including the impact of Asian imports. Currency positively impacted Industrial Energy Europe and ROW net sales in fiscal 2004 by approximately \$109,000.

### *Gross Profit*

Gross profit was \$509,325 in fiscal 2004 versus \$516,541 in fiscal 2003. Gross profit margin decreased to 20.4% in fiscal 2004 from 21.9% in fiscal 2003. Gross profit was negatively impacted by lower sales volumes, competitive pricing pressures and higher benefit costs, including medical and pension expenses, offset partially by the Company's cost reduction programs. Currency positively impacted gross profit in fiscal 2004 by approximately \$47,300. The strength of the Euro in the Company's European markets also resulted in competitive pricing pressures from Asian imports, negatively impacting margins.

Transportation North America gross profit was \$146,790 or 18.0% of net sales in fiscal 2004 versus \$154,349 or 18.5% of net sales in fiscal 2003. The decrease was primarily due to the effects of lower sales volumes

Transportation Europe and ROW gross profit was \$159,062 or 20.9% of net sales in fiscal 2004 versus \$154,079 or 23.3% of net sales in fiscal 2003. The effects of lower sales volumes and lower pricing were partially offset by the benefits from plant rationalization and headcount reductions. Currency positively impacted Transportation Europe and ROW gross profit in fiscal 2004 by approximately \$24,500.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Industrial Energy North America gross profit was \$47,032 or 22.3% of net sales in fiscal 2004 versus \$47,889 or 24.0% of net sales in fiscal 2003. Gross profit was negatively impacted by competitive pricing pressures, partially offset by higher sales volume.

Industrial Energy Europe and ROW gross profit was \$156,441 or 22.0% of net sales in fiscal 2004 versus \$160,224 or 24.0% of net sales in fiscal 2003. Gross profit was negatively impacted by lower sales volumes and competitive pricing pressures. Currency positively impacted Industrial Energy Europe and ROW gross profit in fiscal 2004 by approximately \$22,800.



## **Table of Contents**

### *Expenses*

Expenses were \$537,035 in fiscal 2004 versus \$593,887 in fiscal 2003. Included in expenses are restructuring charges of \$52,708 in fiscal 2004 and \$25,658 in fiscal 2003. Also included in fiscal 2003 expenses is a charge for goodwill impairment of \$37,000. Excluding these items, expenses were \$484,327 and \$531,229 in fiscal 2004 and 2003, respectively. Currency unfavorably impacted expenses by approximately \$45,600 in fiscal 2004. The net decrease in expenses was impacted by the following matters: (i) fiscal 2004 selling, marketing and advertising costs in each of the Company's business segments were favorably impacted by the Company's cost-reduction programs, primarily through headcount reductions; (ii) expenses in each of the Company's business segments for fiscal 2004 were negatively impacted by an increase in benefit costs, including medical and pension expenses; (iii) expenses for fiscal 2004 include \$9,700 net gain on asset sales, included in Other (income) expense, net; and (iv) fiscal 2004 and 2003 expenses included currency remeasurement gains of \$43,846 and \$22,753, respectively, included in Other (income) expense, net.

Transportation North America expenses were \$83,770 in fiscal 2004 versus \$90,624 in fiscal 2003. The decrease in expenses was due primarily to the Company's cost reduction programs, offset partially by increased benefit costs, including medical and pension expenses.

Transportation Europe and ROW expenses were \$83,422 in fiscal 2004 versus \$71,440 in fiscal 2003. Currency unfavorably impacted Transportation Europe and ROW expenses in fiscal 2004 by approximately \$12,400. The resulting decrease in expenses was due primarily to the Company's cost reduction programs, offset partially by increased benefit costs, including pension expense.

Industrial Energy North America expenses were \$32,635 in fiscal 2004 versus \$43,263 in fiscal 2003. The decrease was due primarily to the Company's cost reduction programs and restructuring expenses in fiscal 2003 associated with the downsizing of a manufacturing facility, partially offset by higher selling expenses and increased benefit costs, including medical and pension expenses.

Industrial Energy Europe and ROW expenses were \$152,002 in fiscal 2004 versus \$165,593 in fiscal 2003. Fiscal 2004 expenses included a \$3,175 gain on the sale of the Company's European non-lead battery assets. Fiscal 2003 expenses included a goodwill impairment charge of \$37,000. Excluding these items, expenses were \$155,177 and \$128,593 in fiscal 2004 and 2003, respectively. The increase was due primarily to restructuring expenses associated with the Company's European consolidation efforts and increased benefit costs, including pension expense, partially offset by the Company's cost reduction programs. Currency unfavorably impacted Industrial Energy Europe and ROW expenses in fiscal 2004 by approximately \$20,500.

Unallocated expenses, net, which include corporate expenses, interest expense, currency remeasurement losses (gains) and losses on sales of accounts receivable, were \$185,206 in fiscal 2004 versus \$222,967 in fiscal 2003. Expenses for fiscal 2004 and 2003 included currency remeasurement gains of \$43,846 and \$22,753, respectively. Currency unfavorably impacted unallocated expenses in fiscal 2004 by approximately \$12,700. Corporate expenses in fiscal 2004 and fiscal 2003 were \$118,765 and \$127,943, respectively. The decrease in corporate expenses was due to the favorable impact of the Company's cost-reduction programs, offset partially by increased benefit costs, including medical and pension expenses and higher restructuring costs. Interest expense, net was \$99,027 in fiscal 2004 versus \$105,788 in fiscal 2003. The decrease in interest expense is due to lower interest rates and lower amortization expense associated with deferred financing costs.

Loss before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$27,710, or (1.1)% of net sales in fiscal 2004 versus \$77,346, or (3.3)% of net sales in fiscal 2003 due to the items discussed above.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Transportation North America income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$63,020, or 7.7% of net sales in fiscal 2004 versus \$63,725, or 7.6% of net sales in fiscal 2003, due to the items discussed above.

## **Table of Contents**

Transportation Europe and ROW income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$75,640, or 9.9% of net sales in fiscal 2004 versus \$82,639, or 12.5% of net sales in fiscal 2003, due to the items discussed above.

Industrial Energy North America income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$14,397, or 6.8% of net sales in fiscal 2004 versus \$4,626, or 2.3% of net sales in fiscal 2003, 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 \$4,439, or 0.6% of net sales in fiscal 2004 versus (\$5,369), or (0.8)% of net sales in fiscal 2003, due to the items discussed above.

### *Reorganization Items*

Reorganization items represent amounts the Company incurred as a result of the Chapter 11 filing and are presented separately in the Consolidated Statements of Operations. Reorganization items for fiscal 2004 and 2003 were \$67,042 and \$36,370, respectively. These items include professional fees including financial and legal services, employee retention costs for key members of management, costs 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. The increase in reorganization expenses for fiscal 2004 reflects a significant increase in legal costs associated with development of the Company's Plan and preparation for Bankruptcy Court hearings. See Note 8 to the Consolidated Financial Statements.

### *Income Taxes*

In fiscal 2004, an income tax provision of \$3,271 was recorded on a pre-tax loss of \$94,752. In fiscal 2003, an income tax provision of \$26,969 was recorded on a pre-tax loss of \$113,716. The effective tax rate was (3.5%) and (23.7%) in fiscal 2004 and 2003, respectively. The effective tax rate for fiscal 2004 and fiscal 2003 was impacted by the generation of income in tax-paying jurisdictions, principally Europe, 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 both the U.S. and certain international regions. The effective tax rate for fiscal 2004 was also impacted by the adjustment of previously recognized valuation allowances in certain international jurisdictions based on updated financial projections. The effective tax rate for fiscal 2003 was also impacted by the non-deductibility of the \$37,000 Industrial Energy Europe and ROW goodwill impairment charge.

During fiscal 2003, the Company reorganized the ownership structure of certain of its foreign subsidiaries and recorded an impairment charge on certain intercompany investments for statutory purposes. These actions have no effect on reported pre-tax operating results but resulted in a net tax benefit.

### *Fiscal Year Ended March 31, 2003 compared with Fiscal Year Ended March 31, 2002*

*Overview*

Net loss for fiscal 2003 was \$140,885, or \$5.14 per diluted share versus fiscal 2002 net loss of \$304,082 or \$11.35 per diluted share. Included in the consolidated net loss for fiscal 2003 is a non-cash charge of \$37,000 for goodwill impairment resulting from an evaluation of results and updated projections of the Industrial Energy Europe and ROW segment, following the deterioration of this segment's performance. Results also include fiscal 2003 restructuring costs of \$25,658 and reorganization items in connection with the Bankruptcy of \$36,370. Fiscal 2002 results included a goodwill impairment charge of \$105,000 in the Industrial North America segment, restructuring costs of \$33,122 related to work force reductions and a \$13,873 charge related to debt-for-equity exchanges. In addition, the Company recorded a gain of \$8,185 during fiscal 2002 relating to the early termination of a purchased research and development agreement with Lion Compact Energy, a privately held company conducting research in dual-graphite technology ( LCE ). In addition, currency remeasurement loss

## **Table of Contents**

(gain) of (\$23,753) and \$5,108, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in fiscal 2003 and 2002, respectively.

### *Net Sales*

Net sales were \$2,361,101 for fiscal 2003 versus \$2,428,550 in fiscal 2002. This decrease resulted from lower sales volumes in all of the Company's business segments during fiscal 2003. Net sales were positively impacted by \$136,900 due to the strong Euro.

Transportation North America net sales were \$833,493 for fiscal 2003 versus \$893,695 for fiscal 2002. Revenues declined due to reduced unit volumes principally due to lost business and territories in our aftermarket accounts. These reductions were partially offset by benefits from warranty management programs. Results for fiscal 2003 were also favorably impacted by approximately \$4,800 from changes in estimates of historical warranty obligations based upon new commercial arrangements.

Transportation Europe and ROW net sales were \$660,417 for fiscal 2003 versus \$624,424 for fiscal 2002. Sales volumes were slightly lower, primarily in original equipment. Currency positively impacted Transportation Europe and ROW net sales in fiscal 2003 by approximately \$68,800.

Industrial Energy North America net sales were \$199,856 for fiscal 2003 versus \$254,643 for fiscal 2002. Lower sales volumes resulted from the general softness in the United States economy, including the impact on demand for material handling application volumes and a significant decline in capital spending in the telecommunications sector.

Industrial Energy Europe and ROW net sales were \$667,335 for fiscal 2003 versus \$655,788 for fiscal 2002. Lower sales volumes were a direct result of the significantly weaker telecommunications markets in Europe and Asia. Currency positively impacted Industrial Energy Europe and ROW net sales in fiscal 2003 by approximately \$68,100.

### *Gross Profit*

Gross profit was \$516,541 in fiscal 2003 versus \$463,919 in fiscal 2002. Gross profit margin increased to 21.9% in fiscal 2003 from 19.1% in fiscal 2002. The favorable change in gross profit is primarily due to the warranty management programs in Transportation North America, including a \$4,800 reduction in warranty reserves related to changes in estimates of historical obligations, continued plant rationalization and headcount reduction programs and lower lead pricing in Europe, offset partially by lower sales volumes and higher production costs related to under-absorption of fixed overheads. The strong Euro versus the U.S. dollar positively impacted gross profit in fiscal 2003 by approximately \$32,800.

Transportation North America gross profit was \$154,349 or 18.5% of net sales in fiscal 2003 versus \$117,059 or 13.1% of net sales in fiscal 2002. The effect of lower sales volumes was more than offset by the benefits from plant rationalization and headcount reductions and warranty management programs, including a \$4,800 reduction in warranty reserves related to a change in estimate of historical obligations. Fiscal 2002

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

gross profit was reduced by a \$15,500 charge to costs of sales to increase reserves for purchase commitments (See Note 23) and a \$500 charge to write down excess inventories.

Transportation Europe and ROW gross profit was \$154,079 or 23.3% of net sales in fiscal 2003 versus \$127,511 or 20.4% of net sales in fiscal 2002. The increase was due primarily to the benefits from plant rationalization and headcount reductions, lower lead pricing in Europe and European currency effects. Fiscal 2002 gross profit was reduced by a \$2,500 charge to write down excess inventories. Currency positively impacted Transportation Europe and ROW gross profit in fiscal 2003 by approximately \$16,500.

---

**Table of Contents**

Industrial Energy North America gross profit was \$47,889 or 24.0% of net sales in fiscal 2003 versus \$89,040 or 35.0% of net sales in fiscal 2002. Gross profit was negatively impacted by lower sales volumes, unfavorable sales mix (smaller size battery systems) and higher production costs related to under-absorption of fixed overheads. Gross profit in fiscal 2002 was negatively impacted by a \$500 charge to write down excess inventories.

Industrial Energy Europe and ROW gross profit was \$160,224 or 24.0% of net sales in fiscal 2003 versus \$130,309 or 19.9% of net sales in fiscal 2002. The increase was due to positive currency impact, lower lead pricing in Europe and the benefits from plant rationalization and headcount reductions, partially offset by significantly weaker demand in the telecommunications market and higher production costs related to under-absorption of fixed overheads. Gross profit in fiscal 2002 was negatively affected by a \$6,500 charge to write down excess inventories and a \$2,200 charge to write-off inventory in the Company's operation in China. Currency positively impacted Industrial Energy Europe and ROW gross profit in fiscal 2003 by approximately \$16,300.

*Expenses*

Expenses were \$593,887 in fiscal 2003 versus \$768,716 in fiscal 2002. Fiscal 2003 and fiscal 2002 expenses included charges for goodwill impairment of \$37,000 and \$105,000, respectively. Also included in expenses are restructuring charges of \$25,658 in fiscal 2003 and \$33,122 in fiscal 2002. Fiscal 2002 expenses also include bad debt provisions of \$16,000 related to Kmart receivables and the Company's China operations, a \$13,873 non-cash charge related to debt-for-equity exchanges included in Other (income) expense, net, and a credit of \$8,185 related to the early termination of a purchased research and development agreement with LCE. Excluding these items, expenses were \$531,229 and \$608,906 in fiscal 2003 and 2002, respectively. Stronger European currencies unfavorably impacted expenses by approximately \$30,500 in fiscal 2003. The change in expenses was impacted by the following matters: (i) fiscal 2003 selling, marketing and advertising costs in each of the Company's business segments were favorably impacted by the Company's cost-reduction programs, primarily through headcount reductions; (ii) general and administrative expenses in fiscal 2003 were unfavorably impacted by higher pension costs, rising insurance premiums and information technology costs, offset partially by cost-reduction programs; (iii) interest, net decreased \$30,453, principally due to ceasing accruing certain interest on pre-petition debt classified as subject to compromise; and (iv) fiscal 2003 expenses included currency remeasurement gains of \$22,753.

Transportation North America expenses were \$90,624 in fiscal 2003 versus \$131,046 in fiscal 2002. Fiscal 2002 expenses include a \$12,600 bad debt provision on Kmart receivables. The remaining decrease in expenses was due primarily to the Company's cost reduction programs.

Transportation Europe and ROW expenses were \$71,440 in fiscal 2003 versus \$62,095 in fiscal 2002. The increase in expenses was due primarily to unfavorable currency impact and higher restructuring and impairment costs, partially offset by the Company's cost reduction programs. Currency unfavorably impacted Transportation Europe and ROW expenses in fiscal 2003 by approximately \$7,200.

Industrial Energy North America expenses were \$43,263 in fiscal 2003 versus \$158,644 in fiscal 2002. Fiscal 2002 expenses include a goodwill impairment charge of \$105,000. The remaining decrease was primarily due to the Company's cost reduction programs.

Industrial Energy Europe and ROW expenses were \$165,593 in fiscal 2003 versus \$120,954 in fiscal 2002. Fiscal 2003 expenses include a goodwill impairment charge of \$37,000. Fiscal 2002 includes a \$3,400 provision for bad debts related to the Company's operations in China. Excluding these items, operating expenses were \$128,593 and \$117,554 in fiscal 2003 and 2002, respectively. The increase was primarily due to unfavorable currency impact, partially offset by the Company's cost reduction programs. Currency unfavorably impacted Industrial Energy Europe and ROW expenses in fiscal 2003 by approximately \$13,000.





## **Table of Contents**

Unallocated expenses, net, which include corporate expenses, interest expense, currency remeasurement losses (gains) and losses on sales of accounts receivable, were \$222,967 in fiscal 2003 versus \$295,977 in fiscal 2002. Fiscal 2003 net expenses include currency remeasurement gains of \$22,753. Fiscal 2002 net expenses include a gain of \$8,200 due to the LCE agreement termination, \$13,873 of charges related to debt-for-equity exchanges, currency remeasurement losses of \$5,109 and costs incurred in connection with debt waivers obtained. Currency unfavorably impacted unallocated expenses in fiscal 2003 by approximately \$10,300. Corporate expenses in fiscal 2004 and fiscal 2003 were \$127,943 and \$139,992, respectively. The Company's cost-reduction programs favorably impacted corporate expenses in fiscal 2003. Interest expense, net was \$105,788 in fiscal 2003 versus \$136,241 in fiscal 2002. The decrease is due to ceasing accruing certain interest on pre-petition debt classified as subject to compromise in the Company's consolidated balance sheet in accordance with SOP 90-7. Interest at the stated contractual amount on debt that was not charged to operations for fiscal 2003 was approximately \$39,600. Excluding interest not charged pursuant to SOP 90-7, higher interest costs in fiscal 2003 were driven by the DIP Credit Facility and amortization of deferred financing costs incurred on the DIP Credit Facility and European accounts receivable securitization facility.

Loss before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$77,346, or (3.3)% of net sales in fiscal 2003 versus \$304,797, or (12.6)% of net sales in fiscal 2002 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 \$63,725, or 7.6% of net sales in fiscal 2003, versus (\$13,987), or (1.6)% of net sales in fiscal 2002, due to the items discussed above.

Transportation Europe and ROW income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$82,639, or 12.5% of net sales in fiscal 2003, versus \$65,416, or 10.5% of net sales in fiscal 2002, 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 \$4,626, or 2.3% of net sales in fiscal 2003, versus (\$69,604), or (27.3)% of net sales in fiscal 2002, 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 (\$5,369), or (0.8)% of net sales in fiscal 2003, versus \$9,355, or 1.4% of net sales in fiscal 2002 due to the items discussed above.

### *Reorganization Items*

Reorganization items represent amounts the Company incurred as a result of the Chapter 11 filing and are presented separately in the consolidated statements of operations. Reorganization items for fiscal 2003 were \$36,370. These items include professional fees including financial and legal services, employee retention costs for key members of management and interest income earned as a result of having assumed excess cash balances due to the Chapter 11 filing. See Note 8 to the Consolidated Financial Statements.

### *Income Taxes*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

In fiscal 2003, an income tax provision of \$26,969 was recorded on a pre-tax loss of \$113,717. In fiscal 2002, an income tax benefit of \$1,422 was recorded on a pre-tax loss of \$304,796. The effective tax rate was (23.7%) and 0.5% in fiscal 2003 and 2002, respectively. The effective tax rate for fiscal 2003 was impacted by the generation of income in tax-paying jurisdictions, principally Europe, with no offset on a consolidated basis as a result of recognition of valuation allowances on tax benefits generated from current period losses in both the U.S. and certain international regions as well as the non-deductibility of the \$37,000 Industrial Energy Europe and ROW goodwill impairment charge. The effective tax rate for fiscal 2002 was impacted by the recognition of

## **Table of Contents**

valuation allowances on tax benefits generated from current period losses in both the United States and certain international regions, the tax treatment of the debt-for-equity exchanges and LCE agreement termination as well as the non-deductibility of the \$105,000 Industrial Energy North America goodwill impairment charge. As a result of certain pledges of stock of foreign subsidiaries in connection with bank amendments obtained during fiscal 2002, the Company was required to recognize certain foreign sourced income ( Subpart F Income ) as a constructive dividend for U.S. tax purposes. The constructive dividend has otherwise reduced operating loss tax carry-forwards. During fiscal 2003 and 2002 the Company reorganized the ownership structure of certain of its foreign subsidiaries and recorded an impairment charge on certain inter-company investments for statutory purposes. These actions have no effect on reported pre-tax operating results but resulted in a net tax benefit.

## **Lion Compact Energy**

In fiscal 2000, the Company recorded charges totaling approximately \$14,300 for purchased in-process research and development resulting from the acquisition of a controlling interest in LCE.

Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced, but not yet completed, at the date of acquisition and which, if unsuccessful, have no alternative future use in research and development activities or otherwise. In accordance with SFAS No. 2, Accounting for Research and Development Costs, as interpreted by FASB Interpretation No. 4, amounts assigned to purchased in-process research and development meeting the above criteria must be charged to expense at the date of consummation of the purchase business combination.

The Company obtained appraisals in connection with the valuation of the acquired assets of LCE, principally purchased in-process research and development. The valuation was completed based on an analysis of discounted cash flow, using assumptions and estimates about the range of possible cash flows, and their probabilities.

During fiscal 2002, the Company exercised an option to re-convey its interest in LCE to the seller in exchange for extinguishment of the remaining purchase price obligations due. The Company recorded a credit to income of \$8,200, at that time, equal to the present value of the expected future purchase price payments.

## **Liquidity and Capital Resources**

### *Capitalization*

On February 13, 2004, the Company entered into the Replacement DIP Credit Facility which replaced the prior DIP Credit Facility. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP Credit Facility refinanced the Company's European accounts receivable securitization facility. The Replacement DIP Credit Facility also included a commitment to refinance the 9.125% Senior Notes which were due April 15, 2004, and provided additional working capital borrowing availability. The Replacement DIP Credit Facility provided for interest at LIBOR plus 3.75% per annum. Total availability under the Replacement DIP Credit Facility as of March 31, 2004 was \$43,400.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

On April 15, 2004 the Company paid off the 9.125% Senior Notes using funds borrowed under the Replacement DIP Credit Facility.

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 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

## Table of Contents

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, asset coverage and capital expenditures. 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 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 June 24, 2004 was \$80,750.

At March 31, 2004, the Company had outstanding letters of credit with a face value of \$2,732 and surety bonds with a face value of \$43,264. 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 financial institution issuing the surety bonds (the Surety) holds approximately \$8,200 in cash collateral as security against demands made by the beneficiaries of such bonds. 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 requires the Company to increase the cash collateral held by the Surety in several stages: forty percent collateralization of outstanding bonds by January 31, 2004; seventy percent collateralization of outstanding bonds by August 1, 2004; and full collateralization by August 1, 2005. The Company has amended the agreement with the Surety regarding the terms of the initial forty percent collateralization of which \$750 was paid on February 15, 2004 and the remainder was paid on June 16, 2004.

### *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 \$26,717 and \$6,783 in cash from the sale of non-core businesses and other assets in fiscal 2004 and fiscal 2003, respectively. 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 Company's borrowing arrangements and is included in restricted cash in the consolidated balance sheet at March 31, 2004. See Note 22 to the Consolidated Financial Statements. In accordance with the Plan, these funds were remitted to the Company on the

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Effective Date. Remaining proceeds from asset sales in fiscal 2004 were primarily used to reduce debt.

## **Table of Contents**

Cash flows (used in) provided by financing activities were (\$9,667) and \$278,882 in fiscal 2004 and fiscal 2003, respectively. Cash flows used in financing activities in fiscal 2004 relate primarily to financing costs incurred in conjunction with the Replacement DIP Credit Facility and net repayments of other debt obligations. Cash flows provided by financing activities in fiscal 2003 relate primarily to net borrowings under the DIP Credit Facility and the impact of the European asset securitization refinancing.

Total debt at March 31, 2004 was \$1,847,656, as compared to \$1,804,903 at March 31, 2003. The increase in total debt was principally due to currency translation of non-U.S. dollar debt. See Note 13 to the 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 at March 31, 2004, was discharged or exchanged for new common stock and Warrants, in accordance with the Plan.

Going forward, in addition to operating cash flows, the Company's principal sources of liquidity will be cash from operations, the Credit Agreement, and proceeds from any asset sales.

### *Uses of Cash*

The Company's liquidity needs arise primarily from the funding of working capital needs, obligations on indebtedness 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.

Cash flows provided by (used in) operating activities were \$40,551 in fiscal 2004 and (\$239,858) (including \$261,723 usage of cash related to the net change from sales of receivables) in fiscal 2003. Excluding the effect of the accounts receivable securitization activity in fiscal 2003, comparative cash flows were positively impacted by higher accounts receivable collections, offset by higher payments of accrued expenses, reflecting the payment of accrued professional fees associated with the Chapter 11 reorganization process as well as payment of accrued restructuring costs.

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 \$42,500 as of March 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.

Prior to and during the Company's Chapter 11 proceeding, the Company experienced a tightening of trade credit availability and terms. The Company expects improvement in its ability to obtain favorable trade credit terms following its emergence from Chapter 11.

Capital expenditures were \$65,128 and \$45,878 in fiscal 2004 and fiscal 2003, respectively. Capital expenditures during fiscal 2003 were impacted by the Chapter 11 filing, related liquidity availability and cost containment efforts. Capital expenditures for fiscal 2004 were also higher due to investment in new technologies for charging batteries. Subject to restrictions under the Credit Agreement, capital expenditures are expected to be approximately \$60,000 in fiscal 2005.

**Employee Benefit Plans**

*Description*

The Company has noncontributory defined benefit pension plans covering substantially all hourly and salaried employees in North America. Plans covering hourly employees provide pension benefits of stated amounts for each year of credited service. Salaried employees in North America are covered by a cash balance plan providing benefits as a percentage of salary up to qualified limits.



## **Table of Contents**

European subsidiaries of the Company sponsor defined benefit plans that cover substantially all employees who are not covered by statutory plans. In most cases the defined benefit plans in Europe are not funded and the benefit formulas are similar to those used by the North American hourly plans.

The Company provides certain health care and life insurance benefits for a limited number of retired employees.

Assets funded under both the North American and European defined benefit plans consist primarily of equity and fixed income securities. At March 31, 2004, the fair market value of assets for the Company's defined benefit plans was \$283,967, compared to \$236,157 at March 31, 2003.

### *Accounting and Significant Assumptions*

The Company accounts for pension benefits using the accrual method set forth in SFAS 87, *Employers Accounting for Pensions*. The accrual method of accounting for pensions involves the use of actuarial assumptions concerning future events that impact estimates of the amount and timing of benefit obligations and future benefit payments.

The significant assumptions used in calculating the Company's pension benefit obligations and related expense are the discount rate, rate of compensation increase and the expected long-term rate of return on plan assets. The Company establishes these underlying assumptions in consultation with its actuaries. Depending on the assumptions used, pension obligations and related expense could vary within a range of outcomes and have a material effect on reported results, benefit obligations and cash funding requirements.

The discount rates used by the Company for determining benefit obligations are generally based on high quality corporate bonds. The assumed rate of compensation increase reflects an estimate of the projected change in compensation levels based on future expectations, general price levels, productivity and historical experience, among other factors. In evaluating the expected long term rate of return on plan assets, the Company considers the allocation of assets and the expected return on various asset classes in the context of the long-term nature of pension obligations.

A one-percentage point change in the weighted average expected return on plan assets would change net periodic benefit cost by approximately \$2,400 in fiscal 2004. A one-percentage point change in the weighted average discount rate would change net periodic benefit cost by approximately \$6,000 in fiscal 2004.

At March 31, 2004 and March 31, 2003, the Company has lowered the discount rates used to value its pension benefit obligations to reflect the decline in yields on high quality corporate bonds. As of March 31, 2003, the Company lowered the rate of compensation increase to reflect current inflationary expectations and lowered the expected long term return on plan assets in light of market conditions and recent equity market performance. The aggregate effect of these changes increased the present value of future benefit obligations as of March 31, 2004 and had the effect of increasing pension expense in fiscal 2004. Pension expense for its defined benefit pension plans was \$34,650 in fiscal 2004 compared to \$23,917 in fiscal 2003, reflecting the impact of these changes, as well as amortization of previously unrecognized actuarial losses described below.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

As of March 31, 2004, unrecognized actuarial losses for the Company's defined benefit plans were \$184,779, compared to \$164,457 at March 31, 2003. The unrecognized actuarial losses principally reflect declines in the fair market value of plan assets, actual asset return experience falling short of actuarial assumptions and the reduction in discount rates since fiscal 2002. SFAS 87 provides for delayed recognition of such actuarial losses, whereby these losses, to the extent they exceed 10% of the greater of the projected benefit obligation or the market related value of plan assets are amortized as a component of pension expense over a period that approximates the average remaining service period of active employees (for the Company a period of approximately 10 years), unless and to the extent they are not offset by actuarial gains in future years. The amortization of actuarial losses increased pension expense by approximately \$5,800 in fiscal 2004 from 2003.

## **Table of Contents**

### *Minimum Pension Obligations*

To the extent that the fair market value of pension plan assets of an individual plan is less than the accumulated benefit obligation for such plan, SFAS 87 may require recognition of an additional minimum pension liability, and in such circumstances a reduction in stockholders' equity or establishment of an intangible asset. The Company has recognized additional minimum pension liabilities of \$156,714 and \$139,051 as of March 31, 2004 and March 31, 2003, respectively, resulting in charges in accumulated other comprehensive loss included in stockholders' equity (deficit) and establishment of intangible assets.

### *Plan Funding Requirements*

Cash contributions to the Company's 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, and unless provided regulatory or other relief available under IRS regulations, are expected to approximate \$140,000 during the next four years.

The Company has applied for the temporary waiver of its minimum funding requirements for its North American plans for calendar years 2003 and 2004 under Section 412(d) of the Internal Revenue Code. If granted, the waiver would provide for deferral of the Company's minimum contributions for those years to be paid over a subsequent five-year period. There can be no assurances that the Company's waiver application will be granted. If the waiver is not granted, the Company's liquidity would be adversely impacted.

## **Restructuring Activities and Related Impairment Charges**

Following the acquisition of GNB Technologies in September 2000, the Company initiated various restructuring programs involving facility, branch and corporate office closures and consolidation, principally in connection with overall integration plans to affect the combination of the two organizations. Such actions impacted both existing Exide and acquired GNB employees and facilities. The specific actions taken under the overall restructuring plan were designed to reduce costs and improve earnings and cash flows with an expected annual benefit of approximately \$90,000. The impact of the benefits of restructuring initiatives on operating results have been more than offset by lower volumes and ongoing fixed costs.

During fiscal 2002, 2003 and 2004, the Company 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 ranged from plant employees and clerical workers to operational and sales management.

### *Fiscal 2004*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

During fiscal 2004, the Company recognized restructuring and impairment charges of \$52,708, representing \$43,519 for severance, \$8,972 for related closure costs and \$217 for non-cash charges related to write down of property, plant and equipment.

During the fourth quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$32,734, representing \$25,605 for severance, \$6,968 for related closure costs, and \$161 for a non-cash charge related to the write down of machinery and equipment. During the third quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$12,662, representing \$11,857 for severance and \$805 for related closure costs. During the second quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$4,827, representing \$4,121 for severance and \$706 for related closure costs. During the first quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$2,485, representing \$1,936 for severance, \$493 for related closure costs and \$56 for a non-cash charge related to the write down of

## **Table of Contents**

machinery and equipment. These charges resulted from actions undertaken during fiscal 2004 related to Industrial Energy Europe and ROW consolidation efforts, the announced closure of the Company's Industrial Energy Europe and ROW facility in Weiden, Germany, the announced closure of the Company's Industrial Energy Europe and ROW facility in Casalnuovo, Italy, Corporate severance, Transportation Europe and ROW headcount reductions and the closure of a Transportation North America facility. Approximately 275 positions have been eliminated in connection with fourth quarter fiscal 2004 plans, 330 positions have been eliminated in connection with the third quarter fiscal 2004 plans, 100 positions have been eliminated in connection with the second quarter fiscal 2004 plans and approximately 75 positions have been eliminated in connection with the first quarter fiscal 2004 plans. These actions provide annual savings through reduced wages and salaries, reductions in facility costs, lower depreciation and improved manufacturing plant absorption. In the aggregate, payments made during fiscal 2004 from operating cash flows to terminated employees and third parties for other closure costs totaled approximately \$33,000.

### *Fiscal 2003*

During fiscal 2003, the Company recognized restructuring and impairment charges of \$25,658, representing \$18,519 for severance, \$2,754 for related closure costs and \$4,385 for non-cash charges related to the write-down of property, plant and equipment.

Of these total charges, \$9,142 for severance, \$1,841 for related closure costs and \$3,139 for non-cash charges related to the write-off of property, plant and equipment were recorded during the first three quarters of the year. The charges for the first quarter of fiscal 2003 related to the downsizing of an Industrial Energy North America facility in Kankakee, Illinois and the closure of a Transportation Europe and ROW facility in Cwmbran, UK. Approximately 300 positions, principally plant employees, were eliminated in connection with the first quarter fiscal 2003 plans. The charges for the second quarter of fiscal 2003 principally resulted from corporate severance and the closure of a Transportation North America facility in Florence, Mississippi. Approximately 120 positions were eliminated in connection with the second quarter fiscal 2003 plans. The charges for the third quarter of fiscal 2003 resulted from European headcount reductions, changes in prior estimates of fiscal 2002 pension curtailment obligations at the Maple, Ontario plant and ongoing costs associated with fiscal 2002 North American plastics and manufacturing facility closures. Approximately 15 positions were eliminated in connection with these third quarter actions.

During the fourth quarter of fiscal 2003, the Company recognized net restructuring and impairment charges of \$11,536, representing \$9,377 severance, \$913 related closure costs and \$1,246 of non-cash charges related to the write-down of machinery and equipment. Approximately 215 employees were terminated in connection with the fourth quarter plans. The fourth quarter fiscal 2003 charge includes a credit of \$3,100, following recently finalized changes to the Company's original plans for restructuring of its European shared services operations.

As a result of the fiscal 2003 actions and plans, financial results for future years will be benefited through lower depreciation and reduced salary costs, favorably impacting cost of sales and other operating expenses. In the aggregate, payments made during fiscal 2003 from operating cash flows to terminated employees and third parties for other closure costs totaled approximately \$24,000.

### *Fiscal 2002*

During fiscal 2002, the Company recognized restructuring and impairment charges of \$33,100, representing severance and related costs of \$20,000, \$2,700 for related closure costs and \$10,400 of non-cash charges related to the write-down of property, plant and equipment.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

During the second and third quarters of fiscal 2002, the Company recognized restructuring and impairment charges of \$24,700 representing severance and related costs of \$16,600, \$2,700 for related closure costs and \$5,400 of non-cash charges related to the write-down of property, plant and equipment at the Maple, Ontario

## **Table of Contents**

facility. Approximately 1,300 employees were terminated in connection with these restructuring actions and plans. As a result of these actions and plans, future financial results will be benefited through lower depreciation and reduced salary costs, favorably impacting cost of sales and other operating expenses.

During the fourth quarter of fiscal 2002, the Company recognized restructuring and impairment charges of \$8,403, representing \$3,403 severance and related costs and approximately \$5,000 of non-cash charges related to the write-down of property, plant and equipment. These charges resulted from plans involving the closure of two Transportation North America plastics manufacturing plants, an Industrial Energy North America facility and office consolidations in Alpharetta, Georgia and Lombard, Illinois. Approximately 500 employees were terminated in connection with these plans. These actions are expected to provide annual savings through reduced wages and salaries, lower depreciation and improved manufacturing overhead absorption.

In the aggregate, payments made during fiscal 2002 from operating cash flows to terminated employees and third parties for other costs totaled approximately \$65,200.

There have been no material changes to the fiscal 2002 restructuring charge accrued or the approved actions and plans to which this charge relates, other than the change in the prior estimate of the pension curtailment obligation at the Maple, Ontario plant, as discussed above, for which an additional charge was recognized in fiscal 2003. As a result of the unexpected downturn in the telecommunication industry and its negative impact on the Company's Industrial Energy North America operations, in November 2001, the Company announced that the Maple, Ontario manufacturing operations would not be reopened as an Industrial Energy North America manufacturing plant as previously announced.

## **Financial Instruments and Market Risk**

The Company's ability to utilize financial instruments has been significantly restricted because of the Chapter 11 cases and the resultant tightening, and/or elimination of credit availability with counter-parties. While the Company's emergence from Chapter 11 may improve the Company's ability to utilize financial instruments, there can be no assurance that the Company will be able to do so in the future. At March 31, 2004, the Company had no outstanding hedging contracts. Accordingly, the Company is now exposed to greater risk with respect to its ability to manage exposures to fluctuations in foreign currencies, interest rates, and lead prices.

In the past, the Company used 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. The swap, forward, and option contracts were entered into for periods consistent with related underlying exposures and did not constitute positions independent of those exposures. The Company did not enter into contracts for speculative purposes nor was it a party to any leveraged instruments.

On April 1, 2001, the Company adopted SFAS 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities. See Note 7 to the Consolidated Financial Statements for further discussion.

## **Receivables Securitization Programs**

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

In the past, the Company maintained receivables securitization programs in the United States (the U.S. program ) and Europe (the European program ). Cash generated from these programs was used to provide liquidity requirements to the Company.

On May 31, 2002, the Company entered into a \$177,500 European receivable securitization facility. A special purpose entity was established in connection with this securitization facility which the Company has determined is a variable interest entity in accordance with the provisions of FIN 46. This entity is consolidated by the Company, such that the new facility is accounted for as a secured borrowing in accordance with the requirements of SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of



## **Table of Contents**

Liabilities, whereby the accounts receivable and related borrowings are recorded on the Company's consolidated balance sheet. This facility replaced the Company's then existing European securitization program.

Under the previous European securitization program, certain of the Company's European subsidiaries sold selected receivables to a wholly owned bankruptcy-remote subsidiary of the Company, Exide Europe Funding Ltd., which in turn established a multi-currency receivable sale facility (collectively, the European Agreement) with a financial institution, whereby the financial institution committed to purchase on a continuous basis, with limited recourse, all right, title and interest in these receivables up to a maximum net investment of \$175,000.

The Company also entered into a receivables sale agreement (the U.S. Agreement) with certain banks, and under this agreement, the banks committed to purchase, with limited recourse, all right, title and interest in selected accounts receivable of the U.S. Company, up to a maximum net investment of \$200,000. In connection with the U.S. Agreement, the Company established a wholly owned, bankruptcy-remote subsidiary, Exide U.S. Funding Corporation, to purchase accounts receivable at a discount from the Company on a continuous basis, subject to certain limitations as described in the U.S. Agreement. Exide U.S. Funding Corporation simultaneously sold the accounts receivable to the banks.

During fiscal 2003, the Company terminated and repurchased uncollected securitized accounts receivable under the U.S. program and previous European securitization program for \$117,455 and \$124,793, respectively.

On February 13, 2004, the May 2002 European securitization program was refinanced by the Company's Replacement DIP Credit Facility.

Losses and expenses related to receivables sold under or pledged to these agreements for fiscal years 2004, 2003 and 2002 were \$11,260, \$11,989 and \$14,635, respectively, and are included in other (income) expense, net in the consolidated statements of operations.

Except for the May 2002 European securitization program, the above transactions qualified as sales under the provisions of SFAS 140. The Company adopted SFAS 140 in the beginning of fiscal 2002 for transfers of receivables after March 31, 2001.

## **Contractual Obligations and Commercial Commitments**

Under the Bankruptcy Code, actions to collect pre-petition indebtedness of the Debtors, as well as most other pending litigation against the Debtors, were stayed and other contractual obligations against the Debtors have not been enforced. In addition, the Debtors have rejected certain executory contracts, including lease obligations. Therefore, the commitments shown in the table and discussed below may not reflect actual cash outlays in the future.

The Company's contractual obligations and commercial commitments at March 31, 2004 are summarized by fiscal year in which the payments are due in the following table:

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|   | Total at          |                   |                 |                |                |                | 2010           |
|---|-------------------|-------------------|-----------------|----------------|----------------|----------------|----------------|
|   | March 31,         |                   |                 |                |                |                | and            |
|   | 2004              | 2005              | 2006            | 2007           | 2008           | 2009           | beyond         |
|   | (in millions)     |                   |                 |                |                |                |                |
| Long-term debt, including capital leases  | \$ 1,839.0        | \$ 1,200.1        | \$ 622.8        | \$ 1.6         | \$ 1.6         | \$ 1.6         | \$ 11.3        |
| Short-term borrowings                     | 8.6               | 8.6               |                 |                |                |                |                |
| Operating leases                          | 97.0              | 37.3              | 20.4            | 11.1           | 8.3            | 6.1            | 13.8           |
| Unconditional purchase obligations (a)    | 170.3             | 33.4              | 33.7            | 34.0           | 34.0           | 35.2           |                |
| <b>Total contractual cash obligations</b> | <b>\$ 2,114.9</b> | <b>\$ 1,279.4</b> | <b>\$ 676.9</b> | <b>\$ 46.7</b> | <b>\$ 43.9</b> | <b>\$ 42.9</b> | <b>\$ 25.1</b> |

(a) Reflects the Company's projected annual minimum purchase commitment, including penalties under the supply agreements entered into as a result of the sale of the Company's separator business; amounts may vary based on actual purchases. See Note 23 to the Consolidated Financial Statements

## **Table of Contents**

At March 31, 2004, the Company had outstanding letters of credit of \$2,732, and surety bonds of \$43,265.

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 March 31, 2004, bank guarantees with a face value of \$16,786 were outstanding.

## **Trading Activities**

The Company does not have any trading activity that involves non-exchange traded contracts accounted for at fair value.

## **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 (formerly JA&A 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 provided 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 fiscal 2004, 2003 and 2002 under the Services Agreement were \$8,281, \$10,749 and \$5,154, respectively.

## **Effects of Inflation**

Inflation has not had a material impact on the Company's operations during the past three years. The Company generally has been able to partially offset the effects of inflation with cost-reduction programs and operating efficiencies.

## **Future Environmental Developments**

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 the legal proceedings relating to environmental matters, see Item 3. Legal Proceedings.

## **Item 8. *Financial Statements and Supplementary Data***

See Index to Consolidated Financial Statements and Schedule at page F-1.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on February 28, 2005.

EXIDE TECHNOLOGIES

By: /s/ CRAIG H. MUHLHAUSER

---

**Craig H. Muhlhauser**

**President and**

**Chief Executive Officer**

By: /s/ IAN J. HARVIE

---

**Ian J. Harvie**

**Vice President, Corporate Controller and at June 29,  
2004, Interim Chief Financial Officer**

**Table of Contents**

**INDEX TO EXHIBITS**

- 2.1 Joint Plan of Reorganization of the Official Committees of Unsecured Creditors and the Debtors, dated March 11, 2004, incorporated by reference to the Company's Current Report on Form 8-K filed on May 6, 2004.
- 2.2 Amended Technical Amendment to Joint Plan of Reorganization of the Official Committee of Unsecured Creditors and the Debtors, dated April 21, 2004, incorporated by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K, dated May 6, 2004
- 2.3 Order confirming the Joint Plan of Reorganization of the official Committee of Unsecured Creditors and the Debtors entered April 21, 2004, incorporated by reference to Exhibit 2.3 of the Company's Current Report on Form 8-K, dated May 6, 2004.
- 3.1 Amended and Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 1 of the Company's Form 8-A dated May 6, 2004.
- 3.2 Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 2 of the Company's Form 8-A dated May 6, 2004.
- 4.1 Credit and Guarantee Agreement dated as of May 5, 2004 by and among the Company, Exide Global Holding Netherlands C.V., the Lenders from time to time partly thereto, Credit Suisse First Boston and Fleet Securities Inc., Syndication Agents, Deutsche Bank AG New York Branch, as Administration Agent, Credit Suisse First Boston, as Book Running Manager, and Deutsche Bank Securities Inc, as Sole Lead Arranger and Book Running Manager, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated May 7, 2004.
- 4.2 Warrant Agreement dated as of May 5, 2004 by and between the Company and American Stock Transfer Trust Company, incorporated by reference to Exhibit 3 to the Company's Form 8-A dated May 6, 2004.
- 10.9 Executive Employment Agreement with Craig H. Muhlhauser, as amended on June 14, 2002.
- 10.18 Restructuring Milestone Incentive Plan, incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 10.19 Corporate Incentive Plan, incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 10.20 Services Agreement, dated October 25, 2001, between JA&J Services LLC and the Company, incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 10.21 North American Supply Agreement dated December 15, 1999 between Daramic, Inc. and Exide Corporation (certain confidential portions have been omitted and filed separately with the SEC pursuant to a request for confidential treatment), incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 10.22 Automotive and Industrial Supply Contract dated July 31, 2001 between Daramic, Inc. and Exide Corporation (certain confidential portions have been omitted and filed separately with the SEC pursuant to a request for confidential treatment), incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.

**Table of Contents**

- 10.23 Golf Cart Separator Supply Contract dated July 31, 2001 between Daramic, Inc. and Exide Corporation (certain confidential portions have been omitted and filed separately with the SEC pursuant to a request for confidential treatment), incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 10.24 Amendment to Supply Contracts dated July 31, 2001 between Daramic, Inc. and Exide Corporation (certain confidential portions have been omitted and filed separately with the SEC pursuant to a request for confidential treatment), incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 10.25 Amendment No. 2 to Supply Contracts dated July 11, 2002 between Daramic, Inc. and Exide Technologies (certain confidential portions have been omitted and filed separately with the SEC pursuant to a request for confidential treatment), incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 10.26 Exide Technologies et al. Debtors Income Protection Plan, incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002.
- 21 Subsidiaries of the Company.
- \*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 Ian J. Harvie, Interim Chief Financial Officer and Vice President, Corporate Controller, pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- \*32.1 Certifications pursuant to Section 906 of Sarbanes-Oxley Act of 2002

---

\* Filed with this Report.  
Management contract or compensatory plan or arrangement.

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE**

|  |      |
|--|------|
| REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  | F-2  |
| <u>CONSOLIDATED STATEMENTS OF OPERATIONS</u>             | F-3  |
| <u>CONSOLIDATED BALANCE SHEETS</u>                       | F-4  |
| <u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT</u>  | F-5  |
| <u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>             | F-6  |
| <u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>        | F-7  |
| FINANCIAL STATEMENT SCHEDULE:                            |      |
| <u>II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES</u> | F-55 |

All other schedules are omitted because they are not applicable, not required, or the information required to be set forth therein is included in the Consolidated Financial Statements or in the Notes thereto.



**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of

Exide Technologies

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Exide Technologies and its subsidiaries (Exide) at March 31, 2004 and 2003, and the results of their operations and cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of Exide's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 30 to the consolidated financial statements, the Company has incurred operating losses since emerging from bankruptcy, which in part have contributed to the Company's failure to meet certain debt covenants at the end of its second and third quarters of the fiscal year ending March 31, 2005. Bank amendments were obtained for both violations. The Company forecasts it will be in compliance with its covenants through March 31, 2005; however, without the proceeds from the proposed senior notes offering and/or with no easing of the current bank covenants its ability to meet certain covenants at June 30, 2005 and beyond is uncertain. Further, the Company's forecasted cash flows assume the Internal Revenue Service will grant an extension to the Company's conditional waiver of its minimum pension contributions to allow the Company adequate time to provide a lien satisfactory to the Pension Benefit Guarantee Corporation and defer \$50 million of calendar year 2003 and 2004 contributions. If the bond offering isn't successful, if the IRS doesn't permit the Company to defer the \$50 million pension contributions or if the Company isn't able to comply with its debt covenants at June 30, 2005 and beyond, the Company's liquidity would be adversely affected.

As explained in Note 27 to the consolidated financial statements, the Company has given retroactive effect to the change in reporting segments.

As discussed in Note 6 to the consolidated financial statements, on April 1, 2003, Exide adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations. As discussed in Note 7 to the consolidated financial statements, on April 1, 2001, Exide adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

June 28, 2004, except for Note 27 and Note 30,

as to which the date is February 28, 2005

F-2

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per-share data)**

|   | <b>For the Fiscal Year Ended March 31,</b> |              |              |
|---|--|--------------|--------------|
|   | <b>2004</b>                                | <b>2003</b>  | <b>2002</b>  |
| NET SALES   | \$ 2,500,493                               | \$ 2,361,101 | \$ 2,428,550 |
| COST OF SALES   | 1,991,168                                  | 1,844,560    | 1,964,631    |
| Gross profit  | 509,325                                    | 516,541      | 463,919      |
| <b>EXPENSES:</b>  |  |              |              |
| Selling, marketing and advertising  | 264,753                                    | 261,299      | 290,957      |
| General and administrative  | 161,271                                    | 175,177      | 178,842      |
| Restructuring and impairment (Note 20)  | 52,708                                     | 25,658       | 33,122       |
| Goodwill impairment charge (Note 10)  |  | 37,000       | 105,000      |
| Purchased research and development  |  |              | (8,185)      |
| Other (income) expense, net (Note 22)   | (40,724)                                   | (11,035)     | 32,739       |
| Interest expense, net (Note 21)   | 99,027                                     | 105,788      | 136,241      |
|   | 537,035                                    | 593,887      | 768,716      |
| Loss before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle | (27,710)                                   | (77,346)     | (304,797)    |
| REORGANIZATION ITEMS, NET (Note 8)  | 67,042                                     | 36,370       |              |
| INCOME TAX PROVISION (BENEFIT)  | 3,271                                      | 26,969       | (1,422)      |
| MINORITY INTEREST   | 467  | 200          | 211          |
| Loss before cumulative effect of change in accounting principle   | (98,490)                                   | (140,885)    | (303,586)    |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Notes 6 and 7)   | (15,593)                                   |              | (496)        |
| Net loss  | \$ (114,083)                               | \$ (140,885) | \$ (304,082) |
| <b>NET LOSS PER SHARE, BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>                                     |  |              |              |
| Basic and Diluted   | \$ (3.60)                                  | \$ (5.14)    | \$ (11.33)   |
| <b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER SHARE</b>  |  |              |              |
| Basic and Diluted   | \$ (0.57)                                  | \$           | \$ (0.02)    |
| <b>NET LOSS PER SHARE (Note 3)</b>  |  |              |              |
| Basic and Diluted   | \$ (4.17)                                  | \$ (5.14)    | \$ (11.35)   |
| <b>WEIGHTED AVERAGE SHARES</b>  |  |              |              |
| Basic and Diluted   | 27,383                                     | 27,383       | 26,798       |



The accompanying notes are an integral part of these statements.

F-3

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per-share data)**

|  | <b>March 31,</b>    | <b>March 31,</b>    |
|--|---------------------|---------------------|
|  | <b>2004</b>         | <b>2003</b>         |
| <b>ASSETS</b>  |                     |                     |
| Current assets:  |                     |                     |
| Cash and cash equivalents  | \$ 37,413           | \$ 39,766           |
| Restricted cash  | 15,469              | 6,297               |
| Receivables, net of allowance for doubtful accounts of \$24,433 and \$35,666, respectively (Note 25) | 667,026             | 655,010             |
| Inventories (Note 11)  | 414,516             | 399,973             |
| Prepaid expenses and other   | 24,372              | 16,451              |
| Deferred financing costs, net  | 3,498               | 17,028              |
| Deferred income taxes  | 34,035              | 33,233              |
|  | <u>1,196,329</u>    | <u>1,167,758</u>    |
| Total current assets   |                     |                     |
| Property, plant and equipment, net   | 543,124             | 533,375             |
|  | <u>543,124</u>      | <u>533,375</u>      |
| Other assets:  |                     |                     |
| Goodwill, net (Note 10)  | 527,705             | 463,920             |
| Other intangibles, net (Note 10)   | 46,440              | 47,560              |
| Investments in affiliates  | 6,695               | 6,186               |
| Deferred financing costs, net  | 1,645               | 647                 |
| Deferred income taxes (Note 17)  | 104,703             | 82,517              |
| Other (Note 12)  | 45,167              | 70,728              |
|  | <u>732,355</u>      | <u>671,558</u>      |
| Total assets   | <u>\$ 2,471,808</u> | <u>\$ 2,372,691</u> |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>  |                     |                     |
| Current liabilities:   |                     |                     |
| Short-term borrowings (Note 13)  | \$ 8,624            | \$ 7,778            |
| Current maturities of long-term debt (Note 13)   | 736,165             | 598,427             |
| Accounts payable   | 295,987             | 247,189             |
| Accrued expenses   | 425,947             | 330,240             |
|  | <u>1,466,723</u>    | <u>1,183,634</u>    |
| Total current liabilities  |                     |                     |
| Long-term debt (Note 13)   | 21,574              | 117,405             |
| Noncurrent retirement obligations  | 193,525             | 170,181             |
| Other noncurrent liabilities   | 53,726              | 41,924              |
| Liabilities subject to compromise (Note 9)   | 1,481,120           | 1,533,089           |
|  | <u>3,216,668</u>    | <u>3,046,233</u>    |
| Total liabilities  |                     |                     |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|   |                   |                   |
|---|-------------------|-------------------|
| Commitments and contingencies (Notes 18 and 19)   |                   |                   |
| Minority interest   | 24,909            | 21,827            |
|   | <u>          </u> | <u>          </u> |
| <b>STOCKHOLDERS DEFICIT</b>   |                   |                   |
| Common stock, \$0.01 par value 100,000 shares authorized; 27,383 and 27,383 shares issued and outstanding | 274               | 274               |
| Additional paid-in capital  | 570,589           | 570,589           |
| Accumulated deficit   | (1,046,087)       | (932,004)         |
| Notes receivable stock award plan   | (665)             | (665)             |
| Accumulated other comprehensive loss  | (293,880)         | (333,563)         |
|   | <u>          </u> | <u>          </u> |
| Total stockholders deficit  | (769,769)         | (695,369)         |
|   | <u>          </u> | <u>          </u> |
| Total liabilities and stockholders deficit  | \$ 2,471,808      | \$ 2,372,691      |
|   | <u>          </u> | <u>          </u> |

The accompanying notes are an integral part of these statements.

Table of Contents

## EXIDE TECHNOLOGIES AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT  
FOR THE FISCAL YEARS ENDED MARCH 31, 2002, 2003 AND 2004**

(In thousands, except per-share data)

|  |                 |                                  |  | Accumulated Other      |   |   |  | Comprehensive<br>Loss |
|--|-----------------|----------------------------------|--|------------------------|---|---|--|-----------------------|
|  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Notes<br>Receivable-<br>Stock<br>Award<br>Plan | Accumulated<br>Deficit | Minimum<br>Pension<br>Liability,<br>Net of<br>Tax | Cumulative<br>Translation<br>Adjustment | Derivatives<br>Qualifying<br>as Hedges |                       |
| Balance at March 31, 2001                              | \$ 255          | \$ 531,179                       | \$ (665)                                       | \$ (485,986)           | \$ (36,554)                                       | \$ (264,868)                            | \$                                     |                       |
| Net loss for fiscal 2002                               |                 |                                  |  | (304,082)              |   |   |  | \$ (304,082)          |
| Minimum pension liability adjustment, net of tax       |                 |                                  |  |                        | (23,303)  |   |  | (23,303)              |
| Cumulative effect of change in accounting principle    |                 |                                  |  |                        |   |   | 541                                    | 541                   |
| Change in fair value of cash flow hedges               |                 |                                  |  |                        |   |   | (4,981)                                | (4,981)               |
| Reclassification to earnings                           |                 |                                  |  |                        |   |   | 2,357                                  | 2,357                 |
| Translation adjustment                                 |                 |                                  |  |                        |   | (8,013)                                 |  | (8,013)               |
| Comprehensive loss                                     |                 |                                  |  |                        |   |   |  | \$ (337,481)          |
| Common stock issued under employee stock purchase plan |                 | 17                               |  |                        |   |   |  |                       |
| Common stock issued in debt for equity transaction     | 19              | 39,393                           |  |                        |   |   |  |                       |
| Cash dividends paid (\$0.04/share)                     |                 |                                  |  | (1,051)                |   |   |  |                       |
| Balance at March 31, 2002                              | \$ 274          | \$ 570,589                       | \$ (665)                                       | \$ (791,119)           | \$ (59,857)                                       | \$ (272,881)                            | \$ (2,083)                             |                       |
| Net loss for fiscal 2003                               |                 |                                  |  | (140,885)              |   |   |  | \$ (140,885)          |
| Minimum pension liability adjustment, net of tax       |                 |                                  |  |                        | (77,650)  |   |  | (77,650)              |
| Reclassification to earnings                           |                 |                                  |  |                        |   |   | 2,083                                  | 2,083                 |
| Translation adjustment                                 |                 |                                  |  |                        |   | 76,825                                  |  | 76,825                |
| Comprehensive loss                                     |                 |                                  |  |                        |   |   |  | \$ (139,627)          |
| Balance at March 31, 2003                              | \$ 274          | \$ 570,589                       | \$ (665)                                       | \$ (932,004)           | \$ (137,507)                                      | \$ (196,056)                            | \$                                     |                       |
| Net loss for fiscal 2004                               |                 |                                  |  | (114,083)              |   |   |  | \$ (114,083)          |
| Minimum pension liability adjustment, net of tax       |                 |                                  |  |                        | (18,391)  |   |  | (18,391)              |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|                           |        |            |          |                |              |              |             |
|---------------------------|--------|------------|----------|----------------|--------------|--------------|-------------|
| Translation adjustment    |        |            |          |                | 58,074       |              | 58,074      |
| Comprehensive loss        |        |            |          |                |              |              | \$ (74,400) |
| Balance at March 31, 2004 | \$ 274 | \$ 570,589 | \$ (665) | \$ (1,046,087) | \$ (155,898) | \$ (137,982) | \$          |

The accompanying notes are an integral part of these statements.



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

|  | For the Fiscal Year Ended |              |              |
|--|---------------------------|--------------|--------------|
|  | March 31,                 |              |              |
|  | 2004                      | 2003         | 2002         |
|  | (In thousands)            |              |              |
| <b>Cash Flows From Operating Activities:</b>   |                           |              |              |
| Net loss   | \$ (114,083)              | \$ (140,885) | \$ (304,082) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities |                           |              |              |
| Depreciation and amortization  | 97,816                    | 91,754       | 100,730      |
| Cumulative effect of change in accounting principle                                      | 15,593                    |              | 496          |
| Net (gain) on asset sales  | (9,700)                   | (956)        | (1,079)      |
| Purchased research and development   |                           |              | (8,185)      |
| Deferred income taxes  | (7,343)                   | 15,811       | (15,156)     |
| Amortization of original issue discount on notes   |                           | 428          | 10,768       |
| Provision for doubtful accounts  | 5,140                     | 8,062        | 24,731       |
| Non-cash provision for restructuring   | 217                       | 4,385        | 10,400       |
| Reorganization items, net  | 67,042                    | 36,370       |              |
| Goodwill impairment charge   |                           | 37,000       | 105,000      |
| Minority interest  | 467                       | 200          | 211          |
| Amortization of deferred financing costs   | 18,537                    | 20,043       | 13,126       |
| Debt-to-equity conversion non-cash charge  |                           |              | 13,873       |
| Provision for excess inventories   |                           |              | 10,000       |
| Net change from sales of receivables   |                           |              |              |
| European Securitization  |                           | (124,793)    |              |
| U.S. Securitization  |                           | (117,455)    |              |
| Other, net   |                           | (19,475)     | (35,211)     |
| Changes in assets and liabilities excluding effects of acquisitions and divestitures     |                           |              |              |
| Receivables  | 32,486                    | (45,023)     | 118,138      |
| Inventories  | 12,451                    | 41,188       | 87,043       |
| Prepaid expenses and other   | (13,151)                  | (2,031)      | 515          |
| Payables   | 13,077                    | 6,619        | (59,246)     |
| Accrued expenses   | (3,250)                   | (20,911)     | (77,276)     |
| Noncurrent liabilities   | (18,401)                  | 267          | (2,115)      |
| Other, net   | (56,347)                  | (30,456)     | 654          |
| Net cash provided by/(used in) operating activities                                      | 40,551                    | (239,858)    | (6,665)      |
| <b>Cash Flows From Investing Activities:</b>   |                           |              |              |
| GNB Acquisition  |                           |              | (965)        |
| Capital expenditures   | (65,128)                  | (45,878)     | (61,323)     |
| Proceeds from sales of assets  | 26,717                    | 6,783        | 4,833        |
| Investment in joint venture  |                           |              | (1,007)      |
| Net cash used in investing activities  | (38,411)                  | (39,095)     | (58,462)     |
| <b>Cash Flows From Financing Activities:</b>   |                           |              |              |
| Increase (decrease) in short-term borrowings   | (107)                     | (4,391)      | 718          |
| Borrowings under Senior Secured Global Credit Facilities Agreement                       |                           | 6,191        | 881,135      |
| Repayments under Senior Secured Global Credit Facilities Agreement                       |                           | (3,455)      | (788,635)    |
| Borrowings under DIP Credit Facility   | 836,834                   | 859,916      |              |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Repayments under DIP Credit Facility                         | (1,005,598)       | (691,152)         |                   |
| Borrowings under Replacement DIP Credit Facility             | 510,106           |                   |                   |
| Repayments under Replacement DIP Credit Facility             | (178,488)         |                   |                   |
| European asset securitization                                | (160,221)         | 135,882           |                   |
| Decrease in other debt                                       | (6,152)           | (781)             | (12,958)          |
| Financing costs and other                                    | (6,041)           | (23,328)          | (5,489)           |
| Dividends paid   |                   |                   | (1,051)           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net cash (used in)/provided by financing activities          | (9,667)           | 278,882           | 73,720            |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 5,174             | 8,134             | 38                |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net (Decrease)/Increase In Cash and Cash Equivalents         | (2,353)           | 8,063             | 8,631             |
| Cash and Cash Equivalents, Beginning of Year                 | 39,766            | 31,703            | 23,072            |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash and Cash Equivalents, End of Year                       | \$ 37,413         | \$ 39,766         | \$ 31,703         |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>Supplemental Disclosures Of Cash Flow Information:</b>    |                   |                   |                   |
| Cash paid during the year for                                |                   |                   |                   |
| Interest   | \$ 56,628         | \$ 56,401         | \$ 117,721        |
| Income taxes (net of refunds)                                | \$ 14,355         | \$ 7,487          | \$ 15,051         |

See Note 13 for non-cash financing activity related to debt to equity conversion in fiscal 2002.

The accompanying notes are an integral part of these statements.

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2004**

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

**(1) BASIS OF PRESENTATION**

The 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 Consolidated Financial Statements as of March 31, 2004 and March 31, 2003 and for the years then ended have been prepared in accordance with Statement of Position 90-7 ( SOP 90-7 ), Financial Reporting by Entities in Reorganization under the Bankruptcy Code (see Note 2). Accordingly, all pre-petition liabilities subject to compromise have been segregated in the consolidated balance sheet as of March 31, 2004 and March 31, 2003, and classified as Liabilities Subject To Compromise, at the estimated amount of allowable claims. Liabilities not subject to compromise are separately classified. Additional pre-petition claims (liabilities subject to compromise) may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims. Revenues, expenses, realized gains and losses and provision for losses resulting from the reorganization are reported separately as Reorganization items, net, in the consolidated statements of operations. However, because the Chapter 11 filing occurred subsequent to March 31, 2002, the accompanying Consolidated Financial Statements for the fiscal year ended March 31, 2002, have not been prepared in accordance with SOP 90-7, and may lack comparability to that extent.

These 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 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 19. 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. 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 ).

The Consolidated Financial Statements as of and for the year ended March 31, 2004 do not include adjustments to reflect the effects of the Plan on the recoverability and classification of recorded assets or the amounts and classifications of liabilities that may result from the consummation of the Plan.

The amounts reported in subsequent financial statements will materially change due to the restructuring of the Company's assets and liabilities as a result of the Plan and the application of the provisions of SOP 90-7 with respect to reporting upon emergence from Chapter 11 ( fresh start accounting). Changes in accounting principles required under generally accepted accounting principles within twelve months of emerging from

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

bankruptcy are required to be adopted at the date of emergence. Additionally, the Company may choose to make changes in accounting practices and policies at this time. For all these reasons, the financial statement for periods subsequent to the Company's emergence from Chapter 11 will not be comparable with those of prior periods.

### **(2) PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

On April 15, 2002 ( Petition Date ), Exide and three of its wholly-owned, U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws ( Bankruptcy Code ) or

F-7

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

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 of the Bankruptcy Code in the Bankruptcy Court. All of the foregoing cases were jointly administered for procedural purposes before the Bankruptcy Court under case number 02-11125KJC.

As of March 31, 2004, Exide and such subsidiaries (the Debtors ) operated their business as debtors-in-possession pursuant to the Bankruptcy Code.

The Company decided to file itself and certain of its subsidiaries for reorganization under Chapter 11, as it offered the most efficient alternative to restructure its balance sheet and access new working capital while continuing to operate in the ordinary course of business. The Company had a heavy debt burden, caused largely by a debt-financed acquisition strategy and the significant costs of integrating those acquisitions. Other factors leading to the reorganization included the impact of adverse economic conditions on the Company's markets, particularly telecommunications, ongoing competitive pressures and capital market volatility. These factors contributed to a loss of revenues and resulted in significant operating losses and negative cash flows, severely impacting the Company's financial condition and its ability to maintain compliance with debt covenants.

Under Section 362 of the Bankruptcy Code, actions to collect pre-petition indebtedness from the Debtors, as well as most other pending pre-petition litigation, were stayed. Absent an order of the Bankruptcy Court, substantially all pre-petition liabilities were subject to settlement under a plan of reorganization to be approved by the Bankruptcy Court. As provided by the Bankruptcy Code, the Company initially had the exclusive right to solicit a plan of reorganization for 120 days, but it extended its exclusive period, subject to certain exceptions, until May 15, 2004.

On June 14, 2002, the Company filed with the Bankruptcy Court schedules and statements of financial affairs setting forth, among other things, the assets and liabilities of the Debtors as shown by the Company's books and records on the Petition Date, subject to the assumptions contained in certain notes filed in connection therewith. The Bankruptcy Code provides for a claims reconciliation and resolution process. The Bankruptcy Court set April 23, 2003 as the bar date for all entities to file claims against the Debtors, subject to certain exceptions. Those creditors who were required to, but failed to, file Claims by April 23 were barred from asserting any claims against the Debtors or receiving any distributions under the Plan. By further motion of the Debtors, the Bankruptcy Court set August 15, 2003 as the date by which all contaminant claims, including personal injury and property damage claims based on contamination theories, must have been filed. Those creditors whose claims were subject to the August 15 deadline must have filed Claims before that date, or they were barred from asserting any claims against the Debtors or receiving any distributions under the Plan on account of such claims.

The United States Trustee appointed an unsecured creditors committee. The official committee and its legal representatives had a right to be heard on all matters that came before the Bankruptcy Court. The United States Trustee also appointed an official committee of equity holders.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

On October 24, 2003, the Company filed its Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the Fourth Amended Plan ). On December 30, 2003, the Bankruptcy Court issued an order denying confirmation of the Fourth Amended Plan. In its accompanying opinion, the Bankruptcy Court found the Debtors' enterprise value on a going-concern basis to be in the range of \$1.4 billion to \$1.6 billion. Based, in large part, on its opinion on the value of the Debtors' estates on a going-concern basis, the Bankruptcy Court held that (1) although the Debtors are authorized to propose a settlement of the Creditors Committee

F-8

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

Adversary Proceeding under section 1123(b)(3)(A) of the Bankruptcy Code, the proposed settlement in the Fourth Amended Plan was not fair and equitable; (2) the Fourth Amended Plan's release and injunction provisions were not approved because general unsecured creditors did not receive fair consideration from the parties proposed to be released in return for such releases; and (3) the Debtors' proposed distributions to certain general unsecured creditors was not a fair and equitable reallocation of the pre-petition lenders' recovery because there may be sufficient value to pay the pre-petition lenders in full. The Bankruptcy Court's opinion further urged the parties to continue discussing a consensual exit strategy in light of the above findings and directed that a status conference be held before the Bankruptcy Court on January 22, 2004 to report on continued plan negotiations.

On January 22, 2004, the Company announced that it had reached an agreement in principle with the Official Committee of Unsecured Creditors and the steering committee to the pre-petition lenders as to the terms of a consensual revised plan of reorganization.

On February 13, 2004, the Company entered into the Replacement DIP which replaced the prior DIP Credit Facility. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinanced the Company's European accounts receivable securitization facility. The Replacement DIP Credit Facility also included a commitment to refinance the 9.125% Senior Notes, which were due April 15, 2004, and provided additional working capital borrowing availability.

The Debtors, along with the Official Committee of Unsecured Creditors, filed the Plan with the Bankruptcy Court on February 27, 2004. On March 11, 2004, the Debtors and the Official Committee of Unsecured Creditors filed a disclosure statement for the Plan, which was approved by the Bankruptcy Court on March 17, 2004. 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.

For a discussion of the Company's emergence from Chapter 11 after March 31, 2004, see Note 29.

**(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The Consolidated Financial Statements include the accounts of Exide Technologies and all of its majority owned subsidiaries in which the Company exercises control (collectively the Company). Investments in affiliates of less than a 20% interest are accounted for by the cost method. Investments in 20% to 50% owned companies are accounted for by the equity method. The Company's equity in the net income (loss) of these companies is not material. All significant intercompany transactions have been eliminated.

*Nature of Operations*

The Company is one of the largest manufacturers and marketers of lead acid batteries in the world. The Company manufactures industrial and automotive batteries in North America, Europe, the Middle East, India, Australia and New Zealand. The Company's industrial batteries consist of motive power batteries, such as those used in forklift trucks and other electronic vehicles, and network power batteries used for back-up power applications, such as those used for telecommunication systems. The Company markets its automotive batteries to a broad range of retailers and distributors of replacement batteries and automotive original equipment manufacturers.

For a discussion of the Company's segments, see Note 27.

F-9



**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

*Major Customers and Concentration of Credit*

The Company has a number of major end-user, retail and original equipment manufacturer customers, both in North America and Europe. No single customer accounted for more than 10% of consolidated net sales during any of the fiscal years presented. The Company does not believe a material part of its business is dependent upon a single customer, the loss of which would have a material long-term impact on the business of the Company. However, the loss of one or more of the Company's largest customers would most likely have a negative short-term impact on the Company's results of operations.

*Foreign Currency Translation*

The functional currencies of the Company's foreign subsidiaries are primarily the respective local currency. Assets and liabilities of the Company's foreign subsidiaries and affiliates are translated into U.S. dollars at the year-end exchange rate, and revenues and expenses are translated at average monthly exchange rates. Translation gains and losses are recorded as a component of accumulated other comprehensive loss within stockholders' deficit. Foreign currency gains and losses from certain intercompany transactions meeting the permanently advanced criteria of Statement of Financial Accounting Standards (SFAS) No. 52 Foreign Currency Translation are also recorded as a component of accumulated other comprehensive loss. All other foreign currency gains and losses are included in other (income) expense, net. The Company recognized net foreign currency (gains) losses of \$(43,846), \$(22,753) and \$5,109 in fiscal 2004, 2003 and 2002, respectively.

*Cash Equivalents*

Cash equivalents consist of highly liquid instruments with maturities at the time of acquisition of three months or less. Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments.

*Allowance for Doubtful Accounts*

The Company maintains allowances for doubtful accounts for estimated probable losses resulting from the inability of the Company's customers to make required payments. The Company continues to assess the adequacy of the reserves for doubtful accounts based on the financial condition of the Company's customers and other external factors that may impact collectibility.

*Inventories*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

Inventories, which consist of material, labor and overhead, are stated at the lower of cost or market using the first-in, first-out ( FIFO ) method. The Company writes down its inventory to estimated market value based on assumptions of future demand and market conditions.

### *Property, Plant and Equipment*

Property, plant and equipment at March 31 consists of:

|                               | <b>2004</b>       | <b>2003</b>       |
|-------------------------------|-------------------|-------------------|
| Land                          | \$ 43,847         | \$ 46,447         |
| Buildings and improvements    | 339,381           | 312,195           |
| Machinery and equipment       | 776,563           | 647,923           |
| Construction in progress      | 33,575            | 29,341            |
|                               | <b>1,193,366</b>  | <b>1,035,906</b>  |
| Less Accumulated depreciation | 650,242           | 502,531           |
|                               | <b>\$ 543,124</b> | <b>\$ 533,375</b> |

F-10

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The range of estimated useful lives is as follows: buildings and improvements, 25-40 years; machinery and equipment, 3-14 years.

Cost and accumulated depreciation for property retired or disposed of are removed from the accounts, and any gain or loss on disposal is credited or charged to earnings. Expenditures for maintenance and repairs are charged to expense as incurred. Additions, improvements and major renewals are capitalized. Depreciation expense was \$96,358, \$89,945, and \$99,439 for fiscal years 2004, 2003 and 2002, respectively.

*Capitalized Software Costs*

The Company capitalizes the cost of computer software acquired or developed for internal use, in accordance with SOP 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. The capitalized costs are amortized over the estimated useful life of the software, ranging from 3 to 5 years, on a straight-line basis.

*Deferred Financing Costs*

Deferred financing costs are amortized to interest expense over the life of the related debt. During fiscal 2002, the Company accelerated amortization of certain deferred financing costs amounting to \$6,216 which related to the Senior Secured Global Credit Facility. Unamortized debt issuance costs of \$5,276 as of the Petition Date on long-term debt subject to compromise have been netted against the carrying value of the related debt at March 31, 2004 and March 31, 2003 in accordance with SOP 90-7.

*Valuation of Long-Lived Assets*

The Company's long-lived assets include property, plant and equipment, goodwill and identified intangible assets. Long-lived assets (other than goodwill and indefinite lived intangible assets) are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value may not be recoverable. Goodwill and indefinite-lived intangible assets are reviewed for impairment on both an annual basis and whenever changes in circumstances indicate the carrying value may not be recoverable. The fair value of goodwill and indefinite-lived intangible assets are 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. If these assets or their related assumptions change in the future, the Company may be required to record impairment charges. See Note 10.

*Hedging Activities*

The Company's ability to utilize financial instruments as hedges was significantly restricted due to the Chapter 11 filing.

In accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, the Company reports all derivative financial instruments on the balance sheet at their fair values. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in Accumulated Other Comprehensive Loss until it is cleared to earnings during the same period in which the hedged item affects earnings. The ineffective portion of all hedges is recognized in current period earnings. The Company uses no derivative instruments designated as fair value hedges. In the Consolidated Statement of Cash Flows, the Company reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

F-11

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

In the past, the Company entered into certain interest rate swap agreements to hedge exposure to interest costs associated with long-term debt. The differential paid or received on these agreements was accrued as interest rates changed and was recognized in earnings over the life of the agreements. All of the Company's interest rate swaps qualified for the shortcut method of hedge accounting under SFAS 133, thus there was no ineffectiveness reported in earnings related to these hedges.

The Company also entered into foreign exchange rate agreements to hedge exposure to the currency fluctuation of certain transactions denominated in a currency other than the applicable local currency. The differential paid or received on these agreements was included in earnings in the period in which they were settled.

The Company also entered into certain lead forward purchase and put option agreements to hedge the cost of externally purchased lead. These hedges were considered highly effective and were accounted for as cash flow hedges under SFAS 133.

Counterparties to interest rate swap, foreign exchange and commodity and option agreements were major financial institutions. The Company believed the risk of incurring losses related to credit risk was remote.

*Warranty and Returns*

The Company recognizes the estimated cost of warranty and returns 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/return date.

*Income Taxes*

The Company accounts for income taxes under the provisions of SFAS 109 Accounting for Income Taxes, which requires the use of the liability method in accounting for deferred taxes. If it is more likely than not that some portion, or all, of a deferred tax asset will not be realized, a valuation allowance is recognized.

*Revenue Recognition*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

The Company records sales when revenue is earned. Shipment terms are generally FOB shipping point and revenue is recognized when product is shipped to the customer. In limited cases, terms are FOB destination and in these cases, revenue is recognized when product is delivered to the customer's delivery site.

### *Accounting for Shipping and Handling Costs*

The Company records shipping and handling costs incurred in cost of sales and records shipping and handling costs billed to customers in net sales.

### *Advertising*

The Company expenses advertising costs as incurred.

### *Stock Options*

As provided for in SFAS No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ) the Company utilizes the intrinsic value method of expense recognition under APB Opinion No. 25. Accordingly, no

Table of Contents

## EXIDE TECHNOLOGIES AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

compensation cost has been recognized for the stock option plans. Had compensation expense for the stock option plans been determined consistently with the provisions of SFAS 123, the Company's net income (loss) and net income (loss) per share would have been the pro forma amounts indicated below:

|   | Fiscal Year Ended March 31, |              |              |
|---|-----------------------------|--------------|--------------|
|   | 2004                        | 2003         | 2002         |
| Net loss as reported:   | \$ (114,083)                | \$ (140,885) | \$ (304,082) |
| Less: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (587)                       | (1,552)      | (1,769)      |
| Pro forma net loss  | \$ (114,670)                | \$ (142,437) | \$ (305,851) |
| Basic and diluted net loss per share:   |                             |              |              |
| As reported   | \$ (4.17)                   | \$ (5.14)    | \$ (11.35)   |
| Pro forma   | \$ (4.19)                   | \$ (5.20)    | \$ (11.41)   |

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions used for the option grants which last occurred during fiscal 2002:

|                         | 2002      |
|-------------------------|-----------|
| Volatility              | 119.8%    |
| Risk-free interest rate | 4.6%-4.9% |
| Expected life in years  | 5.0       |
| Dividend yield          | 0.0%      |

For a discussion of the Company's options as a result of emergence from Chapter 11, see Note 29.

*Earnings Per Share (EPS)*

Basic EPS excludes all potentially dilutive securities and is computed by dividing income (loss) by the weighted average number of common shares outstanding during the period. Diluted EPS includes the assumed exercise and conversion of potentially dilutive securities, including stock options and convertible notes, in periods when they are not anti-dilutive; otherwise, it is the same as basic EPS.

Basic and diluted EPS are the same for fiscal 2004, 2003 and 2002 because the effect of assumed exercise and conversion of potentially dilutive securities would have been anti-dilutive.

For a discussion of the Company's securities as a result of emergence from Chapter 11, see Note 29.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Reclassifications*

Certain prior years' amounts have been reclassified to conform to the fiscal 2004 presentation but not to conform to SOP 90-7.



---

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

*Recently Issued Accounting Standards*

In January 2003, the FASB issued FASB Interpretation No. ( FIN ) 46, Consolidation of Variable Interest Entities, an Interpretation of ARB 51 . This Interpretation addresses consolidation by business enterprises of certain variable interest entities ( VIEs ). The Interpretation was effective immediately for all enterprises with variable interests in VIEs created after January 31, 2003. For variable interests in special purpose entities created before February 1, 2003, the provisions of this Interpretation became applicable on December 31, 2003. For all other variable interests in VIEs created before February 1, 2003, the provisions of this Interpretation were applicable on March 31, 2004. Further, the disclosure requirements of the Interpretation were applicable for all financial statements initially issued after January 31, 2003, regardless of the date on which the VIE was created. The Company has performed an evaluation to identify such entities and does not believe that it has arrangements with any entities that fall within the scope of this standard, other than the special purpose entity established in connection with the Company s European accounts receivable securitization facility, which was accounted for as a secured borrowing in accordance with the requirements of SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities .

In April 2003, the FASB issued SFAS No. 149, Amendment of FASB Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in SFAS No. 133, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to language used in FIN No. 45, and amends certain other existing pronouncements. This Statement is effective for contracts entered into or modified after June 30, 2003.

In May 2003, the 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. As of March 31, 2004, and for the year then ended, the Company had no such financial instruments outstanding.

In May 2003, the Emerging Issues Task Force ( EITF ) reached a consensus on Issue No. 01-08, Determining Whether an Arrangement Contains a Lease. EITF Issue No. 01-08 provides guidance on how to determine if an arrangement contains a lease that is within the scope of SFAS 13, Accounting for Leases. The Company adopted EITF Issue No. 01-08 as of July 1, 2003. The adoption of EITF Issue No. 01-08 did not have a material impact on the Company s Consolidated Financial Statements.

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) 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. The Company expects that application of this guidance will not have a material impact on the Company s Consolidated Financial Statements.



**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

**(4) FRESH START REPORTING (Unaudited)**

The Company's emergence from Chapter 11 bankruptcy proceedings on May 5, 2004 will result in a new reporting entity and adoption of fresh start reporting in accordance with SOP No. 90-7. The consolidated financial statements as of and for the quarter ending June 30, 2004 will reflect reorganization adjustments for the discharge of debt and adoption of fresh start reporting. Accordingly, the estimated enterprise value of the Company of \$1,500,000, which served as the basis for the Plan approved by the Bankruptcy Court, will be used to determine the equity value allocated to the assets and liabilities of the Reorganized Company in proportion to their fair values in conformity with Statement of Financial Accounting Standards No. 141, Business Combinations.

The fresh start adjustments to the carrying values of the Company's assets and liabilities will be based upon the work of outside appraisers, actuaries and financial consultants, as well as internal valuation estimates using discounted cash flow analyses, to determine the relative fair values of the Company's assets and liabilities.

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

The following table reflects the pro forma reorganization adjustments, based on preliminary estimates, that would have been reflected in the Company's Consolidated Balance Sheet as of March 31, 2004 had the Company emerged from bankruptcy and applied fresh start accounting as of that date:

|                                     | March 31,<br>2004   | Debt<br>Activity   | Fresh Start<br>Adjustments | Pro forma           |
|-------------------------------------|---------------------|--------------------|----------------------------|---------------------|
| Current Assets                      | \$ 1,196,329        | \$                 | \$ 2,979 (3)               | \$ 1,199,308        |
| PP&E                                | 543,124             |                    | 332,986 (3)                | 876,110             |
| Goodwill                            | 527,705             |                    | (160,378)(4)               | 367,327             |
| Other intangibles                   | 46,440              |                    | 152,453 (3)                | 198,893             |
| Other noncurrent assets             | 158,210             | 15,000 (5)         |                            | 173,210             |
| <b>Total assets</b>                 | <b>\$ 2,471,808</b> | <b>\$ 15,000</b>   | <b>\$ 328,040</b>          | <b>\$ 2,814,848</b> |
| Short-term borrowings               | \$ 8,624            | \$                 | \$                         | \$ 8,624            |
| Current maturities                  | 736,165             | (736,165)(1)       |                            |                     |
| Accounts payable                    | 295,987             |                    |                            | 295,987             |
| Accrued liabilities                 | 425,947             | (19,350)(1)        |                            | 406,597             |
| <b>Total current liabilities</b>    | <b>1,466,723</b>    | <b>(755,515)</b>   |                            | <b>711,208</b>      |
| Long-term debt                      | 21,574              | 501,196 (5)        |                            | 522,770             |
| Noncurrent pension                  | 193,525             | 128,293 (1)        | (4,527)(3)                 | 317,291             |
| Other noncurrent liabilities        | 53,726              | 116,293 (1)        | 113,832 (3)                | 283,851             |
| Liabilities subject to compromise   | 1,481,120           | (1,481,120)(1)     |                            |                     |
| <b>Total liabilities</b>            | <b>3,216,668</b>    | <b>(1,490,853)</b> | <b>109,305</b>             | <b>1,835,120</b>    |
| Minority interest                   | 24,909              |                    | (15,181)(3)                | 9,728               |
| Equity                              | (769,769)           | 1,505,853 (2)      | 233,916 (2)                | 970,000             |
| <b>Total liabilities and equity</b> | <b>\$ 2,471,808</b> | <b>\$ 15,000</b>   | <b>\$ 328,040</b>          | <b>\$ 2,814,848</b> |

(1) To record assumption or discharge of Liabilities subject to compromise and cancellation of debt.

(2) To record gain on discharge of Liabilities subject to compromise, cancellation of debt and issuance of new equity.

(3) To adjust assets and liabilities to fair market value.

(4) The unamortized balance of goodwill of the predecessor company has been eliminated and reorganization value in excess of amounts allocable to identified assets has been classified as goodwill

(5) To record new debt issued pursuant to the plan of reorganization

The Plan will reduce the 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 is expected to increase by approximately \$25,000 to \$30,000.

The fair value of goodwill and intangible assets reported in the unaudited pro forma fresh start balance sheet are 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. If these assets or their related assumptions change in the future, the Company may be required to record impairment charges. An erosion of future business results in any of the Company's business units could create impairment in goodwill or other long-lived assets and require a significant write-down in future periods.

F-16

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(5) DEBTORS FINANCIAL INFORMATION**

The unaudited 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 Debtors and non-debtor subsidiaries of the Company which are eliminated in the Company's Consolidated Financial Statements. The unaudited combined financial statements of the Debtors are presented as follows:

**DEBTORS COMBINED STATEMENTS OF OPERATIONS**

(Unaudited, in thousands)

|   | Fiscal Year Ended<br>March 31, 2004 | For the Period From<br>April 15, 2002<br>Through March 31, 2003 |
|---|-------------------------------------|---|
| NET SALES                                       | \$ 967,891                          | \$ 939,076  |
| COST OF SALES                                   | 792,364                             | 753,144   |
| Gross profit                                    | 175,527                             | 185,932   |
| EXPENSES:                                       |                                     |   |
| Selling, marketing and advertising              | 97,796                              | 100,716   |
| General and administrative                      | 62,931                              | 73,323  |
| Restructuring                                   | 2,591                               | 9,813   |
| Other income, net                               | (7,939)                             | (11,072)  |
| Interest expense, net                           | 57,045                              | 52,079  |
| Loss before reorganization items and income tax | (36,897)                            | (38,927)  |
| REORGANIZATION ITEMS, net (Note 8)              | 63,876                              | 36,370  |
| Loss before income taxes                        | (100,773)                           | (75,297)  |
| INCOME TAX PROVISION                            |                                     |   |
| NET LOSS  | \$ (100,773)                        | \$ (75,297)   |

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

(Unaudited, in thousands)

|   | <u>March 31,</u><br><u>2004</u> | <u>March 31,</u><br><u>2003</u> |
|---|---------------------------------|---------------------------------|
| <b>ASSETS</b>                               |                                 |                                 |
| <b>CURRENT ASSETS:</b>                      |                                 |                                 |
| Cash and cash equivalents                   | \$ 6,530                        | \$ 8,434                        |
| Receivables, net                            | 147,783                         | 161,341                         |
| Intercompany receivables                    | 35,456                          | 44,849                          |
| Inventories                                 | 129,802                         | 139,622                         |
| Prepaid expenses and other                  | 20,934                          | 23,449                          |
|   | <u>340,505</u>                  | <u>377,695</u>                  |
| PROPERTY, PLANT AND EQUIPMENT, net          | <u>237,874</u>                  | <u>247,939</u>                  |
| <b>OTHER ASSETS:</b>                        |                                 |                                 |
| Goodwill and other intangibles, net         | 40,965                          | 40,965                          |
| Investments in affiliates                   | 2,048                           | 2,118                           |
| Deferred financing costs, net               | 301                             | 647                             |
| Intercompany notes receivable               | 432,279                         | 236,593                         |
| Other                                       | 34,470                          | 45,451                          |
|   | <u>510,063</u>                  | <u>325,774</u>                  |
| Total assets                                | <u>\$ 1,088,442</u>             | <u>\$ 951,408</u>               |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b> |                                 |                                 |
| <b>CURRENT LIABILITIES:</b>                 |                                 |                                 |
| Accounts payable                            | \$ 69,726                       | \$ 60,263                       |
| Accrued interest payable                    | 60,276                          | 28,224                          |
| Accrued expenses                            | 121,642                         | 84,085                          |
| Current maturities of long-term debt        | 331,617                         | 168,764                         |
|   | <u>583,261</u>                  | <u>341,336</u>                  |
| Total current liabilities                   | 583,261                         | 341,336                         |
| NON-CURRENT RETIREMENT OBLIGATIONS          | 32,112                          | 10,437                          |
| OTHER NON-CURRENT LIABILITIES               | 15,593                          |                                 |
| LIABILITIES SUBJECT TO COMPROMISE           | 1,481,120                       | 1,533,089                       |
|   | <u>2,112,086</u>                | <u>1,884,862</u>                |
| Total liabilities                           | 2,112,086                       | 1,884,862                       |
| STOCKHOLDERS DEFICIT                        |                                 |                                 |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|  |                     |                   |
|--|---------------------|-------------------|
| Total stockholders' deficit                        | (1,023,644)         | (933,454)         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b> | <b>\$ 1,088,442</b> | <b>\$ 951,408</b> |

F-18



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

(Unaudited, in thousands)

|   | Fiscal Year<br>Ended | For the Period From<br>April 15, 2002<br>Through |
|---|----------------------|--|
|   | March 31,<br>2004    | March 31, 2003                                   |
| <b>CASH RECEIPTS:</b>   |                      |  |
| Customer receipts   | \$ 991,355           | \$ 967,885                                       |
| Other third party receipts                                    | 17,008               | 11,283   |
| Borrowings under DIP Credit Facility/Replacement DIP Facility | 1,346,940            | 859,916  |
| Intercompany receipts from non-Debtor entities                | 214,719              | 96,355   |
| <b>Total cash receipts</b>                                    | <b>2,570,022</b>     | <b>1,935,439</b>                                 |
| <b>CASH DISBURSEMENTS:</b>                                    |                      |  |
| Supplier payments   | 346,481              | 320,947  |
| Repurchase of securitized accounts receivable                 |                      | 117,455  |
| Financing costs, fees and interest                            | 11,228               | 34,174   |
| Capital expenditures  | 23,083               | 19,721   |
| Freight and logistics   | 117,727              | 90,290   |
| Leasing and rental costs                                      | 42,385               | 41,009   |
| Payroll and benefits  | 326,953              | 267,700  |
| Professional/consulting fees                                  | 66,744               | 30,384   |
| Taxes   | 11,384               | 16,937   |
| Utilities   | 56,698               | 47,673   |
| Other disbursements   | 97,706               | 143,278  |
| Intercompany loans to non-Debtor entities                     | 287,451              | 111,000  |
| Repayments under DIP Credit Facility/Replacement DIP Facility | 1,184,086            | 691,152  |
| <b>Total cash disbursements</b>                               | <b>2,571,926</b>     | <b>1,931,720</b>                                 |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>(1,904)</b>       | <b>3,719</b>                                     |
| <b>CASH AT BEGINNING OF PERIOD</b>                            | <b>8,434</b>         | <b>4,715</b>                                     |
| <b>CASH AT END OF PERIOD</b>                                  | <b>\$ 6,530</b>      | <b>\$ 8,434</b>                                  |

The Company's consolidated statements of operations also include Reorganization items, consisting of professional fees incurred by non-Debtor subsidiaries.

**(6) ASSET RETIREMENT OBLIGATIONS**

Effective April 1, 2003, the Company adopted Statement of Financial Accounting Standards ( 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 consolidated statements of operations as a cumulative effect of change in accounting principle of \$15,593, or \$0.57 per share. The charge results from certain commitments made by the Company in accordance with permit requirements for its North American lead recycling and hazardous waste facilities. The Company is obligated under these permits to

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

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. The pro forma impact on net loss before cumulative effect of change in accounting principle for the year ended March 31, 2003 would have been immaterial.

**(7) ACCOUNTING FOR DERIVATIVES**

The Company accounts for derivative instruments and hedging activities in accordance with SFAS 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities and SFAS 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (collectively, SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized as either assets or liabilities at fair value. The Company does not enter into derivative contracts for trading purposes. Derivatives are used only to hedge the volatility arising from movements in a portion of the cost of lead purchases as well as hedging certain interest rates and foreign currency exchange rates. The effective portion of changes in the fair value of lead forward contracts are recorded in Accumulated Other Comprehensive Loss until the related purchased lead is charged to earnings. At that time, the effective portion recorded in Accumulated Other Comprehensive Loss is recognized in the Statement of Operations. Changes in the fair value of cash flow hedges for which the hedged item affects earnings immediately (foreign currency transaction hedges and interest rate hedges), ineffective portions of changes in the fair value of cash flow hedges and fair value changes on certain derivatives that, despite being utilized to effectively manage the above mentioned activities, do not qualify for hedge accounting, are recognized in earnings immediately.

The Company adopted SFAS 133 on April 1, 2001, resulting in a charge in the statement of operations, reflected as a cumulative effect of change in accounting principle, of \$496 or \$0.02 per diluted share. Also, a cumulative effect adjustment reduced Accumulated Other Comprehensive Loss by \$541. During the fiscal year ended March 31, 2003, the Company's cash flow hedges were terminated, resulting in the reclassification from Accumulated Other Comprehensive Loss to earnings of a loss of \$2,083. There were no derivative contracts outstanding at March 31, 2004 and 2003.

**(8) REORGANIZATION ITEMS**

Reorganization items represent amounts the Company incurred as a result of the Chapter 11 process and are presented separately in the consolidated statements of operations. For fiscal years 2004 and 2003 the following have been incurred:

|                   | <u>2004</u> | <u>2003</u> |
|-------------------|-------------|-------------|
| Professional fees | \$ 64,441   | \$ 34,494   |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Employee costs             | 2,169             | 1,675             |
| Interest income            | (1,171)           | (1,882)           |
| Other                      | 1,603             | 2,083             |
|                            | <u>          </u> | <u>          </u> |
| Total reorganization items | \$ 67,042         | \$ 36,370         |
|                            | <u>          </u> | <u>          </u> |

F-20

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

Net cash paid for reorganization items during fiscal years 2004 and 2003 was \$46,914 and \$26,410, respectively.

The following paragraphs provide additional information relating to the above reorganization items for fiscal years 2004 and 2003:

*Professional fees*

In fiscal year 2004, the Company recorded \$64,441 for professional fees. Professional fees include financial, legal and valuation services directly associated with the reorganization process, including fees incurred related to possible asset sales.

*Employee costs*

The Company has implemented a Bankruptcy Court-approved retention plan that provides for cash incentives to key members of the Company's management team. The retention plan is a milestone-based plan expected to encourage employees to continue their employment through the reorganization process. During fiscal years 2004 and 2003, the Company recognized charges of \$2,169 and \$1,675 related to this program, respectively.

*Interest income*

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

*Other*

Other reorganization costs for fiscal year 2004 represents the net write-off of deposits and cash collateral associated with certain leases rejected under the Bankruptcy Code. Other reorganization costs for fiscal year 2003 represents contractual claims arising from termination of pre-petition financial instruments.

**(9) LIABILITIES SUBJECT TO COMPROMISE**

Under U.S. bankruptcy law, actions by creditors to collect indebtedness the Debtors owed prior to the Petition Date are stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors. The Debtors have 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 have been classified as liabilities subject to compromise in the consolidated balance sheets. Adjustments to these amounts may result from negotiations, payments authorized by the Bankruptcy Court, rejection of executory contracts, including leases, or other events. Amounts recorded may ultimately be different than amounts filed by the creditors under the Bankruptcy Court claims reconciliation and resolution process.

Pursuant to an order of the Bankruptcy Court, in February 2003, the Debtors mailed notices to all known creditors that the deadline for filing proofs of claim for general unsecured claims with the Bankruptcy Court was April 23, 2003. The Bankruptcy Court set August 15, 2003 as a separate bar date for certain other claims. An estimated 3,600 claims were filed out of an estimated 38,000 notices sent to constituents. Amounts that the 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

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

resolved in connection with the claims resolution 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 adjustments to current estimates of allowable claims. The ultimate resolution of these claims will be based upon the final plan of reorganization.

The following table summarizes the components of the liabilities classified as Liabilities subject to compromise in the consolidated balance sheet as of March 31, 2004 and March 31, 2003:

|  | <b>March 31, 2004</b> | <b>March 31, 2003</b> |
|--|-----------------------|-----------------------|
| Accounts payable                               | \$ 66,072             | \$ 72,115             |
| Accrued interest payable                       | 19,403                | 19,403                |
| Restructuring reserve                          |                       | 8,212                 |
| Warranty reserve                               |                       | 12,921                |
| Accrued expenses                               | 52,266                | 62,114                |
| Retirement obligations                         | 128,293               | 128,293               |
| Long-term debt (Note 13)                       | 1,081,293             | 1,081,293             |
| Other liabilities                              | 133,793               | 148,738               |
| <b>Total liabilities subject to compromise</b> | <b>\$ 1,481,120</b>   | <b>\$ 1,533,089</b>   |

For a discussion concerning liabilities subject to compromise as of the Company's emergence from Chapter 11, see Note 29.

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

Effective April 1, 2001, the Company adopted SFAS No. 141 Business Combinations ( 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. 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.

During the first quarter of fiscal 2003, the Company experienced deterioration in the performance of its European Network Power business. In accordance with the provisions of SFAS 142, the goodwill associated with the Network Power business was reviewed for impairment due to the fact that circumstances indicated the carrying value may not be recoverable. As a result, the Company recognized a goodwill impairment charge in the first quarter of fiscal 2003 of \$37,000. This amount is in addition to the \$105,000 goodwill impairment recorded in the third quarter of

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

fiscal 2002 within the Network Power segment. The impairment charge was determined based upon a comparison of the book carrying value of this reporting segment, including goodwill, against its fair value, estimated using a discounted cash flow model. After giving effect to the first quarter fiscal 2003 impairment charge, all goodwill of the Network Power segment has been written off. Above is based on the Company's existing segments in fiscal years 2004, 2003 and 2002. For a discussion of the Company's segments, see Note 27.

The Company completed its annual impairment assessment of goodwill effective December 31, 2003, utilizing its most recently updated five-year business plan as the basis for development of discounted cash flows and an estimate of fair values. As a result of the comparison of the book carrying values of its reporting

F-22



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

segments, including goodwill, against these estimated fair values, the Company determined that no goodwill impairment charges were required. As a result of the Company's reorganization plan, there will be material changes to the carrying amount of assets and liabilities, including goodwill, in the Consolidated Financial Statements. See Note 4.

Summarized goodwill activity for fiscal 2004 and 2003 is as follows:

|                                    | <b>For the fiscal year ended</b> |                       |
|------------------------------------|----------------------------------|-----------------------|
|                                    | <b>March 31, 2004</b>            | <b>March 31, 2003</b> |
| Goodwill, net at beginning of year | \$ 463,920                       | \$ 416,926            |
| Impairment charge                  |                                  | (37,000)              |
| Currency translation effect        | 63,785                           | 83,994                |
| Goodwill, net at end of year       | <u>\$ 527,705</u>                | <u>\$ 463,920</u>     |

The amounts of goodwill, net allocated to the Company's Transportation, Motive Power and Network Power segments are approximately \$307,000, \$221,000 and \$0, respectively, at March 31, 2004 and \$270,000, \$194,000 and \$0, respectively, at March 31, 2003. Above is based on the Company's existing segments in fiscal years 2004, 2003 and 2002. For a discussion of the Company's segments, see Note 27.

Net intangible assets include trademarks of \$38,600 at March 31, 2004 and March 31, 2003 which are not subject to amortization as well as technology of \$7,840 which is amortized over its useful life of 10 years. The technology gross carrying amount was \$10,900 at March 31, 2004 and March 31, 2003 and the related accumulated amortization was \$3,060 and \$1,940 at March 31, 2004 and March 31, 2003, respectively.

**(11) INVENTORIES**

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

| <b>March 31,</b>  | <b>March 31,</b>  |
|-------------------|-------------------|
| <b>2004</b>       | <b>2003</b>       |
| <u>          </u> | <u>          </u> |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|                 |                   |                   |
|-----------------|-------------------|-------------------|
| Raw materials   | \$ 69,858         | \$ 74,756         |
| Work-in-process | 79,006            | 81,577            |
| Finished goods  | 265,652           | 243,640           |
|                 | <u>          </u> | <u>          </u> |
|                 | \$ 414,516        | \$ 399,973        |
|                 | <u>          </u> | <u>          </u> |

In connection with the inventory management component of the Company's restructuring and reorganization programs, during fiscal 2002, the Company recorded a charge to write-down excess inventories by approximately \$10,000. The charge, which was classified as cost of sales in the accompanying consolidated statement of operations, was determined after an assessment of the Company's five-year business plan and updated demand forecasts, the continued weakening of the Company's business segments, particularly the telecommunications market, and ongoing stock keeping unit (SKU) rationalization.

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(12) OTHER ASSETS**

Other assets consist of:

|                           | <b>March 31,<br/>2004</b> | <b>March 31,<br/>2003</b> |
|---------------------------|---------------------------|---------------------------|
|                           | <u>          </u>         | <u>          </u>         |
| Deposits                  | \$ 20,082                 | \$ 24,530                 |
| Pension assets (Note 14)  | 699                       | 16,886                    |
| Capitalized software, net | 13,490                    | 16,864                    |
| Loan to affiliate         | 4,935                     | 4,935                     |
| Other                     | 5,961                     | 7,513                     |
|                           | <u>          </u>         | <u>          </u>         |
|                           | <b>\$ 45,167</b>          | <b>\$ 70,728</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. During fiscal 2004, certain of these deposits were offset against existing accruals or, in the case of certain operating lease commitments rejected under the Bankruptcy Code, written-off with a corresponding charge to Reorganization Items.

**(13) DEBT**

At March 31, 2004 and 2003, short-term borrowings of \$8,624 and \$7,778, 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. As of March 31, 2004 and 2003, the weighted average interest rate on these borrowings was 5.35% and 7.5%, respectively.

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

Total long-term debt at March 31, 2004 and March 31, 2003 comprises the following:

|   | <b>March 31,<br/>2004</b> | <b>March 31,<br/>2003</b> |
|---|---------------------------|---------------------------|
| <b>Debt Not Subject To Compromise:</b>  |                           |                           |
| Replacement DIP Credit Facility Borrowings at LIBOR plus 3.75%(2)   | \$ 331,618                | \$                        |
| DIP Credit Facility Borrowings at LIBOR plus 3.75%(2)   |                           | 168,764                   |
| Senior Secured Global Credit Facility (Europe) Borrowings primarily at LIBOR plus 4.75% to 5.25%(2)   | 274,956                   | 271,415                   |
| 9.125% Senior Notes (Deutsche mark denominated, due April 15, 2004)   | 126,743                   | 96,634                    |
| European Accounts Receivable Securitization(2)  |                           | 155,465                   |
| 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) | 24,422                    | 23,554                    |
|   | <u>757,739</u>            | <u>715,832</u>            |
| Total debt not subject to compromise  | 757,739                   | 715,832                   |
| Less current maturities (included in total debt not subject to compromise above)  | 736,165                   | 598,427                   |
|   | <u>\$ 21,574</u>          | <u>\$ 117,405</u>         |
| <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                | \$ 458,965                |
| 10% Senior Notes, due April 15, 2005  | 300,000                   | 300,000                   |
| Convertible Senior Subordinated Notes, due December 15, 2005  | 321,132                   | 321,132                   |
| Other   | 1,196                     | 1,196                     |
|   | <u>\$ 1,081,293</u>       | <u>\$ 1,081,293</u>       |
| Total debt subject to compromise (Note 9)   | \$ 1,081,293              | \$ 1,081,293              |

- (1) Includes various operating lines of credit and working capital facilities maintained by certain of the Company's non-U.S. subsidiaries.  
(2) Debt classified as current based upon the maturity dates of the respective debt facility and Standstill Agreement.

Total debt at March 31, 2004 and March 31, 2003 was \$1,847,656 (including amounts subject to compromise) and \$1,804,903, respectively.

On April 15, 2002, the Company and three of its U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code. In connection with the filing, the Company also entered into a Standstill Agreement with its pre-petition Senior Secured Global Credit Facility lenders, whereby the lenders agreed to forbear collections of principal payments on foreign borrowings under the Senior Secured Global Credit Facility from non-Debtor subsidiaries until June 18, 2004, subject to earlier termination upon the occurrence of certain events. The principal events which could have resulted in an early termination of the Standstill Agreement were: 1) non-payment of interest on the European tranche of the Company's Senior Secured Global Credit Facility as and when due; 2) if any significant foreign subsidiaries commence any winding up or liquidation proceeding; 3) breach of financial and other customary negative covenants (as described with respect

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

to the DIP Credit Facility); and 4) default with respect to the European securitization agreement and 9.125% Senior Notes (Deutsche Mark denominated) agreement. The Company has continued to accrue interest of the Debtors under the pre-petition Senior Secured Global Credit Facility and makes adequate protection

F-25

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

payments subject to liquidity calculations prescribed in the DIP Credit Facility. Borrowings under the Senior Secured Global Credit Facility by Debtors within the Chapter 11 case are subject to compromise.

On May 10, 2002, the Company received final Bankruptcy Court approval of its \$250,000 DIP Credit Facility. The DIP Credit Facility was used to supplement cash flows from operations during the reorganization process including the payment of post-petition ordinary course trade and other payables, the payment of certain permitted pre-petition claims, working capital needs, letter of credit requirements and other general corporate purposes.

On April 17, 2002, approximately \$129,000 of the DIP Credit Facility was drawn down, \$117,000 being used to terminate and repurchase uncollected securitized accounts receivable under the Company's then existing U.S. receivables sale facility and the balance for financing costs and related fees.

The DIP Credit Facility was a secured revolving credit and term loan facility under which Exide Technologies was the borrower with certain U.S. subsidiaries acting as guarantors. The DIP Credit Facility was afforded super priority claim status in the Chapter 11 case and was collateralized by first liens on certain eligible U.S. assets of the Company, principally accounts receivable, inventory and property.

The revolving credit tranche of the DIP Credit Facility provided for borrowing up to \$121,000, of which up to \$65,000 was available to Exide Technologies for on-lending to its foreign subsidiaries. An additional \$50,000 sub-facility was also available to the foreign subsidiaries based on certain collateral asset values in the United Kingdom and Canada. To the extent funds were borrowed under the DIP and on-lent to foreign subsidiaries, additional liens on certain assets of the borrowing foreign subsidiary and related guarantees were required. Up to \$40,000 of the revolving credit tranche was available for letters of credit.

Borrowings under the DIP Credit Facility bore interest at Libor plus 3.75% per annum. Borrowings were limited to eligible collateral under the DIP Credit Facility. Eligible collateral under the DIP Credit Facility included certain accounts receivable and inventory in the U.S. and certain property in the U.S. and Europe. Availability to the Company was impacted by changes in both the amounts of the collateral and qualitative factors (such as aging of accounts receivable and inventory reserves) as well as cash requirements of the business such as trade credit terms. The DIP Credit Facility contained certain financial covenants requiring the Company to maintain monthly specified levels of earnings before interest, taxes, depreciation, amortization, restructuring and certain other defined charges, as well as limits on capital expenditures and cash restructuring expenditures. The DIP Credit Facility also contained other customary covenants, including certain reporting requirements and covenants that restricted the Company's ability to incur indebtedness, create or incur liens or guarantees, enter into leases, sell or dispose of assets, change the nature of the Company's business or enter into related party transactions.

On May 31, 2002, the Company entered into a \$177,500 European accounts receivable securitization facility. This facility replaced the Company's then existing \$175,000 European securitization program. The new facility is accounted for as a secured borrowing in accordance with the requirements of FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, whereby the accounts receivable and related borrowings are recorded on the Company's consolidated balance sheet.



**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a Replacement DIP. On February 13, 2004, the Company entered into the Replacement DIP which replaced the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500,000. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinanced the Company's European accounts receivable securitization facility and provided additional working capital borrowing availability of up to \$40,000. On March 15, 2004, the Company sought final approval of the Replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which were due April 15, 2004.

The Replacement DIP provides for interest at LIBOR plus 3.75% per annum and contains substantially the same provisions, security interests and financial covenants as the prior DIP Credit Facility. Absent the refinancing described herein, the Company would have required amendment of certain financial covenants under the prior DIP Credit Facility as of March 31, 2004.

In connection with the closing on the Replacement DIP, the lender who has provided the Company's exit financing extended the expiration of the exit financing commitment to May 15, 2004. In addition, the expiration of the Standstill Agreement was extended to June 18, 2004.

Total availability under the Replacement DIP Credit Facility as of March 31, 2004 was \$43,400.

The Company's \$900,000 (including \$250,000 to finance the GNB acquisition) Senior Secured Global Credit Facility has three borrowing tranches: a \$150,000 six year multi-currency term A loan, a \$500,000 seven and one-quarter year U.S. dollar term B loan and a \$250,000 six year multi-currency revolving credit line. This facility contains a number of financial and other covenants customary for such agreements including restrictions on new indebtedness, liens, leverage rates, acquisitions and capital expenditures. Under the original terms of the agreement, principal payments on non-revolving debt would continue through March 2005.

In April 1995, the Company issued \$300,000 in aggregate principal amount of 10% Senior Notes. The 10% Senior Notes are redeemable at the option of the Company, in whole or in part, at any time on or after April 15, 2000, initially at 105% of the principal amount, plus accrued interest, declining to 100% of the principal amount, plus accrued interest on or after April 15, 2002.

In December 1995, the Company issued Convertible Senior Subordinated Notes due December 15, 2005, with a face amount of \$397,000 discounted to \$287,797. These notes have a coupon rate of 2.9% with a yield to maturity of 6.75%. The notes are convertible into the Company's common stock at a conversion rate of .0125473 shares per \$1 principal amount at maturity, subject to adjustments in certain events.

The Company entered into a \$60,000 two year interest rate swap agreement on October 18, 2000, for which the Company paid a quarterly fixed rate of 6.55% and received a three-month LIBOR rate. This swap hedged a portion of the variable interest exposure on the Company's \$900,000 Senior Secured Global Credit Facility Tranche B Term Loans. This agreement was terminated in the first quarter of fiscal 2003 in connection



## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

with the Company's Chapter 11 filing and the cost of settlement reflected as a reorganization item and liability subject to compromise in the Consolidated Financial Statements.

In July 2001, the Company completed debt-for-equity exchanges whereby approximately \$30,000 face value of the Convertible Senior Subordinated Notes (the "Notes") were exchanged for approximately 1,900 shares of Company common stock. Since these exchanges involved a convertible security, the Company

F-27

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

recognized a non-cash charge of \$13,873 in fiscal 2002 equivalent to the market value of the shares issued in excess of the original conversion ratio of the Notes. The non-cash charge was included in the Other (income) expense line of the consolidated statement of operations. The carrying value of the Notes was \$25,539. The Company reduced debt and increased shareholders' equity by \$25,539 as a result of the transaction. This transaction was treated as a non-cash financing activity in the accompanying consolidated statement of cash flows.

The Company's variable rate based debt at March 31, 2004 was approximately \$1,065,539, none of which was hedged.

Annual principal payments required under long-term debt obligations at March 31, 2004 are as follows:

| <b><u>Fiscal Year</u></b> | <b><u>Amount</u></b>       |
|---------------------------|----------------------------|
| 2005                      | \$ 1,200,145               |
| 2006                      | 622,748                    |
| 2007                      | 1,616                      |
| 2008                      | 1,616                      |
| 2009                      | 1,616                      |
| Thereafter                | 11,291                     |
|                           | <b><u>\$ 1,839,032</u></b> |

The above table includes pre-petition amounts subject to compromise. Under the Bankruptcy Code, actions against the Debtors to collect pre-petition indebtedness were stayed, therefore, the commitments shown above may not reflect actual cash outlays in the future.

For a discussion of the Company's debt financing upon emergence from Chapter 11, see Note 29.

**(14) EMPLOYEE BENEFIT PLANS AND POSTRETIREMENT HEALTH CARE AND LIFE****INSURANCE BENEFITS**

The Company has noncontributory defined benefit pension plans covering substantially all hourly and salaried employees in North America. Plans covering hourly employees provide pension benefits of stated amounts for each year of credited service. Salaried employees in North America are covered by a cash balance plan providing benefits as a percentage of salary up to qualified limits. The Company has numerous

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

defined contribution plans in North America and Europe with related expense of \$5,325, \$4,174, and \$4,278 in fiscal 2004, 2003, and 2002 respectively.

European subsidiaries of the Company sponsor several defined benefit plans that cover substantially all employees who are not covered by statutory plans. For defined benefit plans, charges to expense are based upon costs computed by independent actuaries. In most cases, the defined benefit plans are not funded and the benefit formulas are similar to those used by the North American hourly plans.

The Company provides certain health care and life insurance benefits for a limited number of retired employees. The Company accrues the estimated cost of providing postretirement benefits during the employees' applicable years of service.

F-28

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

The following table sets forth the plans' funded status and the amounts recognized in the Company's Consolidated Financial Statements at March 31, 2004 and 2003:

|  | Pension Benefits |              | Other Post-Retirement<br>Benefits |             |
|--|------------------|--------------|-----------------------------------|-------------|
|  | 2004             | 2003         | 2004                              | 2003        |
|  | _____            | _____        | _____                             | _____       |
| <b>Change in benefit obligation:</b>           |                  |              |                                   |             |
| Benefit obligation at beginning of year        | \$ 516,298       | \$ 451,690   | \$ 27,505                         | \$ 31,883   |
| Service cost                                   | 10,131           | 10,792       | 69                                | 74          |
| Interest cost                                  | 32,336           | 30,761       | 1,772                             | 1,881       |
| Actuarial (gain) loss                          | 46,859           | 13,364       | 806                               | 1,108       |
| Plan participants' contributions               | 1,226            | 1,137        | 257                               | 183         |
| Benefits paid                                  | (27,317)         | (26,619)     | (1,627)                           | (1,623)     |
| Plan amendments                                | 219              | 770          |                                   | (5,878)     |
| Currency translation                           | 39,915           | 36,189       | 317                               | 185         |
| Settlements and other                          | (5,538)          | (1,786)      |                                   | (308)       |
|  | _____            | _____        | _____                             | _____       |
| Benefit obligation at end of year              | \$ 614,129       | \$ 516,298   | \$ 29,099                         | \$ 27,505   |
|  | _____            | _____        | _____                             | _____       |
| <b>Change in plan assets:</b>                  |                  |              |                                   |             |
| Fair value of plan assets at beginning of year | \$ 236,167       | \$ 281,693   | \$                                | \$          |
| Actual return on plan assets                   | 43,806           | (43,958)     |                                   |             |
| Employer contributions                         | 18,389           | 16,453       | 1,370                             | 1,440       |
| Plan participants' contributions               | 1,226            | 1,137        | 257                               | 183         |
| Benefits paid                                  | (27,317)         | (26,619)     | (1,627)                           | (1,623)     |
| Currency translation                           | 15,791           | 9,970        |                                   |             |
| Settlements and other                          | (4,095)          | (2,509)      |                                   |             |
|  | _____            | _____        | _____                             | _____       |
| Fair value of plan assets at end of year       | \$ 283,967       | \$ 236,167   | \$                                | \$          |
|  | _____            | _____        | _____                             | _____       |
| <b>Reconciliation of funded status:</b>        |                  |              |                                   |             |
| Funded status                                  | \$ (330,162)     | \$ (280,131) | \$ (29,099)                       | \$ (27,505) |
| Unrecognized net                               |                  |              |                                   |             |
| Transition obligation                          | 63               | 64           | 285                               | 275         |
| Prior service cost                             | 821              | 648          | (6,779)                           | (7,407)     |
| Actuarial loss                                 | 184,779          | 164,457      | 6,054                             | 5,465       |
| Contributions after measurement date           | 2,283            | 170          | 302                               | 257         |
|  | _____            | _____        | _____                             | _____       |
| Net amount recognized                          | \$ (142,216)     | \$ (114,792) | \$ (29,237)                       | \$ (28,915) |
|  | _____            | _____        | _____                             | _____       |

Amounts recognized in statement of financial position:

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
| Prepaid benefit cost                          | \$ 699            | \$ 16,886         | \$                | \$                |
| Accrued benefit cost                          | (299,629)         | (270,729)         | (29,237)          | (28,915)          |
| Intangible asset                              | 816               | 1,544             |                   |                   |
| Accumulated other comprehensive (income) loss | 155,898           | 137,507           |                   |                   |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net amount recognized                         | \$ (142,216)      | \$ (114,792)      | \$ (29,237)       | \$ (28,915)       |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

F-29

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

|                                | <b>Pension Benefits</b>                      |             | <b>Other Post-Retirement Benefits</b> |             |
|--------------------------------|--|-------------|---------------------------------------|-------------|
|                                | <b>2004</b>                                  | <b>2003</b> | <b>2004</b>                           | <b>2003</b> |
|                                | Weighted-average assumptions as of March 31: |             |                                       |             |
| Discount rate                  | 5.7%   | 6.1%        | 6.7%                                  | 6.7%        |
| Expected return on plan assets | 7.6%   | 7.6%        |                                       |             |
| Rate of compensation increase  | 3.7%   | 3.7%        |                                       |             |

For fiscal 2004, the Company assumed an expected weighted average return on plan assets of 7.6%. In developing this rate assumption, the Company evaluated input from third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions.

For other post-retirement benefit measurement purposes, a 12.5% and 12.7% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2004 and 2003, respectively. The rate was assumed to decrease gradually to 5.0% over nine and ten years for fiscal 2004 and 2003, respectively, and remain at that level thereafter.

The following table sets forth the plans expense recognized in the Company's consolidated financial statements:

|  | <b>Pension Benefits</b> |                  |                  | <b>Other Post-Retirement Benefits</b> |                 |                 |
|--|-------------------------|------------------|------------------|---------------------------------------|-----------------|-----------------|
|  | <b>2004</b>             | <b>2003</b>      | <b>2002</b>      | <b>2004</b>                           | <b>2003</b>     | <b>2002</b>     |
| Components of net periodic benefit cost: |                         |                  |                  |                                       |                 |                 |
| Service cost                             | \$ 10,131               | \$ 10,792        | \$ 12,515        | \$ 69                                 | \$ 74           | \$ 162          |
| Interest cost                            | 32,336                  | 30,761           | 28,917           | 1,773                                 | 1,881           | 2,459           |
| Expected return on plan assets           | (17,932)                | (21,920)         | (26,459)         |                                       |                 |                 |
| Amortization of: Transition obligation   | 11                      | 21               | 21               | 23                                    | 110             | 495             |
| Prior service cost                       | 35                      | 5                | 79               | (629)                                 | (629)           |                 |
| Actuarial loss                           | 10,069                  | 4,258            | 1,071            | 229                                   | 320             | 119             |
| Other                                    |                         |                  |                  |                                       | (419)           |                 |
| Net periodic benefit cost (a)            | <u>\$ 34,650</u>        | <u>\$ 23,917</u> | <u>\$ 16,144</u> | <u>\$ 1,465</u>                       | <u>\$ 1,337</u> | <u>\$ 3,235</u> |

---

(a) Excludes the impact of settlements of \$1,437 in fiscal 2004 and curtailments of \$2,744, \$995, and \$3,620 in fiscal 2004, 2003 and 2002, respectively.

The measurement dates for the Company's U.S. Pension and Other Post-Employment benefit plans were December 31, 2003 and December 31, 2002 for the fiscal years ended March 31, 2004 and March 31, 2003, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$606,188, \$565,871 and \$274,777, respectively, as of March 31, 2004 and \$498,938, \$468,949 and \$219,475, respectively, as of March 31, 2003.

The accumulated benefit obligation for Exide Technologies' U.S. pension plans was \$303,162 as of March 31, 2004.

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

The asset allocation for Exide Technologies U.S. pension plans at March 31, 2004, and the target allocation for 2005, by asset category, are as follows:

| <u>Asset Category</u>   | <u>Target Allocation</u> | <u>Percentage of<br/>Plan Assets at<br/>Year End</u> |
|-------------------------|--------------------------|--|
|                         | <u>2005</u>              | <u>2004</u>  |
| Equity securities       | 60%                      | 59%  |
| Fixed income securities | 40                       | 38   |
| Cash                    | 0                        | 3  |
| <b>Total</b>            | <b>100%</b>              | <b>100%</b>  |

Exide invests in a diversified portfolio of investments consisting almost entirely of equity and fixed income securities. The equity portfolio includes direct and indirect interests in both U.S. and global equity securities, both in developed and emerging market companies. The fixed income portfolio is primarily U.S. high-quality bond funds.

The estimated contributions to Exide Technologies U.S. pension plans in 2005 range from a minimum of \$5,100 to a maximum of \$42,800.

The Company has applied for the temporary waiver of its minimum funding requirements for its North American plans for calendar years 2003 and 2004 under Section 412(d) of the Internal Revenue Code. If granted, the waiver would provide for deferral of the Company's minimum contributions for those years to be paid over a subsequent five-year period. There can be no assurances that the Company's waiver application will be granted. If the waiver is not granted, the Company's liquidity would be adversely impacted.

Assumed health care cost trend rates have a significant effect on the amounts reported for other post-retirement benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| <u>One Percentage-<br/>Point Increase</u> | <u>One Percentage-<br/>Point Decrease</u> |
|---|---|
|---|---|



## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|   |    |       |    |         |
|---|----|-------|----|---------|
| Effect on total of service and interest cost components | \$ | 173   | \$ | (147)   |
| Effect on the postretirement benefit obligation         | \$ | 2,706 | \$ | (2,331) |

At March 31, 2004, the unrecognized net actuarial loss related to the Company's pension plans, determined based on the market related value of plan assets, was \$184,779. This amount exceeded 10% of the greater of the projected benefit obligation or the market related value of plan assets. Unless offset by future unrecognized gains from higher discount rates or higher than expected returns on plan assets, amortization of this unrecognized loss is expected to increase pension expense for fiscal 2005 and each of the following nine years by approximately \$12,000 per year, before considering the impact of fresh start accounting. See Note 4.

Several plans had under funded accrued benefit obligations that exceeded their accrued benefit liabilities at March 31, 2004 and 2003. Additional minimum liabilities of \$156,714 and \$139,051 were established at March 31, 2004 and 2003, respectively, to increase the accrued benefit liabilities to the values of the under funded accrued benefit obligations.

### **(15) PREFERRED SHARE PURCHASE RIGHTS PLAN**

For a discussion of the treatment of the Company's prior securities upon emergence from Chapter 11, see Note 29.

In fiscal 1999, the Company's Board of Directors announced that it adopted a Preferred Share Purchase Rights Plan and declared a dividend distribution to be made to stockholders of record on September 29, 1998, of one Preferred Share Purchase Right (a "Right") on each outstanding share of common stock. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Junior Participating

---

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

Preferred Stock, Series A, par value \$.01 per share, of the Company (the Preferred Shares ) at an exercise price of \$60 per one one-thousandth of a Preferred Share, subject to adjustment. The Rights are not exercisable, or transferable apart from the common stock, until the earlier to occur of (i) ten days following a public announcement that a person or group other than certain exempt persons (an Acquiring Person ), together with persons affiliated or associated with such Acquiring Person (other than those that are exempt persons) acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding common stock, or (ii) ten business days following the commencement or public disclosure of an intention to commence a tender offer or exchange offer (other than a permitted offer, as defined) by a person other than an exempt person if, upon consummation of the offer, such person would acquire beneficial ownership of 20% or more of the outstanding common stock (subject to certain exceptions). Thereafter, if the Company is not the surviving corporation in a merger or other business combination, or if common stocks are changed or exchanged, or in a transaction or transactions wherein 50% or more of its consolidated assets or earning power are sold, each Right would entitle the holder (other than the Acquiring Person and certain related persons or transferees) upon exercise to receive, in lieu of Preferred Shares, a number of shares of common stock of the acquiring company or the Company, as the case may be, having a value of two times the exercise price of the Right. The Rights are redeemable at the Company's option at any time before public disclosure that an Acquiring Person has become such, for \$.01 per Right, and expire on September 18, 2008. Each Preferred Share will be entitled to a minimum preferential quarterly dividend payment equal to the greater of \$25 per share or 1,000 times the dividend declared per common stock. The Preferred Shares have liquidation preference, as defined. In addition, each Preferred Share will have 1,000 votes per share, voting together with the common stock.

**(16) STOCK GRANTS AND OPTIONS**

For a discussion of the treatment of the Company's prior securities upon emergence from Chapter 11, see Note 29.

On August 10, 2000, the Board of Directors adopted the 2000 Broad Based Stock Incentive Plan (the 2000 Plan ). The plan states that all employees of the Company are eligible for awards under the plan except those employees subject to Section 16 of the Exchange Act including Officers as defined in Rule 16a-1(f) under the Exchange Act and Directors as defined in Section 3 (a)(7) of the Exchange Act. The award type most frequently used is the non-qualified stock option with an exercise price fixed at 100% of the fair market value of a share of the Company's common stock on the date of grant. Non-qualified options generally become exercisable in cumulative installments of 25% one year after the date of grant and annually thereafter, and must be exercised no later than ten years from the date of grant. Initially, 2,000 awards were authorized under the 2000 Plan. On the first anniversary of the effective date of the 2000 Plan and each nine anniversaries thereafter, the total amount of awards may increase by an amount equal to one percent of the number of shares of Common Stock outstanding on that day. As of March 31, 2004, 2,252 shares remain available for grant under this plan.

The Company's shareholders approved the 1999 Stock Incentive Plan, effective August 11, 1999, under which executives and key employees of the Company are eligible to be granted a total of 2,300 awards in the form of incentive stock options, nonqualified stock options or restricted shares of common stock. Certain of these options vest ratably over four years while the remainder vest over nine years or immediately upon the Company reaching certain performance measures. In addition to the stock options reported in the stock option summary table, 55 shares and 28 shares of common stock were granted during fiscal 2002 and fiscal 2001, respectively, as part of each Board of Directors' compensation package. As of March 31, 2004, 1,365 shares remain available for grant under this plan.

During the 2001 fiscal year, the Board of Directors approved option grants to four new members of the Company's executive team as part of each executive's employment agreement. 640 options were authorized and

F-32

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

granted by the Board of Directors to the executives. These options expire ten years from the date of grant, were granted at fair market value on the date of grant and vest at a rate of 25% per year on each anniversary date of their employment.

On May 1, 1997, the Board of Directors adopted the 1997 Stock Option Plan ( 1997 Plan ) that authorizes the granting of stock options to key employees of the Company covering up to 2,000 shares of common stock. No options become vested or exercisable before May 1, 2007, unless the market price of the common stock increases to certain levels. If the market price increases to \$30.00 per share, 40% of the granted options become vested, if it reaches \$50.00, another 40% become vested and if it achieves \$75.00 the remainder will become vested, provided, that in the case of each such percentage which so vests, the vested options are then only exercisable as follows; 40% on the date of vesting and 20% each on the first, second and third anniversaries. The exercise price for each share is equal to the fair market value of the common stock on the date of the grant of the option. These options will expire on June 1, 2007. No further awards will be granted under the 1997 Plan.

In October 1993, the Board of Directors adopted the Long-Term Incentive Plan ( Incentive Stock Plan ), which may grant awards to key employees in the form of incentive stock options, nonqualified stock options, restricted shares of common stock or units valued on the basis of long-term performance of the Company ( Performance Units ). Options may be accompanied by stock appreciation rights ( Rights ). All of the awards to date have been nonqualified stock options, none of which were accompanied by Rights. All awards vest ratably over periods ranging from four to five years, with the maximum exercise period of the awards ranging from five years and three months to ten years. The maximum aggregate number of shares of common stock with respect to options, restricted shares, Performance Units or Rights granted without accompanying options that could have been granted pursuant to the Incentive Stock Plan is 700 shares. No further awards will be granted under this plan.

On April 29, 1993, the Board of Directors adopted an Incentive Compensation Plan, under which certain members of the Company s management were granted a total of approximately 795 shares of the Company s common stock. These shares are fully vested and have certain restrictions related to sale, transferability and employment. Participants must pay \$2.25 per share, the estimated fair value at the grant date, prior to the transferring of such shares. As of March 31, 2004 there were 15 restricted shares that remain vested and unpurchased by the awardees.

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

Stock option activity is summarized as follows:

|   | <u>Stock Options</u> | <u>Weighted<br/>Average Exercise<br/>Price of Stock<br/>Options</u> |
|---|----------------------|---|
| Shares under option:                          |                      |   |
| Outstanding at March 31, 2001                 | 5,799                | \$ 10.99  |
| Granted                                       | 188                  | \$ 10.67  |
| Exercised                                     |                      |   |
| Forfeited                                     | (1,320)              | \$ 11.95  |
|   | <u>          </u>    |   |
| Outstanding at March 31, 2002                 | 4,667                | \$ 10.71  |
| Granted                                       |                      |   |
| Exercised                                     |                      |   |
| Forfeited                                     | (417)                | \$ 11.02  |
|   | <u>          </u>    |   |
| Outstanding at March 31, 2003                 | 4,250                | \$ 10.67  |
| Granted                                       |                      |   |
| Exercised                                     |                      |   |
| Forfeited                                     | (325)                | \$ 11.09  |
|   | <u>          </u>    |   |
| Outstanding at March 31, 2004                 | 3,925                | \$ 10.63  |
|   | <u>          </u>    |   |
| Options available for grant at March 31, 2004 | 3,617                |   |
| Exercisable at March 31, 2002                 | 2,969                | \$ 10.82  |
| Exercisable at March 31, 2003                 | 3,151                | \$ 10.64  |
| Exercisable at March 31, 2004                 | 3,292                | \$ 10.47  |

| <u>Range of<br/>Exercise Prices</u> | <u>Options Outstanding</u>    |  |   | <u>Options Exercisable</u>    |   |
|-------------------------------------|-------------------------------|--|---|-------------------------------|---|
|                                     | <u>Number<br/>Outstanding</u> | <u>Weighted-Average<br/>Remaining Life (Years)</u> | <u>Weighted-<br/>Average<br/>Exercise Price</u> | <u>Number<br/>Exercisable</u> | <u>Weighted-<br/>Average<br/>Exercise Price</u> |
| \$7.75 to \$10.00                   | 1,094                         | 6.5  | \$ 8.68   | 803                           | \$ 8.68   |
| \$10.01 to \$15.00                  | 2,487                         | 4.9  | 10.44   | 2,310                         | 10.37   |
| \$15.01 to \$25.88                  | 344                           | 3.0  | 18.30   | 179                           | 19.85   |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|              |     |          |              |          |
|--------------|-----|----------|--------------|----------|
| <u>3,925</u> | 5.1 | \$ 10.63 | <u>3,292</u> | \$ 10.47 |
|--------------|-----|----------|--------------|----------|

No stock options were granted during fiscal year 2004 or 2003. The weighted average grant-date fair values for options granted during fiscal 2002 was \$8.28.

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(17) INCOME TAXES**

The provision for income taxes includes federal, state and foreign taxes currently payable and those deferred because of net operating losses and temporary differences between the financial statement and tax bases of assets and liabilities. The components of the provision for income taxes for the fiscal years ended March 31, 2004, 2003 and 2002, are as follows:

|                           | <u>2004</u>     | <u>2003</u>      | <u>2002</u>       |
|---------------------------|-----------------|------------------|-------------------|
| Current:                  |                 |                  |                   |
| Federal                   | \$              | \$               | \$                |
| State                     |                 |                  |                   |
| Foreign                   | 10,614          | 11,158           | 13,734            |
|                           | <u>10,614</u>   | <u>11,158</u>    | <u>13,734</u>     |
| Deferred:                 |                 |                  |                   |
| Federal                   |                 |                  | 2,424             |
| State                     |                 |                  |                   |
| Foreign                   | (7,343)         | 15,811           | (17,580)          |
|                           | <u>(7,343)</u>  | <u>15,811</u>    | <u>(15,156)</u>   |
| Total provision (benefit) | <u>\$ 3,271</u> | <u>\$ 26,969</u> | <u>\$ (1,422)</u> |

Major differences between the federal statutory rate and the effective tax rate are as follows:

|  | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|--|-------------|-------------|-------------|
| Federal statutory rate                         | (35.0)%     | (35.0)%     | (35.0)%     |
| Nondeductible goodwill impairment/amortization |             | 10.3        | 12.1        |
| Debt for equity swaps                          |             |             | 2.6         |
| Subpart F Income(i)                            | 1.0         | 2.0         | 16.9        |
| Capital structure reorganizations(ii)          |             | (3.7)       | (3.2)       |
| Tax losses not benefited                       | 41.7        | 47.9        | 9.5         |
| Reversal of valuation allowances(iii)          | (10.1)      |             |             |
| Purchased research and development             |             |             | (1.0)       |
| Other, net                                     | 5.9         | 2.2         | (2.4)       |

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|                    |      |       |        |
|--------------------|------|-------|--------|
| Effective tax rate | 3.5% | 23.7% | (0.5)% |
|--------------------|------|-------|--------|

- 
- (i) As a result of certain pledges of stock of foreign subsidiaries in connection with bank amendments obtained during fiscal 2002, the Company was required to recognize certain foreign sourced income ( Subpart F Income ) as a constructive dividend for U.S. tax purposes. The constructive dividend has otherwise reduced operating loss tax carry-forwards.
  - (ii) During fiscal 2003 and 2002, the Company reorganized the ownership structure of certain of its foreign subsidiaries and recorded an impairment charge on certain intercompany investments for statutory purposes. These actions have no effect on reported pre-tax operating results but resulted in a net tax benefit.
  - (iii) During fiscal 2004, the Company recorded an adjustment to previously recognized valuation allowances in certain international jurisdictions based on updated financial projections.

F-35



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

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003:

|  | <u>2004</u>       | <u>2003</u>       |
|--|-------------------|-------------------|
| Deferred tax assets:                         |                   |                   |
| Operating loss and tax credit carry-forwards | \$ 480,026        | \$ 411,325        |
| Compensation reserves                        | 49,919            | 45,663            |
| Environmental reserves                       | 26,073            | 27,514            |
| Warranty                                     | 13,526            | 16,126            |
| Asset and other realization reserves         | 10,762            | 11,503            |
| Purchase commitments                         | 14,590            | 17,169            |
| Other  | 81,001            | 81,561            |
| Valuation allowance                          | (537,159)         | (495,111)         |
|  | <u>\$ 138,738</u> | <u>\$ 115,750</u> |

As of March 31, 2004, the Company has net operating loss carry-forwards for U.S. income tax purposes of approximately \$718,000 which expire in years 2006 through 2025. As of March 31, 2004, certain of the Company's foreign subsidiaries have net operating loss carry-forwards for income tax purposes of approximately \$556,000, of which approximately \$72,000 expire in years 2005 through 2014, with the remainder able to be carried forward indefinitely by statute or tax planning strategies. For financial reporting purposes, a valuation allowance has been recognized to reduce the deferred tax assets, related to certain net operating loss carry-forwards and certain deductible temporary differences for which it is more likely than not that the related tax benefits will not be realized.

The Company's net deferred tax assets include certain amounts of net operating loss carry-forwards as well as certain tax deductible temporary differences which management believes are realizable through a combination of forecasted future taxable income and anticipated tax planning strategies. The Company has implemented certain tax planning strategies in prior years to utilize a portion of such deferred tax assets. Failure to achieve forecasted future taxable income might affect the ultimate realization of any remaining recorded net deferred tax assets. Valuation allowances have been provided on all U.S. subsidiaries of the Company, including those entities which are part of the Chapter 11 cases and for a number of the Company's foreign subsidiaries.

As a result of the pledges of stock of certain of the Company's foreign subsidiaries in connection with bank amendments obtained in fiscal 2002, the Company has effectively provided for taxes on these undistributed earnings. As of March 31, 2004, the Company had not provided for withholding or U.S. federal income taxes on undistributed earnings of certain other foreign subsidiaries since such earnings were expected to be reinvested indefinitely or be substantially offset by available foreign tax credits and operating loss carry forwards.

As a result of the confirmation of the Plan, the Company expects that its U.S. net operating loss carryforwards will be substantially extinguished.

**(18) 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 (collectively "EH&S laws"). For a discussion of environmental matters, see Note 19.

F-36

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

**(19) COMMITMENTS AND CONTINGENCIES**

*Bankruptcy Considerations*

Pursuant to the Plan, claims against the Debtors in pre-petition litigation have been discharged, and the holders of such claims may be entitled to receive new common stock and Warrants as part of the distribution to unsecured creditors. The pre-petition litigation, which constitutes a portion of the disputed claims under the Plan, includes certain of the matters disclosed in the Company's previously-filed periodic reports involving the following: (i) alleged personal injury and/or property damage from the release of hazardous materials used in the battery manufacturing process; and (ii) claims of racial discrimination. The amount of distributions to holders of all such claims will be determined through the Plan's claims reconciliation process. For a further discussion of the claims reconciliation process, see Note 29.

*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. The payment terms of the plea agreement, which was accepted by the U.S. District Court for the Southern District of Illinois on February 27, 2002, are dependent upon the Company's compliance with the plea agreement during the five-year probation period. Generally, the terms of the probation would permit the U.S. Government to reopen the case against the Company if the Company violates the terms of the plea agreement or other provisions of law. 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, and the Company presently expects that the fine will be treated pursuant to the terms of the Plan.

*Private Party Lawsuits and other Legal Proceedings*

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

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

In July 2001, Pacific Dunlop Holdings (US), Inc. ( PDH ) and several of its foreign affiliates under the various agreements through which Exide and its affiliates acquired GNB, filed a complaint in the Circuit Court for Cook County, Illinois alleging breach of contract, unjust enrichment and conversion against Exide and three of its foreign affiliates. The plaintiffs maintain they are entitled to approximately \$17,000 in cash assets acquired by the defendants through their acquisition of GNB. In December 2001, the Court denied the defendants motion to dismiss the complaint, without prejudice to re-filing the same motion after discovery proceeds. The defendants have filed an answer and counterclaim. On July 8, 2002, the Court authorized discovery to proceed as to all parties except Exide. In August 2002, the case was removed to the U.S. Bankruptcy Court for the Northern District of Illinois and in October 2002, the parties presented oral arguments, in the case of PDH, to remand the

F-37

---

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

case to Illinois state court and, in the case of Exide, to transfer the case to the U.S. Bankruptcy Court for the District of Delaware. On February 4, 2003, the U.S. Bankruptcy Court for the Northern District of Illinois transferred the case to the U.S. Bankruptcy Court in Delaware. On November 19, 2003, the Bankruptcy Court denied PDH's motion to abstain or remand the case and issued an opinion holding that the Bankruptcy Court had jurisdiction over PDH's claims and, moreover, holding that liability, if any, would lie solely against Exide Technologies and not against any of its foreign affiliates. PDH subsequently filed a motion to reconsider, and the Bankruptcy Court has taken the motion under advisement. In December 2001, PDH filed a separate action in the Circuit Court for Cook County, Illinois seeking recovery of approximately \$3,100 for amounts allegedly owed by Exide under various agreements between the parties. The claim arises from letters of credit and other security allegedly provided by PDH for GNB's performance of certain of GNB's obligations to third parties that PDH claims Exide was obligated to replace. Exide's answer contested the amounts claimed by PDH and Exide filed a counterclaim. Although this action has been consolidated with the Cook County suit concerning GNB's cash assets, the claims relating to this action have been transferred to the U.S. Bankruptcy Court for the District of Delaware and are currently subject to a stay injunction entered by that court. The Company plans to vigorously defend itself and pursue its counterclaims.

From 1957 to 1982, CEAC, the Company's principal French subsidiary, operated a plant using crocidolite asbestos fibers in the formation of battery cases, which, once formed, encapsulated the fibers. Approximately 1,500 employees worked in the plant over the period. Since 1982, the French governmental agency responsible for worker illness claims has received 34 employee claims alleging asbestos-related illnesses, and no such claims have been filed since August 2001. For some of those claims, CEAC is obligated to and has indemnified the agency in accordance with French law for approximately \$169, \$260 and \$378 in calendar years 2002, 2003 and 2004, respectively. In addition, CEAC has been adjudged liable to indemnify the agency for approximately \$78, \$200 and \$107 during the same periods to date for the dependents of four such claimants. Although the Company cannot predict the number or size of any future claims, the Company does not believe resolution of the current or any future claims, individually or in the aggregate, will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

The Company's Shanghai, China subsidiary, Exide Technologies (Shanghai) Company Limited (Exide Shanghai), has been informed by the Shanghai Customs Administration that it is the subject of an investigation. An Exide Shanghai employee was detained and subsequently released by the authorities pending completion of the investigation. Based on Peoples Republic of China law, as well as Shanghai provincial law, the Shanghai Customs Administration has not disclosed the nature of the investigation or the charges which may result. The Company is awaiting the conclusion of the investigation. Exide Shanghai had total assets of approximately \$7,800 at March 31, 2004 and revenues of \$10,600 for fiscal year ended 2004.

In April 2003, the Company sold its Torrejon, Spain nickel-cadmium plant. A Torrejon court is conducting an investigation of two petitions submitted to it to determine whether criminal charges should be filed for alleged endangerment of workers' health at the former Torrejon plant. The Company has retained counsel in the event that any charges ultimately are filed.

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

The Company is involved in various other claims and litigation incidental to the conduct of its business. Based on consultation with legal counsel, the Company does not believe that any such claims or litigation to

F-38

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

which the Company is a party, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

*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 also 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 91 federally defined Superfund or state equivalent sites. At 44 of these sites, the Company has paid its share of liability. The Company anticipates its liability for the remaining sites will be treated as disputed unsecured claims under the Plan.

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.

The Company has established reserves for on-site and off-site environmental remediation costs and believes that such reserves are adequate. As of March 31, 2004, the amount of such reserves on the Company's consolidated balance sheet was \$94,239. Of this amount, \$62,055 was included in Liabilities subject to compromise, however, the amount of those liabilities that will be discharged pursuant to the Plan is yet to be determined. Because environmental liabilities are not accrued until a liability is determined to be probable and reasonably estimable, not all potential future environmental liabilities have been included in the Company's environmental reserves and, therefore, additional earnings charges are possible. Also, future findings or changes in estimates could have a material effect on the recorded reserves and cash flows.

The sites which may require larger expenses for remediation are as follows:

*Tampa, Florida*

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

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

### *Columbus, Georgia*

The Columbus site is a former secondary lead smelter that was decommissioned in 1999, which is part of a larger facility that includes an operating lead acid battery manufacturing facility. Groundwater remediation

F-39



**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

activities began in 1988. Costs for supplemental investigations, remediation and site closure are currently estimated at \$13,500.

*Sonalur, Portugal*

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

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

The Company budgets for capital expenditures and operating costs related to requirements under EH&S laws. The Company 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 EH&S laws.

*Guarantees*

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, an Interpretation of FASB Nos. 5, 57 and 107 and Rescission of FASB Interpretation No. 34. This Interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about obligations under guarantees. This Interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of a guarantee for the obligations the guarantor has undertaken in issuing that guarantee. The initial recognition and initial measurement provisions shall be applied only on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements for interim or annual periods ending after December 15, 2002.

At March 31, 2004, the Company had outstanding letters of credit with a face value of \$2,732 and surety bonds with a face value of \$43,264. 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 financial institution issuing the surety bonds (the *Surety*) holds approximately \$8,200 in cash collateral as security against demands made by the beneficiaries of such bonds. The letters of credit generally have terms up to one year. The Company expects limited availability of new surety bonds from

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

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 requires the Company to increase the cash collateral held by the Surety in several stages: forty percent collateralization of outstanding bonds by January 31, 2004; seventy percent collateralization of outstanding bonds by August 1, 2004; and full collateralization by August 1, 2005. The Company has amended the agreement with the Surety regarding the terms of the initial forty percent collateralization of which \$750 was paid on February 15, 2004 and the remainder was paid on June 16, 2004.

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 March 31, 2004, bank guarantees with a face value of \$16,786 were outstanding.

F-40

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

The Company provides customers various warranty or return privileges in each of its three 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 for fiscal 2004 follows:

|  |           |
|--|-----------|
| Balance at March 31, 2003                              | \$ 62,464 |
| Accrual for warranties provided during the period      | 49,960    |
| Settlements made (in cash or credit) during the period | (58,287)  |
| Currency translation                                   | 4,531     |
|  | <hr/>     |
| Balance at March 31, 2004                              | \$ 58,668 |
|  | <hr/>     |

*Leases*

Future minimum lease payments under operating and capital leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2004, are:

| <u>Fiscal Year</u>  | <u>Operating</u> | <u>Capital</u> |
|---|------------------|----------------|
| 2005  | \$ 37,342        | \$ 3,739       |
| 2006  | 20,381           | 3,674          |
| 2007  | 11,051           | 3,208          |
| 2008  | 8,281            | 4,249          |
| 2009  | 6,113            | 3,077          |
| Thereafter  | 13,842           | 10,450         |
|   | <hr/>            | <hr/>          |
| Total minimum payments  | \$ 97,010        | 28,397         |
|   | <hr/>            | <hr/>          |
| Less Interest on capital leases                                 |                  | (7,031)        |
|   |                  | <hr/>          |
| Total principal payable on capital leases (included in Note 13) |                  | \$ 21,366      |

In fiscal 1998 and 1999, the Company entered into sale/leaseback transactions, where the Company sold certain machinery and equipment with an aggregate book value of \$48,000 for \$97,100 and leased the same machinery and equipment back over periods ranging from eight to nine years. The total gain of \$49,100 has been deferred and is being recognized ratably over the life of the leases.

Rent expense amounted to \$62,143, \$63,155, and \$61,179 for fiscal years 2004, 2003 and 2002, respectively.

The Company has various purchase commitments for materials, supplies and other items incident to the ordinary course of business. See Note 23 for discussion of the battery separator agreement entered into as part of the Company's sale of these operations.

## **(20) RESTRUCTURING AND IMPAIRMENT**

Following the acquisition of GNB in September 2000, the Company initiated various restructuring programs involving facility, branch and corporate office closures and consolidation, principally in connection with overall

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

integration plans to affect the combination of the two organizations. Such actions impacted both existing Exide and acquired GNB employees and facilities. The actions were designed to reduce costs and improve earnings and cash flows. During fiscal 2002, 2003 and 2004, 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.

The following is a summary of the actions taken under the initiated programs described above:

|   | <b>Fiscal 2004</b>         |                        |                          |                  |
|---|----------------------------|------------------------|--------------------------|------------------|
|   | <b>Severance<br/>Costs</b> | <b>Write-<br/>Offs</b> | <b>Closure<br/>Costs</b> | <b>Total</b>     |
| U.S. Headcount Reductions (including Corporate)                           | \$ 600                     | \$                     | \$                       | \$ 600           |
| Closure of Weiden, Germany  | 11,189                     |                        | 2,862                    | 14,051           |
| Closure of Transportation North America Facilities                        | 411                        |                        | 1,570                    | 1,981            |
| Closure of Casalnuovo, Italy  | 7,361                      |                        | 708                      | 8,069            |
| Headcount Reductions (Transportation Europe and ROW)                      | 6,934                      | 379                    | 1,173                    | 8,486            |
| European Headcount Reductions (including Corporate)                       | 3,121                      |                        | 164                      | 3,285            |
| Headcount Reductions and Closure Costs (Industrial Energy Europe and ROW) | 13,903                     | (162)                  | 2,495                    | 16,236           |
| <b>Total Charge in the Statement of Operations</b>                        | <b>\$ 43,519</b>           | <b>\$ 217</b>          | <b>\$ 8,972</b>          | <b>\$ 52,708</b> |

|   | <b>Fiscal 2003</b>         |                        |                          |                  |
|---|----------------------------|------------------------|--------------------------|------------------|
|   | <b>Severance<br/>Costs</b> | <b>Write-<br/>Offs</b> | <b>Closure<br/>Costs</b> | <b>Total</b>     |
| U.S. Headcount Reductions (including Corporate)                           | \$ 1,750                   | \$                     | \$                       | \$ 1,750         |
| Closure of Kankakee, Illinois   | 1,663                      | 2,949                  | 72                       | 4,684            |
| Closure of Transportation North America Facilities                        | 2,456                      | 101                    | 810                      | 3,367            |
| Closure of Maple, Ontario Plant   | 1,700                      |                        |                          | 1,700            |
| Headcount Reductions and Closure Costs (Cwmbran, UK)                      | 1,962                      |                        | 1,809                    | 3,771            |
| Headcount Reductions (Transportation Europe and ROW)                      | 2,086                      |                        |                          | 2,086            |
| European Headcount Reductions (including Corporate)                       | (886)                      |                        |                          | (886)            |
| Headcount Reductions and Closure Costs (Industrial Energy Europe and ROW) | 7,788                      | 1,335                  | 63                       | 9,186            |
| <b>Total Charge in the Statement of Operations</b>                        | <b>\$ 18,519</b>           | <b>\$ 4,385</b>        | <b>\$ 2,754</b>          | <b>\$ 25,658</b> |

|  | <b>Fiscal 2002</b>         |                        |                          |                  |
|--|----------------------------|------------------------|--------------------------|------------------|
|  | <b>Severance<br/>Costs</b> | <b>Write-<br/>Offs</b> | <b>Closure<br/>Costs</b> | <b>Total</b>     |
| U.S. Headcount Reductions (including Lombard and Alpharetta Office Consolidations) | \$ 6,350                   | \$ 2,500               | \$ 2,700                 | \$ 11,550        |
| European Headcount Reductions  | 9,400                      |                        |                          | 9,400            |
| Closure of Kankakee, Illinois  | 350                        |                        |                          | 350              |
| Closure of Plastics Manufacturing Facilities                                       | 600                        | 2,500                  |                          | 3,100            |
| Closure of Maple, Ontario Plant  | 3,300                      | 5,400                  |                          | 8,700            |
| <b>Total Charge in the Statement of Operations</b>                                 | <b>\$ 20,000</b>           | <b>\$ 10,400</b>       | <b>\$ 2,700</b>          | <b>\$ 33,100</b> |

F-42

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

**Fiscal Year 2004**

During fiscal 2004, the Company recognized restructuring and impairment charges of \$52,708, representing \$43,519 for severance, \$8,972 for related closure costs and \$217 for non-cash charges related to write down of property, plant and equipment.

During the fourth quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$32,734, representing \$25,605 for severance, \$6,968 for related closure costs, and \$161 for a non-cash charge related to the write down of machinery and equipment. During the third quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$12,662, representing \$11,857 for severance and \$805 for related closure costs. During the second quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$4,827, representing \$4,121 for severance and \$706 for related closure costs. During the first quarter of fiscal 2004, the Company recognized restructuring and impairment charges of \$2,485, representing \$1,936 for severance, \$493 for related closure costs and \$56 for a non-cash charge related to the write down of machinery and equipment. These charges resulted from actions completed during fiscal 2004 related to Industrial Energy Europe and ROW consolidation efforts, the announced closure of the Company's Industrial Energy Europe and ROW facility in Weiden, Germany, the announced closure of the Company's Industrial Energy Europe and ROW facility in Casalnuovo, Italy, Corporate severance, Transportation Europe and ROW headcount reductions and the closure of a Transportation North America facility. Approximately 275 positions were eliminated in connection with fourth quarter fiscal 2004 plans, 330 positions were eliminated in connection with the third quarter fiscal 2004 plans, 100 positions were eliminated in connection with the second quarter fiscal 2004 plans and approximately 75 positions have been eliminated in connection with the first quarter fiscal 2004 plans.

In the aggregate, payments made during fiscal 2004 from operating cash flows to terminated employees and third parties for other closure costs totaled approximately \$33,000. The fiscal 2004 restructuring initiatives are expected to be completed by December 31, 2004.

**Fiscal Year 2003**

During fiscal 2003 the Company recognized restructuring and impairment charges of \$25,658, representing \$18,519 for severance and \$2,754 for related closure costs and \$4,385 for non-cash charges related to the write-down of property, plant and equipment.

Of these total charges, \$9,142 for severance, \$1,841 for related closure costs and \$3,139 for non-cash charges related to the write-off of property, plant and equipment were recorded during the first three quarters of the year. The charges for the first quarter of fiscal 2003 related to the downsizing of an Industrial Energy North America facility in Kankakee, Illinois and the closure of a Transportation Europe and ROW facility in Cwmbran, UK. Approximately 300 positions, principally plant employees, were eliminated in connection with the first quarter fiscal 2003 plans. The charges for the second quarter of fiscal 2003 principally resulted from corporate severance and the closure of a Transportation North America facility in Florence, Mississippi. Approximately 120 positions were eliminated in connection with the second quarter fiscal 2003 plans. The charges for the third quarter of fiscal 2003 resulted from European headcount reductions, changes in prior estimates of fiscal 2002 pension curtailment obligations at the Maple, Ontario plant and ongoing costs associated with fiscal 2002 North American plastics and manufacturing facility closures. Approximately 15 positions were eliminated in connection with these third quarter actions.

During the fourth quarter of fiscal 2003, the Company recognized net restructuring and impairment charges of \$11,536, representing \$9,377 severance, \$913 related closure costs and \$1,246 of non-cash charges related to the write-down of property, plant and equipment. Approximately 215 employees were terminated in connection

F-43



**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

with the fourth quarter plans. The fourth quarter fiscal 2003 charge includes a credit of \$3,100, following recently finalized changes to the Company's original plans for restructuring of its European shared services operations.

In the aggregate, payments made during fiscal 2003 from operating cash flows to terminated employees and third parties for other closure costs totaled approximately \$24,000.

The Company's fiscal 2003 restructuring initiatives are substantially complete. Remaining expenditures principally represent severance and related benefits payable per employee agreements or regulatory requirements payable over periods up to three years.

**Fiscal Year 2002**

During fiscal 2002, the Company recognized restructuring and impairment charges of \$33,100, representing severance and related costs of \$20,000, \$2,700 for related closure costs and \$10,400 of non-cash charges related to the write-down of property, plant and equipment.

In August 2001, the Company, in a continued effort to streamline and simplify the Company's operations and organizational structure, announced plans to eliminate approximately 1,300 positions resulting in severance charges of \$10,013 and \$1,045 for related closure costs. In November 2001, the Company finalized plans to continue in its reduction of the salaried workforce resulting in severance charges of \$6,584, related closure costs of \$1,673 and a non-cash charge of \$5,400 for the write down of property, plant and equipment at the Maple, Ontario manufacturing operation, which will now not be reopened as an Industrial Energy North America facility, given the continued downturn in the network power business and telecommunications market. In fiscal 2001, the Company had originally announced plans to close this facility but based on market conditions and anticipated increases in demand for its network power products, subsequently decided to redevelop this facility as an Industrial Energy North America manufacturing plant. The impairment charge was determined based upon the difference between net book value and estimated fair value, with fair value representing the Company's estimated residual value from abandonment. The effect of facility shutdowns on operating results was not material. These programs jointly resulted in the elimination of approximately 1,300 positions, which range from plant employees and clerical workers to operational and sales management.

During the fourth quarter of fiscal 2002, the Company recognized restructuring and impairment charges of \$8,403, representing \$3,403 severance and related costs and \$5,000 of non-cash charges related to the write-down of property, plant and equipment. These charges resulted from plans involving the closure of two Transportation North America plastics manufacturing plants, an Industrial Energy North America facility and office consolidations in Alpharetta, Georgia and Lombard, Illinois. Approximately 500 employees were terminated in connection with these plans.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

In the aggregate, payments made during fiscal 2002 from operating cash flows to terminated employees and third parties for other closure costs totaled approximately \$65,200.

The Company's fiscal 2002 restructuring initiatives are substantially complete. Remaining expenditures principally represent severance and related benefits payable per employee agreements or regulatory requirements payable over periods up to three years.

F-44

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

The following is a summary of restructuring reserve movements from March 31, 2001 through March 31, 2004:

|                               | <u>Severance</u>  | <u>Closure Costs</u> | <u>Total</u>      |
|-------------------------------|-------------------|----------------------|-------------------|
| Balance, March 31, 2001       | \$ 46,300         | \$ 31,600            | \$ 77,900         |
| Charges, Fiscal 2002          | 20,000            | 2,700                | 22,700            |
| GNB Acquisition               | 600               | 800                  | 1,400             |
| Payments and Currency Changes | (50,400)          | (19,800)             | (70,200)          |
|                               | <u>          </u> | <u>          </u>    | <u>          </u> |
| Balance, March 31, 2002       | \$ 16,500         | \$ 15,300            | \$ 31,800         |
| Charges, Fiscal 2003          | 18,519            | 2,754                | 21,273            |
| Payments and Currency Changes | (15,659)          | (4,530)              | (20,189)          |
|                               | <u>          </u> | <u>          </u>    | <u>          </u> |
| Balance, March 31, 2003       | \$ 19,360         | \$ 13,524            | \$ 32,884         |
| Charges, Fiscal 2004          | 43,519            | 8,972                | 52,491            |
| Payments and Currency Changes | (25,185)          | (5,716)              | (30,901)          |
| Reclassification              | (8,120)           | (3,855)              | (11,975)          |
|                               | <u>          </u> | <u>          </u>    | <u>          </u> |
| Balance, March 31, 2004       | <u>\$ 29,574</u>  | <u>\$ 12,925</u>     | <u>\$ 42,499</u>  |

In fiscal 2004, pension curtailment and environmental closure cost reserves were reclassified to their related balance sheet accounts.

Remaining expenditures principally represent a) severance and related benefits payable, per employee agreements over periods up to three years and/or regulatory requirements; b) 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 c) certain other closure costs including dismantlement and costs associated with removal obligations incurred in connection with the exit of facilities.

**(21) INTEREST EXPENSE, NET**

Interest income of \$1,129, \$2,496, and \$4,036 is included in Interest expense, net for the years ended March 31, 2004, 2003 and 2002, respectively. 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 consolidated statements of operations for the years ended March 31, 2004 and 2003. See Note 8.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

As of the Petition Date, the Company ceased accruing interest on certain unsecured pre-petition debt classified as Liabilities subject to compromise in the consolidated balance sheets in accordance with SOP 90-7. Interest is being accrued on certain pre-petition debt to the extent that the Company believes it is probable of being deemed an allowed claim by the Bankruptcy Court. Interest at the stated contractual amount on pre-petition debt that was not charged to results of operations for fiscal years 2004 and 2003 was approximately \$41,293 and \$39,604 respectively.

F-45

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(22) OTHER (INCOME) EXPENSE, NET**

Other (income) expense, net for the fiscal years ended March 31, 2004, 2003 and 2002 comprises:

|  | <u>2004</u>        | <u>2003</u>        | <u>2002</u>      |
|--|--------------------|--------------------|------------------|
| Losses on sales of accounts receivable | \$ 11,260          | \$ 11,989          | \$ 14,635        |
| Net gain on asset sales                | (9,700)            | (956)              | (1,079)          |
| Equity income                          | (2,089)            | (1,302)            | (1,898)          |
| Debt-to-equity conversion              |                    |                    | 13,873           |
| Currency loss (gain)                   | (43,846)           | (22,753)           | 5,109            |
| Other                                  | 3,651              | 1,987              | 2,099            |
|  | <u>\$ (40,724)</u> | <u>\$ (11,035)</u> | <u>\$ 32,739</u> |

On April 15, 2003, the Company sold its European non-lead battery assets to SAFT, a subsidiary of Alcatel, for proceeds of \$16,300. Of this amount, \$12,600 is held in escrow pursuant to the Company's borrowing arrangements and is included in Restricted cash in the consolidated balance sheet at March 31, 2004. This sale resulted in a gain of \$3,175. The remaining net gains on asset sales primarily relate to certain sales of properties in Europe.

Losses on sales of receivables represent expenses related to the Company's receivables sales facilities in the U.S. and Europe. See Note 25.

In fiscal 2004 and 2003, the Company recognized net currency gains, primarily from the remeasurement of U.S. dollar denominated borrowings in Europe.

In fiscal 2002, the Company incurred a non-cash charge for the debt-to-equity conversion of Convertible Senior Subordinated Notes. See Note 13.

**(23) PURCHASE COMMITMENTS**

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

The Company sold its battery separator operations in fiscal 2000 for approximately \$47,000, including \$26,100 in cash proceeds, to an unrelated party, Daramic, Inc. ( Daramic or the Buyer ). In connection with the sale, the Company entered into a ten-year supply agreement that includes minimum annual purchase commitments and penalty payments if such minimum annual purchase commitments are not met. The agreement also required adjustment for the minimum annual purchase commitments if the Company acquired any customers of the Buyer during the term of the agreement. The Company recorded a gain on this sale of \$9,500 and established a liability related to the adverse supply agreement of \$8,500 based on its estimates of future purchases from the Buyer.

As a result of acquiring GNB, which was a customer of the Buyer, the Company renegotiated the supply agreement. Under the renegotiated terms and based on the Company's estimates of its purchases from the Buyer given the Company's plan to integrate GNB, the Company recorded a charge of \$29,000 to cost of sales in fiscal 2001.

Based on development of its five-year business plan, in fiscal 2002, the Company revised its unit volume outlook. This revision increased its expected liability related to the minimum annual purchase commitments to a total of \$53,400 for the then remaining eight years of this supply agreement. This resulted in recognition of an additional charge to cost of sales of \$15,500 in fiscal 2002.

The Company uses both polyethylene and absorbed glass microfibre ( AGM ) separators. There are a number of suppliers from whom the Company purchases AGM separators. Polyethylene separators are purchased solely from Daramic, Inc. ( Daramic ), with supply agreements expiring in December 2009. The agreements restrict the

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

Company's ability to source separators from other suppliers unless there is a technical benefit that Daramic cannot provide. In addition, the agreements provide for substantial minimum annual purchase commitments. There is no real second source that could readily provide the volume of polyethylene separators used by the Company. As a result, any major disruption in supply from Daramic would have an adverse impact on the Company.

**(24) FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. The creditworthiness of counterparties is continually reviewed, and full performance is anticipated.

The methods and assumptions used to estimate the fair value of each class of financial instruments are set forth below:

Cash and cash equivalents, accounts receivable and accounts payable The carrying amounts of these items are a reasonable estimate of their fair values.

Long-term receivables The carrying amounts of these items are a reasonable estimate of their fair value.

Short-term borrowings Borrowings under miscellaneous line of credit arrangements have variable rates that reflect currently available terms and conditions for similar debt. The carrying amount of these line of credit arrangements is a reasonable estimate of its fair value.

Long-term debt Borrowings by foreign subsidiaries under the Senior Secured Global Credit Facilities have variable rates that reflect currently available terms and conditions for similar debt.

The 9.125% and 10% Senior Notes and Convertible Senior Subordinated Notes are traded occasionally in public markets.

The carrying values and estimated fair values of these obligations are as follows at March 31, 2004 and 2003:

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|   | 2004           |                      | 2003           |                      |
|---|----------------|----------------------|----------------|----------------------|
|   | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| 10.00% Senior Notes                             | \$ 300,000     | \$ 61,125            | \$ 300,000     | \$ 24,000            |
| 9.125% Senior Notes (Deutsche mark denominated) | 126,743        | 126,743              | 96,634         | 76,462               |
| Convertible Senior Subordinated Notes           | 321,132        |                      | 321,132        |                      |
| Senior Secured Global Credit Facility (U.S.)    | 458,965        | 341,164              | 458,965        | 252,431              |
| Senior Secured Global Credit Facility (Europe)  | 274,956        | 204,384              | 271,415        | 149,278              |

The carrying values of the Replacement DIP Facility, DIP Credit Facility and European Accounts Receivable Securitization facility are reasonable estimates of their fair values.

There are no outstanding interest rate, lead or foreign currency contracts at March 31, 2004.

For a discussion of various financial instruments extinguished upon the Company's emergence from Chapter 11, see Note 29.



**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

**(25) ACCOUNTING FOR RECEIVABLES SALES AGREEMENTS**

On May 31, 2002, the Company entered into a \$177,500 European accounts receivable securitization facility. A special purpose entity was established in connection with this securitization facility which the Company has determined is a variable interest entity in accordance with the provisions of FIN 46. This entity is consolidated by the Company, such that the new facility is accounted for as a secured borrowing in accordance with the requirements of SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, whereby the accounts receivable and related borrowings are recorded on the Company's consolidated balance sheet. This facility replaced the Company's then existing European securitization program.

Under the previous European securitization program, certain of the Company's European subsidiaries sold selected receivables to a wholly owned bankruptcy-remote subsidiary of the Company, Exide Europe Funding Ltd., which in turn established a multi-currency receivable sale facility (collectively, the European Agreement) with a financial institution, whereby the financial institution committed to purchase on a continuous basis, with limited recourse, all right, title and interest in these receivables up to a maximum net investment of \$175,000.

The Company also entered into a Receivables Sale Agreement (the U.S. Agreement) with certain banks (the Purchasers), and under this agreement, the Purchasers committed to purchase, with limited recourse, all right, title and interest in selected accounts receivable of the U.S. Company, up to a maximum net investment of \$200,000. In connection with the U.S. Agreement, the Company established a wholly owned, bankruptcy-remote subsidiary, Exide U.S. Funding Corporation, to purchase accounts receivable at a discount from the Company on a continuous basis, subject to certain limitations as described in the U.S. Agreement. Exide U.S. Funding Corporation simultaneously sold the accounts receivable to the Purchasers.

During fiscal 2003, the Company terminated and repurchased uncollected securitized accounts receivable under the U.S. Program and previous European Agreement for \$117,455 and \$124,793, respectively.

On February 13, 2004, the existing European securitization program was refinanced by the Company's Replacement DIP Facility.

Losses and expenses related to receivables sold under or pledged to these agreements for fiscal years 2004, 2003 and 2002 were \$11,260, \$11,989 and \$14,635, respectively, and are included in other (income) expense, net in the consolidated statements of operations.

Except for the May 2002 securitization facility, the above transactions qualified as sales under the provisions of SFAS 140. The Company adopted SFAS 140 in the beginning of fiscal 2002 for transfers of receivables after March 31, 2001.

**(26) RELATED PARTY TRANSACTIONS**

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 (formerly JA&A 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 provided 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 fiscal 2004, fiscal 2003 and fiscal 2002 under the Services Agreement were \$8,281, \$10,749 and \$5,154, respectively.

F-48

**Table of Contents****EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(27) 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 fiscal years 2004, 2003 and 2002 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.

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

| Fiscal 2004    |                |                   |                |           |              |
|----------------|----------------|-------------------|----------------|-----------|--------------|
| Transportation |                | Industrial Energy |                | Other (a) | Consolidated |
| North America  | Europe and ROW | North America     | Europe and ROW |           |              |
|                |                |                   |                |           |              |

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|  |            |            |            |            |           |              |
|--|------------|------------|------------|------------|-----------|--------------|
| Net sales  | \$ 817,710 | \$ 760,512 | \$ 210,572 | \$ 711,699 | \$        | \$ 2,500,493 |
| Gross profit   | 146,790    | 159,062    | 47,032     | 156,441    |           | 509,325      |
| Income (loss) before reorganization items, income taxes,<br>minority interest and cumulative effect of change in<br>accounting principle (b) | 63,020     | 75,640     | 14,397     | 4,439      | (185,206) | (27,710)     |
| Depreciation and amortization  | 23,794     | 24,438     | 12,568     | 26,786     | 10,230    | 97,816       |

F-49

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

|  | <b>Fiscal 2003</b>       |                           |                          |                           |                  |                     |
|--|--------------------------|---------------------------|--------------------------|---------------------------|------------------|---------------------|
|  | <b>Transportation</b>    |                           | <b>Industrial Energy</b> |                           | <b>Other (a)</b> | <b>Consolidated</b> |
|  | <b>North<br/>America</b> | <b>Europe<br/>and ROW</b> | <b>North<br/>America</b> | <b>Europe<br/>and ROW</b> |                  |                     |
| Net sales  | \$ 833,493               | \$ 660,417                | \$ 199,856               | \$ 667,335                | \$               | \$ 2,361,101        |
| Gross profit   | 154,349                  | 154,079                   | 47,889                   | 160,224                   |                  | 516,541             |
| Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle (c)(e)    | 63,725                   | 82,639                    | 4,626                    | (5,369)                   | (222,967)        | (77,346)            |
| Depreciation and amortization  | 25,880                   | 20,414                    | 12,012                   | 22,568                    | 10,880           | 91,754              |
|  | <b>Fiscal 2002</b>       |                           |                          |                           |                  |                     |
|  | <b>Transportation</b>    |                           | <b>Industrial Energy</b> |                           | <b>Other (a)</b> | <b>Consolidated</b> |
|  | <b>North<br/>America</b> | <b>Europe<br/>and ROW</b> | <b>North<br/>America</b> | <b>Europe<br/>and ROW</b> |                  |                     |
| Net sales  | \$ 893,695               | \$ 624,424                | \$ 254,643               | \$ 655,788                | \$               | \$ 2,428,550        |
| Gross profit   | 117,059                  | 127,511                   | 89,040                   | 130,309                   |                  | 463,919             |
| Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle (d)(f)(g) | (13,987)                 | 65,416                    | (69,604)                 | 9,355                     | (295,977)        | (304,797)           |
| Depreciation and amortization  | 31,169                   | 25,715                    | 11,404                   | 25,436                    | 7,006            | 100,730             |

- (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 \$1,981, \$8,486, \$38,356 and \$3,885 within Transportation North America, Transportation Europe and ROW, Industrial Energy Europe and ROW and Other, respectively.
- (c) Includes restructuring charges of \$5,068, \$5,586, \$4,833, \$9,629 and \$542 within Transportation North America, Transportation Europe and ROW, Industrial Energy North America, Industrial Energy Europe and ROW and Other, respectively.
- (d) Includes restructuring charges of \$7,446, \$309, \$8,941, (\$1,149) and \$17,575 within Transportation North America, Transportation Europe and ROW, Industrial Energy North America, Industrial Energy Europe and ROW and Other, respectively.
- (e) Included in fiscal 2003 is a goodwill impairment charge of \$37,000 within Industrial Energy Europe and ROW. See Note 10.
- (f) Included in fiscal 2002 is a goodwill impairment charge of \$105,000 within Industrial Energy North America. See Note 10.
- (g) Includes a credit of \$8,185 related to the termination of the Lion Company Energy agreement and a \$13,873 charge related to the debt-for-equity exchanges. See Note 13.

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

Geographic information is as follows:

|               | <b>Revenues from External Customers</b> |                     |                     |
|---------------|---|---------------------|---------------------|
|               | <b>2004</b>                             | <b>2003</b>         | <b>2002</b>         |
| United States | \$ 956,596                              | \$ 970,547          | \$ 1,090,983        |
| France        | 213,235                                 | 200,000             | 202,647             |
| Germany       | 327,014                                 | 307,004             | 273,871             |
| UK            | 158,069                                 | 147,806             | 148,396             |
| Italy         | 180,001                                 | 151,583             | 150,373             |
| Spain         | 195,574                                 | 170,225             | 163,616             |
| Other         | 470,004                                 | 413,936             | 398,664             |
| <b>Total</b>  | <b>\$ 2,500,493</b>                     | <b>\$ 2,361,101</b> | <b>\$ 2,428,550</b> |

|               | <b>Long-Lived Assets</b> |                   |                   |
|---------------|--------------------------|-------------------|-------------------|
|               | <b>2004</b>              | <b>2003</b>       | <b>2002</b>       |
| United States | \$ 235,438               | \$ 248,670        | \$ 271,936        |
| France        | 36,975                   | 32,847            | 27,288            |
| Germany       | 58,964                   | 54,777            | 47,127            |
| UK            | 32,492                   | 29,983            | 28,466            |
| Italy         | 39,129                   | 36,290            | 32,291            |
| Spain         | 76,562                   | 76,523            | 64,784            |
| Other         | 63,564                   | 54,285            | 58,328            |
| <b>Total</b>  | <b>\$ 543,124</b>        | <b>\$ 533,375</b> | <b>\$ 530,220</b> |

**(28) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following is a summary of the Company's unaudited quarterly consolidated results of operations for fiscal years 2004 and 2003:

2004

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

|                                  | <u>First (a)</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
|----------------------------------|------------------|---------------|--------------|---------------|
| Net sales                        | \$ 584,566       | \$ 587,433    | \$ 653,016   | \$ 675,478    |
| Gross profit                     | 116,249          | 126,694       | 142,091      | 124,291       |
| Net loss                         | (38,644)         | (15,676)      | (9,323)      | (50,440)      |
| Basic and diluted loss per share | (1.41)           | (0.57)        | (0.34)       | (1.85)        |

**2003**

|                                  | <u>First (b)</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
|----------------------------------|------------------|---------------|--------------|---------------|
| Net sales                        | \$ 554,989       | \$ 579,363    | \$ 622,140   | \$ 604,609    |
| Gross profit                     | 110,330          | 127,957       | 152,825      | 125,429       |
| Net loss                         | (76,640)         | (21,639)      | (6,991)      | (35,615)      |
| Basic and diluted loss per share | (2.80)           | (0.79)        | (0.26)       | (1.29)        |

- (a) Includes the effect of an extraordinary loss of \$15,593 related to the Company's adoption of SFAS 143. See Note 6.  
(b) Includes the Company's goodwill impairment charge of \$37,000. See Note 10.

F-51

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

**(29) SUBSEQUENT EVENTS**

On April 15, 2004 the Company paid off the 9.125% senior Deutsche Mark denominated notes. The Replacement DIP Credit Facility was used to finance the payment of the notes.

On April 21, 2004, the Bankruptcy Court confirmed the Plan previously submitted jointly by the Company and the Official Committee of Unsecured Creditors. The Company 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 following is a summary of certain transactions which became effective 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 or stock, together with any warrants, options or contract rights to purchase or acquire such interests at any time, were canceled, and the obligations of the Debtors thereunder or in any way related thereto were discharged.

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

holders of pre-petition credit facility claims received collectively 22,500 shares of Common Stock; and

holders of general unsecured claims received collectively 2,500 shares of Common Stock and Warrants to purchase 6,250 shares of Common Stock at \$32.11 per share, with approximately 13.4% of such Common Stock and Warrants to be reserved for distribution for disputed claims under the Plan's claim 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 the reserve to provide for a pro rata distribution to holders of disputed claims as they become allowed. 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 reserve is reasonable and adequate. To the extent the reserved shares of Common Stock and Warrants are insufficient to provide such payment, the Company may issue additional shares of Common Stock and Warrants. In that event, the Company will also issue shares of 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.



## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-K/A

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 entered into a Warrant Agreement.

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

F-52

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

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 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 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, earnings, asset coverage and capital expenditures. 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 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.

**(30) OTHER MATTERS**

These 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 19. 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. The Company has also obtained further amendments to certain financial covenants as of March 31, 2005 and forecasts it will comply with its covenants through March 31, 2005. 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. These forecasts and plans are based in part on the Company's belief that it will complete the proposed senior note offering prior to March 31, 2005. However, there can be no assurance the senior note offering will be completed. If the financing is not completed, based upon the Company's forecast and plans, it would expect to also need to obtain covenant amendments for June 30, 2005 and beyond.

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

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

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. The Company is permitted by its senior credit facility, to the extent agreed to by the administrative agent, to grant the PBGC second-priority liens on its U.S. assets. If the PBGC demands that the Company also grant liens on the assets of its non-U.S. subsidiaries, the Company would be required to obtain the consent of the lenders under its senior credit facility. If such lenders do not consent, if the liens cannot be agreed upon with the PBGC or if the IRS does not extend the period to implement the liens, the Company will be required to fund the approximately \$50,000 in contributions, of which approximately \$24,000 may be due immediately and the balance would be required to be paid by September 15, 2005. In addition, the Company could be subject to potentially significant excise tax penalties and interest. The Company continues to discuss with the PBGC the provisions of a proposed lien. In the course of these discussions, the Company has been asked by the PBGC whether the proceeds of this offering could be used to pay the Company's minimum funding requirements and whether a temporary waiver from the IRS is necessary.

Table of Contents

## EXIDE TECHNOLOGIES AND SUBSIDIARIES

## Valuation and Qualifying Accounts and Reserves

## Schedule II

|   | <u>Balance<br/>at<br/>Beginning<br/>of period</u> | <u>Additions<br/>Charged to<br/>Expense</u> | <u>Deductions/<br/>Charge-offs</u> | <u>Other (1)</u> | <u>Balance<br/>at end<br/>of period</u> |
|---|---|---|------------------------------------|------------------|---|
| (Amounts in thousands)                            |   |   |                                    |                  |   |
| <b>Allowance for Doubtful Accounts</b>            |   |   |                                    |                  |   |
| Year ended March 31, 2002                         | \$ 33,597   | 24,731                                      | (4,791)                            | (334)            | \$ 53,203                               |
| Year ended March 31, 2003                         | \$ 53,203   | 8,062                                       | (29,977)                           | 4,378            | \$ 35,666                               |
| Year ended March 31, 2004                         | \$ 35,666   | 5,140                                       | (19,031)                           | 2,658            | \$ 24,433                               |
| <b>Valuation Allowance on Deferred Tax Assets</b> |   |   |                                    |                  |   |
| Year ended March 31, 2002                         | \$ 335,773  | 114,287                                     | (52,594)                           | 7,715            | \$ 405,181                              |
| Year ended March 31, 2003                         | \$ 405,181  | 104,005                                     | (17,943)                           | 3,868            | \$ 495,111                              |
| Year ended March 31, 2004                         | \$ 495,111  | 37,556                                      | (9,540) <sup>(2)</sup>             | 14,032           | \$ 537,159                              |

(1) Primarily the impact of currency changes as well as the acquisitions and divestitures of certain businesses.

(2) Primarily the adjustment of previously recognized valuation allowances in certain international jurisdictions based on updated financial projections.