

EXIDE TECHNOLOGIES
Form 10-Q
February 17, 2004
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the fiscal quarter ended December 31, 2003

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

Commission File Number 1-11263

EXIDE TECHNOLOGIES

(Exact Name of Registrant as Specified in Its Charter)

Delaware

23-0552730

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification Number)

210 Carnegie Center, Suite 500

Princeton, New Jersey
(Address of principal executive offices)

08540
(Zip Code)

(609) 627-7200

(Registrant's telephone number, including area code)

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

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

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

As of February 12, 2004, 27,383,084 shares of common stock were outstanding.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

TABLE OF CONTENTS

	Page

<u>PART I. FINANCIAL INFORMATION</u>	
Item 1	3
	<u>FINANCIAL STATEMENTS (UNAUDITED)</u>
	3
	<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002</u>
	4
	<u>CONDENSED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND MARCH 31, 2003</u>
	5
	<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2002</u>
	6
	<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>
Item 2	31
	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>
Item 3	45
	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS</u>
Item 4	45
	<u>CONTROLS AND PROCEDURES</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1	47
	<u>LEGAL PROCEEDINGS</u>
Item 2	52
	<u>CHANGES IN SECURITIES AND USE OF PROCEEDS</u>
Item 3	52
	<u>DEFAULTS UPON SENIOR SECURITIES</u>
Item 4	52
	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>
Item 5	52
	<u>OTHER INFORMATION</u>
Item 6	52
	<u>EXHIBITS AND REPORTS ON FORM 8-K</u>
	54
	<u>SIGNATURES</u>

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****EXIDE TECHNOLOGIES AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	For the		For the	
	Three Months Ended		Nine Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2003	2002	2003	2002
NET SALES	\$ 653,016	\$ 622,140	\$ 1,825,015	\$ 1,756,492
COST OF SALES	510,925	469,315	1,439,981	1,365,380
Gross profit	142,091	152,825	385,034	391,112
EXPENSES:				
Selling, marketing and advertising	65,143	67,258	195,036	193,138
General and administrative	43,181	44,810	127,460	137,155
Restructuring and impairment (Note 16)	12,662	3,837	19,974	14,122
Goodwill impairment charge (Note 8)				37,000
Other (income) expense, net (Note 13)	(20,619)	(5,347)	(34,715)	(12,240)
Interest expense, net (Note 12)	24,758	28,212	74,451	80,170
	125,125	138,770	382,206	449,345
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle	16,966	14,055	2,828	(58,233)
REORGANIZATION ITEMS, NET (Note 6)	21,605	8,455	45,917	28,573
INCOME TAX PROVISION	4,080	12,254	4,639	18,236
MINORITY INTEREST	604	337	322	228
Net loss before cumulative effect of change in accounting principle	(9,323)	(6,991)	(48,050)	(105,270)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Note 3)			15,593	
Net loss	\$ (9,323)	\$ (6,991)	\$ (63,643)	\$ (105,270)

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

NET LOSS PER SHARE, BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
Basic and Diluted	\$ (0.34)	\$ (0.26)	\$ (1.75)	\$ (3.84)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE PER SHARE				
Basic and Diluted	\$	\$	\$ (0.57)	\$
NET LOSS PER SHARE (Note 17)				
Basic and Diluted	\$ (0.34)	\$ (0.26)	\$ (2.32)	\$ (3.84)
WEIGHTED AVERAGE SHARES				
Basic and Diluted	27,383	27,383	27,383	27,383

The accompanying notes are an integral part of these statements.

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

	December 31,	March 31,
	2003	2003
	<u> </u>	<u> </u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 43,554	\$ 39,766
Restricted cash	17,729	6,297
Receivables, net of allowance for doubtful accounts of \$28,816 and \$35,666, respectively	684,257	665,010
Inventories (Note 9)	420,296	399,973
Prepaid expenses and other	21,228	16,451
Deferred financing costs, net	3,310	17,028
Deferred income taxes	37,268	33,233
	<u> </u>	<u> </u>
Total current assets	1,227,642	1,177,758
	<u> </u>	<u> </u>
PROPERTY, PLANT AND EQUIPMENT, NET	545,562	533,375
	<u> </u>	<u> </u>
OTHER ASSETS:		
Goodwill, net (Note 8)	536,320	463,920
Other intangibles, net (Note 8)	46,720	47,560
Investments in affiliates	6,477	6,186
Deferred financing costs, net		647
Deferred income taxes	82,952	67,017
Other (Note 10)	67,932	70,728
	<u> </u>	<u> </u>
	740,401	656,058
	<u> </u>	<u> </u>
Total assets	\$ 2,513,605	\$ 2,367,191
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Short-term borrowings (Note 11)	\$ 12,485	\$ 7,778
Current maturities of long-term debt (Note 11)	738,581	598,427
Accounts payable	267,947	247,189
Accrued expenses	365,681	324,740
	<u> </u>	<u> </u>
Total current liabilities	1,384,694	1,178,134
LONG-TERM DEBT (Note 11)	23,187	117,405
NONCURRENT RETIREMENT OBLIGATIONS	195,746	170,181
OTHER NONCURRENT LIABILITIES	63,005	41,924
LIABILITIES SUBJECT TO COMPROMISE (Note 7)	1,504,702	1,533,089
	<u> </u>	<u> </u>
Total liabilities	3,171,334	3,040,733

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

COMMITMENTS AND CONTINGENCIES (Notes 14 and 15)		
MINORITY INTEREST	25,250	21,827
STOCKHOLDERS DEFICIT		
Common stock, \$0.01 par value 100,000 shares authorized; 27,383 shares issued and outstanding	274	274
Additional paid-in capital	570,589	570,589
Accumulated deficit	(995,647)	(932,004)
Notes receivable stock award plan	(665)	(665)
Accumulated other comprehensive loss	(257,530)	(333,563)
Total stockholders deficit	(682,979)	(695,369)
Total liabilities and stockholders deficit	\$ 2,513,605	\$ 2,367,191

The accompanying notes are an integral part of these statements.

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

	For the Nine Months Ended	
	December 31,	December 31,
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (63,643)	\$ (105,270)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	72,023	67,919
Cumulative effect of change in accounting principle	15,593	
Net (gain) loss on asset sales	(4,806)	176
Deferred income taxes		3,208
Amortization of original issue discount on notes		428
Provision for doubtful accounts	4,825	5,417
Non-cash provision for restructuring	56	3,139
Reorganization items, net	45,917	28,573
Goodwill impairment charge		37,000
Minority interest	322	228
Amortization of deferred financing costs	15,649	11,553
Net change from sales of receivables		
European Securitization		(124,793)
U.S. Securitization		(117,455)
Other, net		(19,475)
Changes in assets and liabilities, excluding effects of acquisitions and divestitures		
Receivables	33,381	(27,533)
Inventories	10,659	13,345
Prepaid expenses and other	(14,153)	(11,623)
Payables	(11,308)	(11,762)
Accrued expenses	(40,470)	13,274
Noncurrent liabilities	(4,361)	(13,764)
Other, net	(38,802)	(6,739)
Net cash provided by (used in) operating activities	20,882	(254,154)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(44,252)	(28,626)
Proceeds from sales of assets	19,538	1,096
Net cash used in investing activities	(24,714)	(27,530)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term borrowings	3,504	2,908
Borrowings under Senior Secured Global Credit Facilities Agreement		6,191
Repayments under Senior Secured Global Credit Facilities Agreement		(2,727)

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Borrowings under DIP Credit Facility	693,677	691,116
Repayments under DIP Credit Facility	(703,239)	(514,865)
European asset securitization	7,538	139,156
Increase (decrease) in other debt	1,120	(6,406)
Financing costs and other	(400)	(20,772)
	<u>2,200</u>	<u>294,601</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	5,420	7,159
	<u>3,788</u>	<u>20,076</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	39,766	31,703
	<u>\$ 43,554</u>	<u>\$ 51,779</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD		

The accompanying notes are an integral part of these statements.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

(In thousands, except per-share data)

(Unaudited)

(1) BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements include the accounts of Exide Technologies (referred together with its subsidiaries, unless the context requires otherwise, as Exide or the Company) and all of its majority-owned subsidiaries. The accompanying unaudited condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by generally accepted accounting principles (GAAP), or those normally made in the Company s Annual Report on Form 10-K. Accordingly, the reader of this Form 10-Q may wish to refer to the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2003 for further information. The financial information contained herein is unaudited.

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

The accompanying interim unaudited condensed consolidated financial statements 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 condensed consolidated balance sheets 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 unaudited condensed consolidated statements of operations.

These unaudited condensed consolidated financial statements have been prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. The ability of the Company to continue as a going concern is predicated upon, among other things, confirmation of a bankruptcy reorganization plan on a timely basis, compliance with the provisions of both the debtor-in-possession financing facility (DIP Credit Facility) and other ongoing 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 15. The Standstill Agreement and Fifth Amendment to the Credit and Guarantee Agreement (Standstill Agreement) originally expired on December 18, 2003. The pre-petition lenders agreed to extend the Standstill Agreement until March 18, 2004, and the DIP Credit Facility was set to expire upon the earlier of the effective date of a final order confirming a consensual revised plan of reorganization or February 15, 2004. On February 4, 2004, the Company filed a motion with the Bankruptcy Court seeking an order authorizing the Company s pending exit financing lender to accept an assignment of the obligations existing under the DIP Credit Facility, and provide appropriate extensions of the debt maturities or, in the alternative, an order authorizing a further extension of the Standstill Agreement

and the DIP Credit Facility.

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a replacement DIP credit facility (Replacement DIP) with the lender who is expected to provide the Company's exit financing. On February 13, 2004, the Company entered into the Replacement DIP which replaces the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500,000 and expires on May 15, 2004. In addition to refinancing the prior DIP Credit Facility, the Replacement

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DIP refinances the Company's European accounts receivable securitization facility and provides additional working capital borrowing availability of up to \$40,000. On March 15, 2004, the Company will seek final approval of the Replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which are due April 15, 2004, which commitment is conditioned on, among other things, the Company's filing of a revised plan of reorganization and the Bankruptcy Court's approval of a disclosure statement related thereto reasonably satisfactory to the administrative agent and lenders for the Replacement DIP.

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 December 31, 2003.

In connection with the closing on the Replacement DIP, the lender who is expected to provide 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.

On December 30, 2003, the Bankruptcy Court issued an order denying confirmation of the Company's Fourth Amended Joint Plan of Reorganization 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 Prepetition Lenders as to the terms of a consensual revised plan of reorganization. The Company intends to file a revised plan of reorganization pursuant to this agreement and to seek confirmation thereof as quickly as practicable. If a plan of reorganization is not confirmed by the Bankruptcy Court before the expiration of the Standstill Agreement and Replacement DIP, the Company will have to request extensions of such agreements. There can be no assurance that the Company will be able to have a plan of reorganization confirmed by that time or obtain the necessary extensions. Failure to have a plan of reorganization confirmed by the Bankruptcy Court prior to the expiration of the Standstill Agreement or the Replacement DIP or to be able to obtain such extensions or failure to maintain compliance with the covenants in such agreements would result in an event of default which, absent cure within defined grace periods or obtaining appropriate waivers, would restrict the Company's access to funds necessary to maintain its operations and assist in funding of its reorganization plan. As a result of the Chapter 11 filing and consideration of various strategic alternatives, including possible asset sales, the Company would expect that any reorganization plan will result in material changes to the carrying amount of assets and liabilities in the unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements do not, however, include adjustments, if any, to reflect the possible future effects on the recoverability and classification of recorded assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties.

Upon emergence from bankruptcy, 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 any plan of reorganization 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 GAAP within twelve months of emerging from 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 that time. For all these reasons, the financial statements for periods subsequent to emergence from Chapter 11 will not be comparable with those of prior periods.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Certain reclassifications of prior period financial statements have been made to conform to the current interim period presentation.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 (RBD Liquidation, LLC (RBD), Exide Delaware, LLC (Exide Delaware) and Exide Illinois, Inc. (Exide Illinois)) filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws (Bankruptcy Code or Chapter 11) in the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court) under case numbers 02-11125 through 02-11128. On November 21, 2002, Refined Metals Corporation (Refined) and Dixie Metals Company (Dixie), both wholly owned, non-operating subsidiaries of Exide, filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court under case numbers 02-13449 and 02-13450. Refined and Dixie have no employees and negligible, if any, assets. RBD, Exide Delaware, Exide Illinois, Dixie and Refined, together with Exide are hereinafter referred to as the Debtors. All of the foregoing cases are being jointly administered for procedural purposes before the Bankruptcy Court under case number 02-11125KJC.

The Debtors are currently operating their business as debtors-in-possession pursuant to the Bankruptcy Code.

The Company and certain of its subsidiaries decided to file 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 has 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.

As debtors-in-possession under Chapter 11, the Debtors are authorized to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the approval of the Bankruptcy Court. The Company's operations outside of the U.S. are not included in the Chapter 11 proceedings. However, in connection with the Chapter 11 filing, the Company entered into a Standstill Agreement with its pre-petition Senior Secured Global Credit Facility lenders, whereby those lenders have agreed to forbear collection 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 result in an early termination of the Standstill Agreement are: 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 to the DIP Credit Facility); and 4) default with respect to the European securitization agreement and 9.125% Senior Notes (Deutsche Mark denominated) agreement. See Note 20.

On May 10, 2002, the Debtors received final Bankruptcy Court approval of its \$250,000 DIP Credit Facility. The DIP Credit Facility is being 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 for other general corporate purposes.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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, are stayed. Absent an order of the Bankruptcy Court, substantially all pre-petition liabilities are subject to settlement under a plan of reorganization to be approved by the Bankruptcy Court.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the Bankruptcy Code, the Debtors may also assume or reject executory contracts, including lease obligations, subject to the approval of the Bankruptcy Court and certain other conditions. Parties affected by these rejections may file claims with the Bankruptcy Court in accordance with the reorganization process. Due to the timing of the Chapter 11 proceedings, the Company cannot currently estimate or anticipate what impact the rejection and subsequent claims of executory contracts may have on the reorganization process.

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. All of the schedules are subject to further amendment or modification. The Bankruptcy Code provides for a claims reconciliation and resolution process. The Bankruptcy Court established April 23, 2003 as the deadline for submission of proofs of claim for general unsecured claims. A separate bar date for certain other claims was established as August 14, 2003. Pre-petition claims against the Debtors were required to be submitted to the Bankruptcy Court prior to the applicable bar dates to be eligible to participate in any distribution of assets from the Debtors in connection with the plan of reorganization. Differences between amounts scheduled by the Debtors in filings with the Bankruptcy Court and claims by creditors are being investigated and resolved in connection with the claims resolution process. That process, however, has only recently commenced and given the number of creditors and claims filed, will take significant time to complete. As the ultimate number and amount of allowed claims is not presently known, and because any settlement terms of such allowed claims are subject to a confirmed plan of reorganization, the ultimate distribution with respect to allowed claims is not presently ascertainable.

The United States Trustee has appointed an unsecured creditors committee. The official committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court. The Bankruptcy Court determined that the United States Trustee should appoint an official committee of equity holders, which it has done. The Company has appealed the appointment of the equity holders committee to the United States Circuit Court of Appeals for the Third Circuit, where it is currently pending. See Note 15, regarding additional litigation between the Debtors, the equity committee and its members.

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 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 Prepetition Lenders' recovery because there may be sufficient value to pay the Prepetition 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 Prepetition Lenders as to the terms of a consensual revised plan of reorganization. The Company intends to file a revised plan of reorganization pursuant to this agreement and to seek confirmation thereof as quickly as practicable. Under the agreement in

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

principle, the Prepetition Lenders would receive 90% of the new common stock of the reorganized Company, subject to dilution, and the unsecured creditors would share 10% of the new common stock of the reorganized Company, subject to dilution, plus warrants to purchase 20% of the new common stock of the reorganized Company, subject to dilution. The agreement in principle and any revised plan of reorganization is subject to voting by creditors and must be approved by the Bankruptcy Court before it may become effective.

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a Replacement DIP with the lender who is expected to provide the Company's exit financing. On February 13, 2004, the Company entered into the Replacement DIP which replaces the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500,000 and expires on May 15, 2004. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinances the Company's European accounts receivable securitization facility and provides additional working capital borrowing availability of up to \$40,000. On March 15, 2004, the Company will seek final approval of the Replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which are due April 15, 2004, which commitment is conditioned on, among other things, the Company's filing of a revised plan of reorganization and the Bankruptcy Court's approval of a disclosure statement related thereto reasonably satisfactory to the administrative agent and lenders for the Replacement DIP.

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 December 31, 2003.

In connection with the closing on the Replacement DIP, the lender who is expected to provide 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.

At this time, it is not possible to predict the effect of the Chapter 11 reorganization process on the Company's business, various creditors and security holders, or when it may be possible for the Debtors to emerge from Chapter 11. The Company's future results are dependent upon its confirming and implementing, on a timely basis, a plan of reorganization. However, under the agreement in principle, the Company's 10% senior notes and convertible senior subordinated notes would be converted into new common stock of the reorganized Company, and the Company's current common stock would be cancelled.

The ultimate recovery, if any, by creditors, security holders and/or common shareholders will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what value, if any, will be ascribed in the bankruptcy proceedings to each of these constituencies. Accordingly, Exide urges appropriate caution be exercised with respect to existing and future investments in any of these securities.

(3) ASSET RETIREMENT OBLIGATIONS

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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 unaudited condensed 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 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

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

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.

Had the provisions of SFAS 143 been in effect as of April 1, 2002, the pro forma asset retirement obligation would have been \$15,593 as of April 1, 2002 and March 31, 2003. The pro forma impact on net loss before cumulative effect of change in accounting principle for the nine months ended December 31, 2002 would have been immaterial.

(4) DEBTORS FINANCIAL INFORMATION

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

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

	For the	For the	For the	
	Three Months	Three Months	For the	Period From
	Ended	Ended	Nine Months	April 15, 2002
	December	December	Ended	December
	31,	31,	December 31,	31,
	2003	2002	2003	2002
NET SALES	\$ 237,633	\$ 243,659	\$ 720,164	\$ 715,113
COST OF SALES	191,270	188,815	585,711	566,892
Gross profit	46,363	54,844	134,453	148,221
EXPENSES:				

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Selling, marketing and advertising	22,704	27,322	73,032	75,377
General and administrative	16,467	20,677	50,435	58,137
Restructuring	946	2,369	2,251	9,247
Other income, net	(4,236)	(4,319)	(8,389)	(5,641)
Interest expense, net	14,259	13,696	42,619	40,539
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss before reorganization items, income taxes and cumulative effect of change in accounting principle	(3,777)	(4,901)	(25,495)	(29,438)
REORGANIZATION ITEMS, net (Note 6)	19,062	7,043	43,374	25,509
INCOME TAX PROVISION				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss before cumulative effect of change in accounting principle	(22,839)	(11,944)	(68,869)	(54,947)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NOTE 3)			15,593	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net loss	\$ (22,839)	\$ (11,944)	\$ (84,462)	\$ (54,947)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

(Unaudited, in thousands)

	December 31, 2003	March 31, 2003
	<u>2003</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,272	\$ 8,434
Receivables, net	136,917	161,341
Intercompany receivables	34,053	44,849
Inventories	131,117	139,622
Prepaid expenses and other	18,445	23,449
	<u>324,804</u>	<u>377,695</u>
Total current assets	324,804	377,695
PROPERTY, PLANT AND EQUIPMENT, net	235,183	247,939
	<u>235,183</u>	<u>247,939</u>
OTHER ASSETS:		
Goodwill and other intangibles, net	40,965	40,965
Investments in affiliates	1,760	2,118
Deferred financing costs, net		647
Intercompany notes receivable	283,019	236,593
Other	42,370	45,451
	<u>368,114</u>	<u>325,774</u>
Total assets	\$ 928,101	\$ 951,408
	<u>\$ 928,101</u>	<u>\$ 951,408</u>
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 54,764	\$ 60,263
Accrued interest payable	51,111	28,224
Accrued expenses	104,075	84,085
Current maturities of long-term debt (DIP Facility)	159,202	168,764
	<u>369,152</u>	<u>341,336</u>
Total current liabilities	369,152	341,336
NONCURRENT RETIREMENT OBLIGATIONS	14,949	10,437
OTHER NONCURRENT LIABILITIES	15,593	
LIABILITIES SUBJECT TO COMPROMISE	1,504,702	1,533,089
	<u>1,904,396</u>	<u>1,884,862</u>
Total liabilities	1,904,396	1,884,862

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

STOCKHOLDERS DEFICIT

Total stockholders deficit	(976,295)	(933,454)
Total liabilities and stockholders deficit	\$ 928,101	\$ 951,408

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

(Unaudited, in thousands)

	For the Three Months Ended December 31, 2003	For the Three Months Ended December 31, 2002	For the Nine Months Ended December 31, 2003	For the Period From April 15, 2002 Through December 31, 2002
CASH RECEIPTS:				
Customer receipts	\$ 261,650	\$ 265,481	\$ 752,590	\$ 752,949
Other third party receipts	4,866		13,001	
Borrowings under DIP Credit Facility	247,477	224,450	693,677	691,116
Intercompany receipts from non-Debtor entities	75,912	48,987	146,911	65,072
Total cash receipts	589,905	538,918	1,606,179	1,509,137
CASH DISBURSEMENTS:				
Supplier payments	(96,162)	(89,559)	(262,624)	(250,478)
Repurchase of securitized accounts receivable				(117,455)
Financing costs, fees and interest	(3,130)	(3,120)	(9,083)	(31,239)
Capital expenditures	(6,268)	(3,247)	(17,615)	(11,695)
Freight and logistics	(30,620)	(26,417)	(91,856)	(72,039)
Leasing and rental costs	(10,550)	(13,803)	(32,993)	(31,246)
Payroll and benefits	(83,824)	(66,038)	(250,405)	(187,635)
Professional / consulting fees	(14,789)	(8,469)	(39,120)	(17,695)
Taxes	(4,025)	(2,397)	(9,107)	(14,010)
Utilities	(11,595)	(13,974)	(44,527)	(34,832)
Other disbursements	(29,871)	(42,191)	(70,010)	(121,472)
Intercompany loans to non-Debtor entities	(44,262)	(24,500)	(79,762)	(103,500)
Repayments under DIP Credit Facility	(254,325)	(243,332)	(703,239)	(514,865)
Total cash disbursements	(589,421)	(537,047)	(1,610,341)	(1,508,161)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	484	1,871	(4,162)	976
CASH AT BEGINNING OF PERIOD	3,788	3,820	8,434	4,715

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

CASH AT END OF PERIOD	\$ 4,272	\$ 5,691	\$ 4,272	\$ 5,691
-----------------------	----------	----------	----------	----------

The Company's unaudited condensed consolidated statement of operations for the nine months ended December 31, 2002 also includes Reorganization items, net (consisting primarily of professional fees) for the period prior to the Petition Date from April 1 to April 14, 2002 and professional fees incurred by non-Debtor subsidiaries.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) COMPREHENSIVE LOSS

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

	For the Three Months Ended		For the Nine Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2003	2002	2003	2002
Net loss	\$ (9,323)	\$ (6,991)	\$ (63,643)	\$ (105,270)
Reclassification to earnings of cash flow hedges				2,083
Change in cumulative translation adjustment	41,879	30,786	76,033	55,196
Total comprehensive income (loss)	\$ 32,556	\$ 23,795	\$ 12,390	\$ (47,991)

(6) REORGANIZATION ITEMS

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

	For the Three Months Ended		For the Nine Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2003	2002	2003	2002
Professional fees	\$ 20,979	\$ 8,525	\$ 44,709	\$ 26,835
Employee costs	900	375	2,110	1,125
Interest income	(274)	(445)	(902)	(1,470)
Other				2,083
Total reorganization items	\$ 21,605	\$ 8,455	\$ 45,917	\$ 28,573

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Net cash paid for reorganization items during the three and nine months ended December 31, 2003 was \$10,291 and \$29,278, respectively, and during the three and nine months ended December 31, 2002 was \$8,781 and \$17,904, respectively.

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

Professional fees

Professional fees include financial, legal and valuation services directly associated with the reorganization process, including fees incurred related to 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.

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 represents contractual claims arising from termination of pre-petition financial instruments.

Table of Contents**EXIDE TECHNOLOGIES AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(7) 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 unaudited condensed 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. A separate bar date for certain other claims was established as August 15, 2003. An estimated 4,900 claims were filed as of August 15, 2003, out of an estimated 36,000 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 beginning to be investigated and will be 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 might result in material adjustments to current estimates of allowable claims. The ultimate resolution of these claims will be based upon the final plan of reorganization approved by the Bankruptcy Court.

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

	December 31,	March 31,
	2003	2003
	_____	_____
Accounts payable	\$ 67,300	\$ 72,115
Accrued interest payable	19,403	19,403
Restructuring reserve	7,686	8,212
Warranty reserve	3,435	12,921
Accrued expenses	58,597	62,114
Retirement obligations	128,293	128,293
Long-term debt (Note 11)	1,081,293	1,081,293
Other liabilities	138,695	148,738
	_____	_____
Total liabilities subject to compromise	\$ 1,504,702	\$ 1,533,089
	_____	_____

(8) 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.

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

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. 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.

The Company completed its latest 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 segments, including goodwill, against these estimated fair values; the Company determined that no goodwill impairment charges were required. As a result of the Chapter 11 filing, and consideration of various strategic alternatives, including possible asset sales, the Company would expect that any reorganization plan will result in material changes to the carrying amount of assets and liabilities, including goodwill, in the unaudited condensed consolidated financial statements.

Summarized goodwill activity is as follows:

	For the
	Nine Months Ended
	December 31, 2003

Goodwill, net at beginning of period	\$ 463,920
Currency translation	72,400

Goodwill, net at end of period	\$ 536,320

The amounts of goodwill, net allocated to the Company's Transportation, Motive Power and Network Power segments are approximately \$311,066, \$225,254 and \$0, respectively, at December 31, 2003.

At December 31, 2003 and March 31, 2003, net intangible assets include trademarks of \$38,600, which are not subject to amortization, and technology that is amortized over its useful life of 10 years. The technology gross carrying amount was \$10,900 at December 31, 2003 and March 31, 2003, and the related accumulated amortization was \$2,780 and \$1,940 at December 31, 2003 and March 31, 2003, respectively.

(9) INVENTORIES

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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

	December 31,	March 31,
	2003	2003
	<hr/>	<hr/>
Raw materials	\$ 74,309	\$ 74,756
Work-in-process	80,868	81,577
Finished goods	265,119	243,640
	<hr/>	<hr/>
	\$ 420,296	\$ 399,973
	<hr/>	<hr/>

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 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(10) OTHER ASSETS**

Other assets consist of:

	December 31,	March 31,
	2003	2003
	<u> </u>	<u> </u>
Deposits	\$ 24,530	\$ 24,530
Pension assets	18,617	16,886
Capitalized software, net	14,292	16,864
Loan to affiliate	4,935	4,935
Other	5,558	7,513
	<u> </u>	<u> </u>
	<u>\$ 67,932</u>	<u>\$ 70,728</u>

During fiscal 2003, letters of credit under the Company's pre-petition Senior Secured Global Credit Facility of \$27,844 were drawn by the beneficiaries. Such amounts have been reflected as increases in the carrying amount of long-term debt classified as subject to compromise. 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.

(11) DEBT

At December 31, 2003 and March 31, 2003, short-term borrowings of \$12,485 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.

Total long-term debt comprises the following:

December 31,	March 31,
2003	2003

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Debt Not Subject To Compromise:		
DIP Credit Facility Borrowings at LIBOR plus 3.75%(2)	\$ 159,202	\$ 168,764
Senior Secured Global Credit Facility (Europe) Borrowings primarily at LIBOR plus 4.75% to 5.25%(2)	275,700	271,415
9.125% Senior Notes (Deutsche mark denominated, due April 15, 2004)(2)	112,552	96,634
European Accounts Receivable Securitization(2)	187,200	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)	27,114	23,554
Total debt not subject to compromise	761,768	715,832
Less current maturities (included in total debt not subject to compromise above)	738,581	598,427
	\$ 23,187	\$ 117,405
Debt Subject To Compromise:		
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
Total debt subject to compromise (Note 7)	\$ 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 maturity dates of the respective agreements.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total debt at December 31, 2003 and March 31, 2003 was \$1,855,546 and \$1,804,903, respectively, (including amounts subject to compromise).

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 have 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 result in an early termination of the Standstill Agreement are: 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 to the DIP Credit Facility); and 4) default with respect to the European securitization agreement and 9.125% Senior Notes (Deutsche Mark denominated) agreement. See Note 20. The Company continues to accrue interest of the Debtors under the pre-petition Senior Secured Global Credit Facility and makes adequate protection 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 is being 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 is a secured revolving credit and term loan facility under which Exide Technologies is the borrower with certain U.S. subsidiaries acting as guarantors. The DIP Credit Facility is afforded super priority claim status in the Chapter 11 case and is 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 provides for borrowing up to \$121,000, of which up to \$65,000 is available to Exide Technologies for on lending to its foreign subsidiaries. An additional \$50,000 sub-facility is also available to the foreign subsidiaries based on certain collateral asset values in the United Kingdom and Canada. To the extent funds are borrowed under the DIP and on-lent to foreign subsidiaries, additional liens on certain assets of the borrowing foreign subsidiary and related guarantees are required. Up to \$40,000 of the revolving credit tranche is available for letters of credit.

Borrowings under the DIP Credit Facility bear interest at Libor plus 3.75% per annum. Borrowings are limited to eligible collateral under the DIP Credit Facility. Eligible collateral under the DIP Credit Facility includes certain accounts receivable and inventory in the U.S. and certain property in the U.S. and Europe. Availability to the Company is impacted by changes in both the amounts of the collateral and qualitative factors

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

(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 contains 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

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DIP Credit Facility also contains other customary covenants, including certain reporting requirements and covenants that restrict 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. The Standstill Agreement originally expired on December 18, 2003. The pre-petition lenders agreed to extend the Standstill Agreement until March 18, 2004, and the DIP Credit Facility was set to expire upon the earlier of the effective date of a final order confirming a consensual revised plan of reorganization or February 15, 2004. On February 4, 2004, the Company filed a motion with the Bankruptcy Court seeking an order authorizing the Company's pending exit financing lender to accept an assignment of the obligations existing under the DIP Credit Facility and provide appropriate extensions of the debt maturities or, in the alternative, an order authorizing a further extension of the Standstill Agreement and the DIP Credit Facility.

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a Replacement DIP with the lender who is expected to provide the Company's exit financing. On February 13, 2004, the Company entered into the Replacement DIP which replaces the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500,000 and expires on May 15, 2004. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinances the Company's European accounts receivable securitization facility and provides additional working capital borrowing availability of up to \$40,000. On March 15, 2004, the Company will seek final approval of the Replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which are due April 15, 2004, which commitment is conditioned on, among other things, the Company's filing of a revised plan of reorganization and the Bankruptcy Court's approval of a disclosure statement related thereto reasonably satisfactory to the administrative agent and lenders for the Replacement DIP.

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 December 31, 2003.

In connection with the closing on the Replacement DIP, the lender who is expected to provide 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 DIP Credit Facility as of December 31, 2003 was \$32,900.

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. This 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 unaudited condensed consolidated balance sheet.

(12) INTEREST EXPENSE, NET

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Interest income of \$251 and \$498 is included in Interest expense, net for the three months ended December 31, 2003 and 2002, respectively. Interest income of \$896 and \$1,312 is included in Interest expense, net for the nine months ended December 31, 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 unaudited condensed consolidated statements of operations. See Note 6.

As of the Petition Date, the Company ceased accruing interest on certain unsecured pre-petition debt classified as Liabilities subject to compromise in the unaudited condensed consolidated balance sheets in accordance with SOP 90-7. Interest 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 the three and nine months ended December 31, 2003 was approximately \$10,241 and \$31,052, respectively.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) OTHER (INCOME) EXPENSE, NET

Other (income) expense, net comprises:

	For the Three		For the Nine	
	Months Ended		Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2003	2002	2003	2002
Losses on sales of accounts receivable	\$ 3,168	\$ 2,829	\$ 9,309	\$ 8,566
Net gain on asset sales	(1,502)	72	(4,806)	(550)
Equity income	(554)	(513)	(1,600)	(1,436)
Currency gain, net	(22,816)	(8,191)	(40,244)	(20,448)
Other	1,085	456	2,626	1,628
	<u>\$ (20,619)</u>	<u>\$ (5,347)</u>	<u>\$ (34,715)</u>	<u>\$ (12,240)</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, \$14,466 is held in escrow pursuant to the Company's borrowing arrangements and is included in Restricted cash in the unaudited condensed consolidated balance sheet at December 31, 2003. This sale resulted in a gain of \$3,175.

Losses on sales of accounts receivable represent expenses related to the Company's receivables sales facilities in the U.S. and Europe (See Note 11).

Net currency gains were recognized primarily from the translation of U.S. dollar denominated borrowings in Europe.

(14) ENVIRONMENTAL MATTERS

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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 the legal proceedings relating to environmental matters, see Note 15, Commitments and Contingencies.

(15) COMMITMENTS AND CONTINGENCIES

Bankruptcy Considerations

As of the Petition Date, substantially all pending litigation against the Debtors was stayed. To the extent any of the Debtors are ultimately found liable with respect to such litigation, the Debtors believe the claim resulting therefrom would constitute a general unsecured claim against the Debtors, the treatment of which would be governed by any plan of reorganization confirmed by the Bankruptcy Court. Litigation against the Company's non-Debtor subsidiaries has not been stayed and will not be affected by the bankruptcy proceedings.

Former Senior Executives and Battery Quality Matters

On March 23, 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

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

batteries between 1994 and 1997. Under the terms of that settlement, 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 Arthur M. Hawkins, Douglas N. Pearson and Alan E. Gauthier, former senior executives of the Company. The payment terms of the plea agreement 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. The plea agreement was lodged with the U.S. District Court for the Southern District of Illinois, and accepted on February 27, 2002. The Company reserved \$31,000 for this matter, including expected costs and out-of-pocket expenses, in the first quarter of fiscal 2001, and an additional \$1,000 in the third quarter of fiscal 2002. At December 31, 2003, approximately \$27,500 of this reserve remains and is classified as a Liability subject to compromise. As a result of the imposition of the automatic stay arising upon the Company's Chapter 11 filing, the Company has not made installment payments of its \$27,500 fine. The Company is uncertain as to the effect of these non-payments and the bankruptcy filing with respect to the plea agreement. On June 10, 2002, the United States Attorney's Office for the Southern District of Illinois filed a claim as a general unsecured creditor for \$27,900.

The Company is currently involved in litigation with the former senior executives referenced above. The former senior executives made claims to enforce separation agreements, reimbursements of legal fees and other contracts, and the Company has filed claims and counterclaims asserting fraud, breach of fiduciary duties, misappropriation of corporate assets and civil conspiracy. In addition, the Company has filed actions in the Bankruptcy Court against the former senior executives to recover certain payments of legal fees that the Company was required to advance to such individuals prior to the Petition Date.

The Company has filed two claims with its insurers for reimbursement of the amounts paid to the former executives, and believes it is entitled to obtain substantial reimbursement for those amounts. However, the Company has not recognized any receivables for such reimbursements at December 31, 2003.

The Company has completed an investigation and determined that due to a deviation from manufacturing procedures approximately 950,000 automotive aftermarket batteries sold during 2001 and 2002 in North America did not contain one minor feature of several advertised for the batteries. In all cases the batteries performed in accordance with their labeled specifications. The feature was reinstated and the Company has discussed the situation with certain customers. The Company cannot predict at this time the effects of this matter on its business, but the remediation that has been offered is not material to its financial condition, cash flows or results of operations.

Private Party Lawsuits

Active Lawsuits

In June 2002, the following lawsuit was filed in Louisiana state court: *Hardy et. al. v. Ducote Wrecking, et. al.* The case was filed as a putative class action for damages brought by two employees of Ducote Wrecking & Demolition, an independent contractor performing multiple maintenance projects at the Company's Baton Rouge, Louisiana facility. The plaintiffs allege that while they were engaged in work at the Company's facility, they were intentionally exposed to and poisoned by lead, acid, and other heavy metals. Plaintiffs named the Company's

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

insurance carriers and supervisory employee as defendants, along with Ducote. The case was removed to the U.S. District Court for the Western District of Louisiana. Plaintiffs filed a motion to remand, which was denied by the court in a January 2003 decision. In the same January 2003 decision, the Court dismissed the Company's supervisory employee and the independent contractor defendant from the litigation. The Court also has denied plaintiffs' motion for class certification. The Company's insurer has issued a reservation of rights as to the Company's coverage for the alleged claims.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On April 11, 2003, the following lawsuit was filed in the Delaware Court of Chancery by the official committee of equity holders and its members: *Kandathil et. al. v. Exide*. The complaint seeks to compel the Company to convene a meeting of stockholders. On April 21, 2003, the Debtors filed a complaint against the official committee of equity holders and its members in the Bankruptcy Court seeking to enjoin their attempts to compel the Company to convene a meeting of stockholders. Hearings on the two complaints have been postponed indefinitely.

Exide is a defendant in an arbitration proceeding initiated in October of 2001 by Margulead Limited (Margulead). In June of 1997, GNB, now an operating division of Exide, entered into an agreement with Margulead, which Margulead contended obligated the Company to build a facility to test and develop certain lead acid battery recycling technology allegedly developed by Margulead. GNB terminated the contract in 1998. Exide contended, in part, that the Margulead process was not ready for pilot plant implementation and also failed to meet success criteria. Margulead claimed approximately \$13,000 in damages. The Company denied that it was liable and defended the matter in the arbitration. An arbitration decision was rendered on May 7, 2003, determining that the contract was unenforceable and that neither party was entitled to damages or costs. Margulead asked the arbitrator to reconsider the decision. Margulead has now advised the Company that it intends to challenge the arbitrator's award in the English commercial court. On or about July 23, 2003, Margulead filed an Application Notice advising of its intent to apply for an extension of time in which to make an application under certain sections of the Arbitration Act of 1996.

Margulead filed an Arbitration Claim Form, dated August 13, 2003, pursuant to which it seeks to challenge the arbitrator's May 7, 2003 Final Arbitration Award and a June 26, 2003 Correction of the Final Award, in which the arbitrator corrected minor typographical errors. The Arbitration Claim Form was filed under Section 68 of the Arbitration Act of 1996 on the basis of alleged serious irregularity. The Company is opposing that Application. Further, the Company made an application for an order that Margulead be required to provide security for costs pursuant to Section 70(6) of the Arbitration Act of 1996 in connection with its application to re-open the Final Award. That application was heard by an English Court on October 31, 2003, and was successful. A hearing on this matter has been set for February 16, 2004. The Company does not believe it is likely that Margulead will succeed in any challenge to the arbitrator's Final Award.

In November 2002, the following lawsuit was filed in the Ontario Court of Justice: *Exide Canada, Inc., v. Lorne Hilts et. al.* This lawsuit was initiated by Exide Canada, Inc. against former officers, employees and a former logistics services vendor seeking in excess of \$1,500 in damages on multiple grounds including breach of trust, breach of contract and fraud. Defendant Hilts filed a counterclaim against Exide Canada for severance and other benefits and seeks damages in an amount exceeding \$620. Defendant Ryad counterclaimed against Exide Canada alleging breach of contract and against Exide Technologies alleging it induced Exide Canada to breach its contract with Ryad for certain logistics services. Ryad seeks damages against each defendant in an amount exceeding \$6,300. The Company believes that the counterclaims are without merit and is vigorously defending itself.

The Company's preliminary review of these active claims suggest they are without merit, and, to the extent the Company is a party to these active lawsuits, it plans to vigorously defend itself. The Company does not believe any reserves are currently warranted for these claims.

Stayed Pre-Petition Lawsuits

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

The following lawsuits allege that Exide and its predecessors allowed hazardous materials used in the battery manufacturing process to be released from certain of its facilities, allegedly resulting in personal injury and/or property damage. On August 25, 1999 several cases were filed in the Circuit Court for Greenville County,

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

South Carolina and are currently pending: *Joshua Lollis v. Exide*; *Buchanan v. Exide*; *Agnew v. Exide*; *Patrick Miller v. Exide*; *Kelly v. Exide*; *Amanda Thompson v. Exide*; *Jonathan Talley v. Exide*; *Smith v. Exide*; *Lakeisha Talley v. Exide*; *Brandon Dodd v. Exide*; *Prince v. Exide*; *Andriae Dodd v. Exide*; *Dominic Thompson v. Exide*; *Snoddy v. Exide*; *Antoine Dodd v. Exide*; *Roshanda Talley v. Exide*; *Fielder v. Exide*; *Rice v. Exide*; *Logan Lollis v. Exide*; and *Dallis Miller v. Exide*. In January 2002, counsel that brought the South Carolina actions filed additional claims in the Circuit Court for Greenville County, South Carolina. The following lawsuits of this type are currently pending in the Court of Common Pleas for Berks County, Pennsylvania: *Grillo v. Exide*, filed on May 24, 1995; *Blume v. Exide*, filed on March 4, 1996; *Esterly v. Exide*, filed on May 30, 1995; and *Saylor v. Exide*, filed on October 18, 1996. The following lawsuit of this type is currently pending in the United States District Court for the Southern District of Indiana: *Strange v. Exide*. Finally, the following lawsuit of this type is pending in the Circuit Court of Shelby County, Tennessee: *Cawthon v. Exide, et al.* All these cases have been stayed.

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 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. The Company plans to vigorously defend the action and pursue the counterclaim.

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 are currently subject to the automatic bankruptcy stay, and have been transferred to the U.S. Bankruptcy Court for the District of Delaware.

Between March and September 2002, the following cases were filed in the U.S. District Court for the Middle District of Louisiana: *Joseph et. al. v. Exide*; *Andrews et. al. v. Exide*; and *Armstead v. Exide*. These actions seek monetary damages and injunctive relief for alleged racial discrimination in the Company's Shreveport and Baton Rouge, Louisiana plants. The *Joseph* and *Andrews* cases have been consolidated and all three lawsuits have been stayed.

In February 2001, the following lawsuit was filed in the U.S. District Court for the Northern District of California: *Flaherty v. Exide, et. al.* Plaintiff contends the Company is responsible, in part, for contamination resulting from alleged disposal of hazardous substances at plaintiff's property. The suit contains claims

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

predicated on CERCLA, private nuisance, public nuisance, trespass, negligence, equitable indemnity, contribution, injunctive relief under RCRA and declaratory relief under state law. The Company has filed counterclaims against plaintiff and other potentially responsible parties.

The Company's preliminary review of these claims suggests they are without merit and the Company plans to vigorously defend itself with regard to the stayed pre-petition lawsuits. The Company expects that all of these lawsuits will be compromised upon confirmation of a plan of reorganization by the Bankruptcy Court.

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").

The Company is exposed to liabilities under such EH&S laws arising from its past handling, release, storage and disposal of hazardous substances and hazardous wastes. The Company previously has been advised by the U.S. Environmental Protection Agency or state agencies that it is a Potentially Responsible Party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state laws at 94 federally defined Superfund or state equivalent sites. At 44 of these sites, the Company has paid its share of liability. At one site the Company has performed a reduced set of obligations under an arrangement with the government which has not yet been formally approved in writing. The Company expects its liability will be compromised upon confirmation of a plan of reorganization by the Bankruptcy Court as to a number of additional Superfund sites. In most instances, the Company's remaining obligations are not expected to be significant because its portion of any potential liability appears to be minor or insignificant in relation to the total liability of all identified PRPs that are financially viable. The Company's share of the anticipated remediation costs associated with all of the Superfund sites where it has been named a PRP, based on the Company's estimated volumetric contribution of waste to each site, is included in the environmental remediation reserves discussed below.

Of those sites for which the Company has not completed payment of its share of liability, it currently has greater than 50% liability at three Superfund sites, and allocated liability that exceeds five percent at an additional seven sites that averages approximately 22%. Because the Company's liability under such statutes may be imposed on a joint and several basis, the Company's liability may not necessarily be based on volumetric allocations and could be greater than the Company's estimates. The Company believes, however, that its PRP status at these Superfund sites will not have a material adverse effect on the Company's business or financial condition because, based on the Company's experience, it is reasonable to expect that the liability will be roughly proportionate to its volumetric contribution of waste to the sites.

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.

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.

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has established reserves for on-site and off-site environmental remediation costs and believes that such reserves are adequate. As of December 31, 2003 and March 31, 2003, the amount of such reserves on the Company's unaudited condensed consolidated balance sheets was \$97,025 and \$78,340, respectively. Of these amounts, \$66,362 was included in Liabilities subject to compromise at both December 31, 2003 and March 31, 2003. Included in environmental reserves at December 31, 2003 are asset retirement obligations, which the Company recorded upon adoption of SFAS 143. See Note 3. 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.

In the United States, the Company has advised each state and federal authority with whom the Company has negotiated plans for environmental investigations or remediation of the Debtors' Chapter 11 filing as required by those agreements or applicable rules. In some cases these authorities may require the Company to undertake certain agreed remedial activities under a modified schedule, or may seek to negotiate or require modified remedial activities. Such requests have been received at several sites and are the subject of ongoing discussions. At this time no requests or directives have been received which, individually or in the aggregate, would materially alter the Company's reserves or have a material adverse effect on the Company's financial condition, cash flows or results of operations.

Tampa, Florida

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

Columbus, Georgia

The Columbus site is a former secondary lead smelter that was decommissioned in 1999, which is part of a larger facility that includes an operating lead acid battery manufacturing facility. Groundwater remediation activities began in 1988. Costs for supplemental investigations, remediation and site closure are currently estimated at \$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.

Other

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

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agency in accordance with French law for approximately \$132, \$169 and \$260 in calendar years 2001, 2002 and 2003, respectively. In addition, CEAC has been adjudged liable to indemnify the agency for approximately \$45, \$78, and \$200, 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, after consultation with legal counsel 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 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 continues to seek further information regarding the nature of the investigation. Exide Shanghai had total assets of approximately \$12,000 at December 31, 2003 and revenues of \$11,300 for the nine months then ended.

The Company is involved in various other claims and litigation incidental to the conduct of its business. Based on consultation with legal counsel, management does not believe that any such claims or litigation to which the Company is a party, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

Guarantees

In November 2002, the Financial Accounting Standards Board (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 December 31, 2003, the Company had outstanding letters of credit with a face value of \$6,073 (\$36 of which was pre-petition) and surety bonds with a face value of \$43,265. 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 \$7,000 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

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Company has reached an agreement with the Surety regarding the terms of the initial forty percent collateralization: \$750 to be paid by February 15, 2004 and the remainder to be paid within fifteen (15) days of the Company closing its exit financing agreements.

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

Certain of the Company's European subsidiaries have bank guarantees outstanding, which have been issued as collateral or financial assurance in connection with environmental obligations, income tax claims and customer contract requirements. At December 31, 2003, bank guarantees with a face value of \$5,492 were outstanding.

Warranty

The Company provides customers various warranty or return privileges in each of its three business 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 an 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 the nine months ended December 31, 2003 follows:

Balance at March 31, 2003	\$ 62,464
Accrual for warranties provided during the period	36,551
Settlements made (in cash or credit) during the period	(40,403)
Currency translation	5,508
	<hr/>
Balance at December 31, 2003	<u>\$ 64,120</u>

(16) RESTRUCTURING AND IMPAIRMENT

The Company previously implemented certain restructuring activities as part of an overall program to reduce costs, eliminate excess capacity and improve cash flows, including activities in connection with the September 2000 acquisition of GNB.

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 the Motive and Network consolidation efforts in Europe, the announced closure of the Company's Weiden, Germany Network Power facility, Corporate severance, Europe Transportation headcount reductions and the closure of a North American Transportation facility. Approximately 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.

Summarized restructuring reserve activity follows:

	Severance Costs	Closure Costs	Total
Balance at March 31, 2003	\$ 19,360	\$ 13,524	\$ 32,884
Charges, fiscal 2004	17,914	2,004	19,918
Payments and currency translation	(17,446)	(3,426)	(20,872)
Balance at December 31, 2003	<u>\$ 19,828</u>	<u>\$ 12,102</u>	<u>\$ 31,930</u>

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(17) NET LOSS PER SHARE

Basic loss per share is computed using the weighted average number of common shares outstanding for the period, while diluted loss per share is computed assuming conversion of all dilutive securities such as options, convertible debt and warrants. In all periods presented net losses were incurred, therefore dilutive common stock equivalents were not used in the calculation of earnings per share as they would have an anti-dilutive effect.

(18) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 is 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 will be applicable on March 31, 2004. Further, the disclosure requirements of the Interpretation are 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 any entities 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 is 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 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 December 31, 2003, and for the nine months 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 unaudited condensed consolidated financial statements.

(19) SEGMENT INFORMATION

The Company has three primary business segments: Transportation, Motive Power and Network Power.

Transportation applications include automotive, heavy duty, agricultural, marine and other batteries, as well as new technologies being developed for hybrid vehicles and new 42-volt automobile applications. Network Power applications include batteries for telecommunications systems, fuel cell load leveling, electric utilities,

Table of Contents

EXIDE TECHNOLOGIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

railroads, photovoltaic and other critical uninterruptible power supply markets. Motive Power applications include batteries for a broad range of equipment uses including lift trucks, mining and other commercial vehicles.

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.

(20) SUBSEQUENT EVENTS

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a Replacement DIP with the lender who is expected to provide the Company's exit financing. On February 13, 2004, the Company entered into the Replacement DIP which replaces the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500,000 and expires on May 15, 2004. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinances the Company's European accounts receivable securitization facility and provides additional working capital borrowing availability of up to \$40,000. On March 15, 2004, the Company will seek final approval of the Replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which are due April 15, 2004, which commitment is conditioned on, among other things, the Company's filing of a revised plan of reorganization and the Bankruptcy Court's approval of a disclosure statement related thereto reasonably satisfactory to the administrative agent and lenders for the Replacement DIP.

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 December 31, 2003.

In connection with the closing on the Replacement DIP, the lender who is expected to provide 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.

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

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

For the Three Months Ended December 31, 2003

	Motive		Network		Consolidated
	Transportation	Power	Power	Other (a)	
Net sales	\$ 421,947	\$ 132,548	\$ 98,521	\$	\$ 653,016
Gross profit	88,839	30,406	22,846		142,091
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle(c)	50,502	6,981	(3,196)	(37,321)	16,966

For the Three Months Ended December 31, 2002

	Motive		Network		Consolidated
	Transportation	Power	Power	Other (a)	
Net sales	\$ 397,878	\$ 125,599	\$ 98,663	\$	\$ 622,140
Gross profit	95,121	28,806	28,898		152,825
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle(d)	53,120	7,129	12,981	(59,175)	14,055

For the Nine Months Ended December 31, 2003

	Motive		Network		Consolidated
	Transportation	Power	Power	Other (a)	
Net sales	\$ 1,149,862	\$ 380,901	\$ 294,252	\$	\$ 1,825,015
Gross profit	229,930	85,590	69,514		385,034
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle(e)	112,978	13,491	14,879	(138,520)	2,828

For the Nine Months Ended December 31, 2002

	Motive		Network		Consolidated
	Transportation	Power	Power (b)	Other (a)	

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Net sales	\$ 1,126,162	\$ 349,432	\$ 280,898	\$	\$ 1,756,492
Gross profit	237,280	79,916	73,916		391,112
Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle(f)	113,267	15,480	(19,409)	(167,571)	(58,233)

- (a) Other includes corporate expenses, interest expense, net, currency remeasurement loss (gain) and losses on sales of accounts receivable.
- (b) Includes a goodwill impairment charge of \$37,000 (see Note 8).
- (c) Includes restructuring charges of \$1,115, \$1,323, \$8,849 and \$1,375 within Transportation, Motive, Network and Other, respectively.
- (d) Includes restructuring charges of \$3,212, \$(224), \$(437) and \$1,286 within Transportation, Motive, Network and Other, respectively).
- (e) Includes restructuring charges of \$3,031, \$3,830, \$10,846 and \$2,267 within Transportation, Motive, Network and Other, respectively.
- (f) Includes restructuring charges of \$7,081, \$54, \$5,357 and \$1,630 within Transportation, Motive, Network and Other, respectively.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

On April 15, 2002 (Petition Date), Exide Technologies (together with its subsidiaries unless the context requires otherwise, Exide or the Company) and three of its wholly-owned, U.S. subsidiaries (RBD Liquidation, LLC (RBD), Exide Delaware, LLC (Exide Delaware) and Exide Illinois, Inc. (Exide Illinois)) filed voluntary petitions for reorganization under Chapter 11 of the federal bankruptcy laws (Bankruptcy Code or Chapter 11) in the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court) under case numbers 02-11125 through 02-11128. On November 21, 2002, Refined Metals Corporation (Refined) and Dixie Metals Company (Dixie), both wholly owned, non-operating subsidiaries of Exide, filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court under case numbers 02-13449 and 02-13450. Refined and Dixie have no employees and negligible, if any, assets. RBD, Exide Delaware, Exide Illinois, Dixie and Refined, together with Exide are hereinafter referred to as the Debtors. All of the foregoing cases are being jointly administered for procedural purposes before the Bankruptcy Court under case number 02-11125KJC.

The Debtors are currently operating their business as debtors-in-possession pursuant to the Bankruptcy Code.

The Company and certain of its subsidiaries decided to file 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 has 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.

The Company's operations outside of the U.S. are not included in the Chapter 11 proceedings.

On May 10, 2002, the Debtors received final Bankruptcy Court approval of its \$250 million DIP Credit Facility. The DIP Credit Facility requires maintenance of certain financial covenants and other restrictions on matters such as indebtedness, guarantees and future asset sales.

Under the Bankruptcy Code, actions against the Debtors to collect pre-petition indebtedness, as well as most other pending litigation against the Debtors, are stayed. In addition, the Debtors may also assume or reject executory contracts, including lease obligations, subject to the approval of the Bankruptcy Court and certain other conditions.

On April 11, 2003, the following lawsuit was filed in the Delaware Court of Chancery by the official committee of equity holders and its members: *Kandathil et. al. v. Exide*. The complaint seeks to compel the Company to convene a meeting of stockholders. On April 21, 2003, the Debtors filed a complaint against the official committee of equity holders and its members in the Bankruptcy Court seeking to enjoin their attempts to compel the Company to convene a meeting of stockholders. Hearings on the two complaints have been postponed indefinitely. 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)

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

although the Debtors are authorized to propose a settlement of the Creditors Committee 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

Table of Contents

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 Prepetition Lenders' recovery because there may be sufficient value to pay the Prepetition 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 Prepetition Lenders as to the terms of a consensual revised plan of reorganization. The Company intends to file a revised plan of reorganization pursuant to this agreement and to seek confirmation thereof as quickly as practicable. Under the agreement in principle, the Prepetition Lenders would receive 90% of the new common stock of the reorganized Company, subject to dilution, and the unsecured creditors would share 10% of the new common stock of the reorganized Company, subject to dilution, plus warrants to purchase 20% of the new common stock of the reorganized Company, subject to dilution. The agreement in principle and any revised plan of reorganization is subject to voting by creditors and must be approved by the Bankruptcy Court before it may become effective.

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a replacement DIP credit facility (Replacement DIP) with the lender who is expected to provide the Company's exit financing. On February 13, 2004, the Company entered into the Replacement DIP which replaces the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500.0 million and expires on May 15, 2004. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinances the Company's European accounts receivable securitization facility and provides additional working capital borrowing availability of up to \$40.0 million. On March 15, 2004, the Company will seek final approval of the replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which are due April 15, 2004, which commitment is conditioned on, among other things, the Company's filing of a revised plan of reorganization and the Bankruptcy Court's approval of a disclosure statement related thereto reasonably satisfactory to the administrative agent and lenders for the Replacement DIP.

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 December 31, 2003.

In connection with the closing on the Replacement DIP, the lender who is expected to provide 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.

At this time, it is not possible to predict the effect of the Chapter 11 reorganization process on the Company's business, various creditors and security holders, or when it may be possible for the Debtors to emerge from Chapter 11. The Company's future results are dependent upon its confirming and implementing, on a timely basis, a plan of reorganization. However, under the agreement in principle, the Company's 10% senior notes and convertible senior subordinated notes would be converted into new common stock of the reorganized Company, and the Company's current common stock would be cancelled.

Factors Which Affect the Company's Financial Performance

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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 the Company's markets.

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

Table of Contents

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.

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

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

Lead. Lead is the primary material by weight used in the manufacture of batteries, representing approximately one-fourth of the Company's cost of goods sold. The market price of lead fluctuates. The price of lead on global commodity markets has increased approximately 35% since September 30, 2003, which could adversely affect future results. Generally, when lead prices decrease, customers may seek disproportionate price reductions from the Company, and when lead prices increase, customers 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 unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes that the critical accounting policies and estimates disclosed in the Company's Annual Report on Form 10-K (the "10-K") for the fiscal year ended March 31, 2003 affect the preparation of its unaudited condensed consolidated financial statements. The reader of this report may wish to refer to the 10-K for further information.

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and in accordance with Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7).

The ability of the Company to continue as a going concern is predicated upon, among other things, confirmation of a bankruptcy reorganization plan on a timely basis, compliance with the provisions of both the DIP Credit Facility and other ongoing borrowing arrangements, the ability to

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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 15. The Standstill Agreement originally expired on December 18, 2003. The pre-petition lenders agreed to extend the Standstill Agreement until March 18, 2004, and the DIP Credit Facility was set to expire on the earlier of the effective date of a final order confirming a consensual revised plan of reorganization or February 15, 2004. On February 4, 2004, the Company filed a motion with the Bankruptcy Court seeking an order authorizing the Company's pending exit financing lender to accept an assignment of the obligations existing under the DIP Credit Facility and provide appropriate extensions of the debt maturities or, in the alternative, an order authorizing a further extension of the Standstill Agreement

Table of Contents

and the DIP Credit Facility.

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a Replacement DIP with the lender who is expected to provide the Company's exit financing. On February 13, 2004, the Company entered into the Replacement DIP which replaces the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500.0 million and expires on May 15, 2004. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinances the Company's European accounts receivable securitization facility and provides additional working capital borrowing availability of up to \$40.0 million. On March 15, 2004, the Company will seek final approval of the Replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which are due April 15, 2004, which commitment is conditioned on, among other things, the Company's filing of a revised plan of reorganization and the Bankruptcy Court's approval of a disclosure statement related thereto reasonably satisfactory to the administrative agent and lenders for the Replacement DIP.

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 December 31, 2003.

In connection with the closing on the Replacement DIP, the lender who is expected to provide 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.

If the Debtors do not have a plan of reorganization confirmed by the Bankruptcy Court before the expiration of these agreements, the Company will have to request extensions of such agreements. There can be no assurance that the Company will be able to have a plan confirmed by that time or obtain extensions. As a result of the Chapter 11 filing, and consideration of various strategic alternatives, including possible asset sales, the Company would expect that any reorganization plan will result in material changes to the carrying amount of assets and liabilities in the unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements do not, however, include adjustments, if any, to reflect the possible future effects on the recoverability and classification of recorded assets or the amounts and classifications of liabilities that may result from the outcome of these uncertainties.

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 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 Prepetition Lenders' recovery because there may be sufficient value to pay the Prepetition 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 Prepetition Lenders as to the terms of a consensual revised plan of reorganization. The Company intends to file a revised plan of reorganization pursuant to this agreement and to seek confirmation thereof as quickly as practicable. Under the agreement in principle, the Prepetition Lenders would receive 90% of the new common stock of the reorganized Company,

Table of Contents

subject to dilution, and the unsecured creditors would share 10% of the new common stock of the reorganized Company, subject to dilution, plus warrants to purchase 20% of the new common stock of the reorganized Company, subject to dilution. The agreement in principle and any revised plan of reorganization is subject to voting by creditors and must be approved by the Bankruptcy Court before it may become effective.

Upon emergence from bankruptcy, 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 any plan of reorganization 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 (GAAP) within twelve months of emerging from 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 that time. For all these reasons, the financial statements for periods subsequent to emergence from Chapter 11 will not be comparable with those of prior periods.

Results of Operations

Three months ended December 31, 2003 compared with three months ended December 31, 2002

Overview

Net loss for the third quarter of fiscal 2004 was \$9.3 million, or \$0.34 per diluted share versus the third quarter of fiscal 2003 net loss of \$7.0 million, or \$0.26 per diluted share. Third quarter fiscal 2004 results include restructuring costs of \$12.7 million and reorganization items in connection with the bankruptcy of \$21.6 million. Third quarter fiscal 2003 results include restructuring costs of \$3.8 million and reorganization items in connection with the bankruptcy of \$8.5 million. In addition, currency remeasurement gains of \$22.8 million and \$8.2 million, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in the third quarter of fiscal 2004 and 2003, respectively.

Net Sales

Net sales were \$653.0 million in the third quarter of fiscal 2004 versus \$622.1 million in the third quarter of fiscal 2003. Sales volumes were lower in all three of the Company's business segments during the third quarter of fiscal 2004. Currency positively impacted net sales in the third quarter of fiscal 2004 by approximately \$61.4 million.

Transportation net sales were \$421.9 million in the third quarter of fiscal 2004 versus \$397.9 million in the third quarter of fiscal 2003. Transportation revenues in North America declined due to reduced unit volumes, in both the aftermarket and original equipment channels, while European volumes declined in the original equipment channel following the loss of certain original equipment business. European selling prices for the third quarter of fiscal 2004 were lower than the third quarter of fiscal 2003, principally because of competitive pricing pressures. Currency positively impacted Transportation net sales in the third quarter of fiscal 2004 by approximately \$34.7 million.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Motive Power net sales in the third quarter of fiscal 2004 were \$132.5 million versus \$125.6 million in the third quarter of fiscal 2003. Lower volumes and competitive pricing pressures in Europe within both the original equipment and aftermarket channels were partially offset by higher volumes and lower warranty costs in North America. Currency positively impacted Motive Power net sales in the third quarter of fiscal 2004 by approximately \$15.8 million.

Network Power net sales in the third quarter of fiscal 2004 were \$98.5 million versus \$98.6 million in the third quarter of fiscal 2003. Sales volumes were lower due to weakness in the European and Asian markets, including disruption of the Company's Chinese operations, offset partially by higher volumes in North America. Currency positively impacted Network Power net sales in the third quarter of fiscal 2004 by approximately \$10.9 million.

Gross Profit

Gross profit was \$142.1 million in the third quarter of fiscal 2004 versus \$152.8 million in the third quarter of fiscal 2003. Gross margin was 21.8% in the third quarter of fiscal 2004 and 24.6% in the third quarter of fiscal 2003. Gross profit in each of the Company's business segments was negatively impacted by lower sales volumes,

Table of Contents

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 the third quarter of fiscal 2004 by approximately \$14.2 million.

Transportation gross profit was \$88.8 million in the third quarter of fiscal 2004 versus \$95.1 million in the third quarter of fiscal 2003. The effects of lower sales volumes in North America and lower selling prices in Europe were partially offset by the benefits from plant rationalization and headcount reductions. Gross margin was 21.1% in the third quarter of fiscal 2004 versus 23.9% in the third quarter of fiscal 2003. Currency positively impacted Transportation gross profit in the third quarter of fiscal 2004 by approximately \$8.0 million.

Motive Power gross profit was \$30.4 million in the third quarter of fiscal 2004 versus \$28.8 million in the third quarter of fiscal 2003. Gross profit was negatively impacted by lower sales volumes and competitive pricing pressures, particularly in the European markets, offset partially by lower warranty costs in North America. Gross margin was 22.9% in the third quarter of fiscal 2004 and 22.9% in the third quarter of fiscal 2003. Currency positively impacted Motive Power gross profit in the third quarter of fiscal 2004 by approximately \$3.7 million.

Network Power gross profit was \$22.9 million in the third quarter of fiscal 2004 versus \$28.9 million in the third quarter of fiscal 2003. Gross profit was negatively impacted by lower sales volume and competitive pricing pressures, offset partially by the Company's cost reduction programs. Gross margin was 23.2% in the third quarter of fiscal 2004 versus 29.3% in the third quarter of fiscal 2003. Currency positively impacted Network Power gross profit in the third quarter of fiscal 2004 by approximately \$2.5 million.

Expenses

Expenses were \$125.1 million in the third quarter of fiscal 2004 versus \$138.8 million in the third quarter of fiscal 2003. Expenses included restructuring charges of \$12.7 million in the third quarter of fiscal 2004, including \$8.8 million related to the announced closure of the Company's Weiden, Germany facility, and \$3.8 million in the third quarter of fiscal 2003. Stronger European currencies unfavorably impacted expenses by approximately \$11.2 million in the third quarter of fiscal 2004. The net decrease in expenses was impacted by the following matters: (i) third quarter fiscal 2004 selling, marketing and advertising costs and general and administration costs in each of the Company's business segments were favorably impacted by the Company's cost-reduction programs, primarily through headcount reductions; (ii) third quarter fiscal 2004 expenses in each of the Company's business segments were negatively impacted by an increase in benefit costs, including medical and pension expenses; (iii) fiscal 2004 and fiscal 2003 third quarter expenses included currency remeasurement gains of \$22.8 million and \$8.2 million, respectively, included in Other (income) expense, net; and (iv) interest expense, net decreased \$3.5 million, principally due to lower interest rates and the complete amortization of deferred financing costs.

Transportation expenses were \$38.3 million in the third quarter of fiscal 2004 versus \$42.0 million in the third quarter of 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. Currency unfavorably impacted Transportation expenses in the third quarter of fiscal 2004 by approximately \$3.0 million.

Motive Power expenses were \$23.4 million in the third quarter of fiscal 2004 versus \$21.7 million in the third quarter of fiscal 2003. The increase in expenses was due primarily to higher restructuring expenses in Europe associated with the Company's consolidation efforts and increased benefit costs, including medical and pension expenses, offset partially by the Company's cost reduction programs. Currency unfavorably impacted Motive Power expenses in the third quarter of fiscal 2004 by approximately \$2.7 million.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Network Power expenses were \$26.1 million in the third quarter of fiscal 2004 versus \$15.9 million in the third quarter of fiscal 2003. The increase was due primarily to restructuring expenses associated with the announced closure of the Company's Weiden, Germany facility and increased benefit costs, including medical

Table of Contents

and pension expenses offset partially by the Company's cost reduction programs. Currency unfavorably impacted Network Power expenses in the third quarter of fiscal 2004 by approximately \$3.0 million.

Unallocated expenses, net were \$37.3 million in the third quarter of fiscal 2004 versus \$59.2 million in the third quarter of fiscal 2003. Fiscal 2004 and fiscal 2003 third quarter expenses included currency remeasurement gains of \$22.8 million and \$8.2 million, respectively. Currency unfavorably impacted unallocated expenses in the third quarter of fiscal 2004 by approximately \$2.5 million. Corporate expenses were \$32.3 million and \$36.8 million in the third quarter of fiscal 2004 and fiscal 2003, respectively. The decrease in corporate expenses was due to the favorable impact of the Company's cost reduction programs, primarily through headcount reductions, and lower restructuring expenses, offset partially by unfavorable currency impact and increased benefit costs, including medical and pension expenses. Interest expense, net was \$24.8 million in the third quarter of fiscal 2004 and \$28.2 million in the third quarter of fiscal 2003. The decrease in interest expense was due to lower interest rates and lower amortization expense associated with deferred financing costs on the DIP Credit Facility and European securitization facility which were fully amortized in November 2003.

Income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$17.0 million, or 2.6% of net sales in the third quarter of fiscal 2004 versus \$14.1 million, or 2.3% of net sales in the third quarter of fiscal 2003, due to the items discussed above.

Transportation income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$50.5 million, or 12.0% of net sales in the third quarter of fiscal 2004 versus \$53.1 million, or 13.4% of net sales in the third quarter of fiscal 2003, due to the items discussed above.

Motive Power income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$7.0 million, or 5.3% of net sales in the third quarter of fiscal 2004 versus \$7.1 million, or 5.7% of net sales in the third quarter of fiscal 2003, due to the items discussed above.

Network Power income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was (\$3.2) million, or (3.2)% of net sales in the third quarter of fiscal 2004 versus \$13.0 million, or 13.2% of net sales in the second quarter of 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 unaudited condensed consolidated statements of operations. Reorganization items in the third quarter of fiscal 2004 and 2003 were \$21.6 million and \$8.5 million, respectively. 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. The increase in reorganization expenses in the third quarter of fiscal 2004 reflects a significant increase in legal costs associated with development of the Company's proposed plan of reorganization and preparation for Bankruptcy Court hearings. See Note 6.

Income Taxes

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

In the third quarter of fiscal 2004, an income tax provision of \$4.1 million was recorded on a pre-tax loss of \$4.6 million. In the third quarter of fiscal 2003, an income tax provision of \$12.3 million was recorded on pre-tax income of \$5.6 million. The effective tax rate was (88%) and 219% in the third quarter of fiscal 2004 and 2003, respectively. The effective tax rate for the third quarter of 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.

Table of Contents

Nine months ended December 31, 2003 compared with nine months ended December 31, 2002

Overview

Net loss for the nine months of fiscal 2004 was \$63.6 million, or \$2.32 per diluted share versus net loss for the nine months of fiscal 2003 of \$105.3 million, or \$3.84 per diluted share. Included in the results for the nine months of fiscal 2004 are restructuring costs of \$20.0 million, reorganization items in connection with the bankruptcy of \$45.9 million and cumulative effect of change in accounting principle of \$15.6 million. Included in the results for the nine months of fiscal 2003 are a non-cash charge of \$37.0 million for goodwill impairment in the Network Power segment, restructuring costs of \$14.1 million and reorganization items in connection with the Bankruptcy of \$28.6 million. In addition, currency remeasurement gains of \$40.2 million and \$20.4 million, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net for the nine months of fiscal 2004 and 2003, respectively.

Net Sales

Net sales were \$1,825.0 million for the nine months of fiscal 2004 versus \$1,756.5 million for the nine months of fiscal 2003. Sales volumes were lower in all three of the Company's business segments during the nine months of fiscal 2004. Currency positively impacted net sales for the nine months of fiscal 2004 by approximately \$158.4 million.

Transportation net sales were \$1,149.9 million for the nine months of fiscal 2004 versus \$1,126.2 million for the nine months of fiscal 2003. Transportation revenues in North America declined due to reduced unit volumes, in both the aftermarket and original equipment channels, while European volumes declined principally in the original equipment channel following the loss of certain original equipment business. European selling prices for the nine months of fiscal 2004 were lower than the nine months of fiscal 2003, principally because of competitive pricing pressures. Currency positively impacted Transportation net sales for the nine months of fiscal 2004 by approximately \$83.6 million.

Motive Power net sales for the nine months of fiscal 2004 were \$380.9 million versus \$349.4 million for the nine months of fiscal 2003. Lower volumes and competitive pricing pressures in Europe within both the original equipment and aftermarket channels were partially offset by higher volumes in North America. Currency positively impacted Motive Power net sales for the nine months of fiscal 2004 by approximately \$43.8 million.

Network Power net sales for the nine months of fiscal 2004 were \$294.2 million versus \$280.9 million for nine months of fiscal 2003. Sales volumes were lower due to weakness in the Asian market, including disruption of the Company's Chinese operations, offset partially by higher volumes in North America. Currency positively impacted Network Power net sales for the nine months of fiscal 2004 by approximately \$31.0 million.

Gross Profit

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Gross profit was \$385.0 million for the nine months of fiscal 2004 versus \$391.1 million for the nine months of fiscal 2003. Gross margin was 21.1% for the nine months of fiscal 2004 and 22.3% for the nine months of fiscal 2003. Gross profit in each of the Company's business segments was negatively impacted by lower sales volumes, competitive pricing pressures and higher benefit costs, including medical and pension expenses, offset partially by lower lead pricing in Europe and the Company's cost reduction programs. Currency positively impacted gross profit for the nine months of fiscal 2004 by approximately \$36.2 million.

Transportation gross profit was \$229.9 million for the nine months of fiscal 2004 versus \$237.3 million for the nine months of fiscal 2003. The effects of lower sales volumes in North America and Europe and lower European pricing were partially offset by the benefits from plant rationalization and headcount reductions. Gross margin was 20.0% for the nine months of fiscal 2004 versus 21.1% for fiscal 2003. Currency positively impacted Transportation gross profit for the nine months of fiscal 2004 by approximately \$18.7 million.

Table of Contents

Motive Power gross profit was \$85.6 million for the nine months of fiscal 2004 versus \$79.9 million for the nine months of fiscal 2003. Gross profit was negatively impacted by lower sales volumes and competitive pricing pressures, particularly in the European markets. Gross margin was 22.5% for the nine months of fiscal 2004 versus 22.9% for the nine months of fiscal 2003. Currency positively impacted Motive Power gross profit for the nine months of fiscal 2004 by approximately \$10.3 million.

Network Power gross profit was \$69.5 million for the nine months of fiscal 2004 versus \$73.9 million for the nine months of fiscal 2003. Gross profit was negatively impacted by lower sales volume, offset partially by the Company's cost reduction programs and favorable sales mix. Gross margin was 23.6% for the nine months of fiscal 2004 versus 26.3% for the nine months of fiscal 2003. Currency positively impacted Network Power gross profit for the nine months of fiscal 2004 by approximately \$7.2 million.

Expenses

Expenses were \$382.2 million for the nine months of fiscal 2004 versus \$449.3 million for the nine months of fiscal 2003. Expenses in the nine months of fiscal 2003 included a \$37.0 million goodwill impairment charge in Network Power. Expenses also included restructuring charges of \$20.0 million for the nine months of fiscal 2004, including \$8.8 million related to the announced closure of the Company's Weiden, Germany facility, and \$14.1 million for the nine months of fiscal 2003. Excluding these items, expenses were \$362.2 million and \$398.2 million for the nine months of fiscal 2004 and 2003, respectively. Stronger European currencies unfavorably impacted expenses by approximately \$32.2 million for the nine months of fiscal 2004. The net decrease in expenses was impacted by the following matters: (i) selling, marketing and advertising costs and general and administration costs in each of the Company's business segments for the nine months of fiscal 2004 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 the nine months of fiscal 2004 were negatively impacted by an increase in benefit costs, including medical and pension expenses; (iii) expenses for the nine months of fiscal 2004 include a \$3.2 million gain on the sale of the Company's European non-lead battery assets, included in Other (income) expense, net; (iv) interest expense, net decreased \$5.7 million, principally due to lower interest rates and the complete amortization of deferred financing costs; and (v) expenses for the nine months of fiscal 2004 and fiscal 2003 included currency remeasurement gains of \$40.2 million and \$20.4 million, respectively, included in Other (income) expense, net.

Transportation expenses were \$117.0 million for the nine months of fiscal 2004 versus \$124.0 million for the nine months of 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. Currency unfavorably impacted Transportation expenses for the nine months of fiscal 2004 by approximately \$8.4 million.

Motive Power expenses were \$72.1 million for the nine months of fiscal 2004 versus \$64.4 million for the nine months of fiscal 2003. The increase in expenses was due primarily to higher selling expenses in North America, restructuring expenses associated with the Company's consolidation efforts and increased benefit costs, including medical and pension expenses, offset substantially by the Company's cost reduction programs. Currency unfavorably impacted Motive Power expenses for the nine months of fiscal 2004 by approximately \$8.1 million.

Network Power expenses were \$54.6 million for the nine months of fiscal 2004 versus \$93.3 million for the nine months of fiscal 2003. Expenses for the nine months of fiscal 2004 included a \$3.2 million gain on the sale of the Company's European non-lead battery assets and restructuring charges of \$10.8 million, principally related to the announced closure of the Company's Weiden, Germany facility. Expenses for the nine months of fiscal 2003 included a goodwill impairment charge of \$37.0 million and restructuring charges of \$5.4 million. Excluding these items, expenses were \$47.0 million and \$50.9 million for the nine months of fiscal 2004 and fiscal 2003, respectively. The decrease was due primarily to the Company's cost reduction programs offset partially by increased benefit costs, including medical and pension expenses. Currency unfavorably impacted Network Power expenses for the nine months of fiscal 2004 by approximately \$5.6 million.

Table of Contents

Unallocated expenses, net were \$138.5 million for the nine months of fiscal 2004 versus \$167.6 million for the nine months of fiscal 2003. Expenses for the nine months of fiscal 2004 and fiscal 2003 included currency remeasurement gains of \$40.2 million and \$20.4 million, respectively. Currency unfavorably impacted unallocated expenses for the nine months of fiscal 2004 by approximately \$10.1 million. Corporate expenses were \$95.1 million and \$99.8 million for the nine months of fiscal 2004 and fiscal 2003, respectively. The decrease in corporate expenses was due to the favorable impact of the Company's cost reduction programs, primarily through headcount reductions, offset partially by unfavorable currency impact, increased benefit costs, including medical and pension expenses, and higher restructuring costs. Interest expense, net was \$74.5 million for the nine months of fiscal 2004 versus \$80.2 million for the nine months of fiscal 2003. The decrease in interest expense is due to lower interest rates and lower amortization expense associated with deferred financing costs on the DIP Credit Facility and European securitization facility, which were fully amortized in November 2003.

Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$2.8 million, or 0.2% of net sales for the nine months of fiscal 2004 versus (\$58.2) million, or (3.3)% of net sales for the nine months of fiscal 2003, due to the items discussed above.

Transportation income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$113.0 million, or 9.8% of net sales for the nine months of fiscal 2004 versus \$113.3 million, or 10.1% of net sales for the nine months of fiscal 2003, due to the items discussed above.

Motive Power income before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$13.5 million, or 3.5% of net sales for the nine months of fiscal 2004 versus \$15.5 million, or 4.4% of net sales for the nine months of fiscal 2003, due to the items discussed above.

Network Power income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was \$14.9 million, or 5.1% of net sales for the nine months of fiscal 2004 versus (\$19.4) million, or (6.9)% of net sales for the nine months of 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 unaudited condensed consolidated statements of operations. Reorganization items for the nine months of fiscal 2004 and 2003 were \$45.9 million and \$28.6 million, respectively. 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. The increase in reorganization expenses for the nine months of fiscal 2004 reflects a significant increase in legal costs associated with development of the Company's proposed plan of reorganization and preparation for Bankruptcy Court hearings. See Note 6.

Income Taxes

For the nine months of fiscal 2004, an income tax provision of \$4.6 million was recorded on a pre-tax loss of \$43.1 million. For the nine months of fiscal 2003, an income tax provision of \$18.2 million was recorded on a pre-tax loss of \$86.8 million. The effective tax rate was (11%) and (21%) for the nine months of fiscal 2004 and 2003, respectively. The effective tax rate for the nine months of fiscal 2004 and fiscal 2003 were

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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 the nine months of fiscal 2004 was also impacted by the \$3.2 million gain on the sale of the Company's European non-lead battery assets, which was a non-taxable transaction. The effective tax rate for the nine months of fiscal 2003 was also impacted by the non-deductibility of the \$37.0 million Network Power goodwill impairment charge.

Table of Contents

Liquidity and Capital Resources

Capital Structure

Following evaluation of possible capital structure alternatives, on April 15, 2002, Exide Technologies and three of its wholly-owned U.S. subsidiaries filed 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. In addition, on November 21, 2002, two of the Company's other wholly-owned subsidiaries filed for reorganization pursuant to Chapter 11. The Company's operations outside of the U.S. are not included in the Chapter 11 proceedings. However, in connection with the bankruptcy filing, the Company entered into a Standstill Agreement with the pre-petition Senior Secured Global Credit Facility lenders, whereby the lenders agreed to forbear collection 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 for the occurrence of certain events. The principal events which could result in an early termination of the Standstill Agreement are: 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 to the DIP Credit Facility); and 4) default with respect to the European securitization agreement and 9.125% Senior Notes (Deutsche mark denominated) agreement. See Note 20. The Company continues to accrue interest under the pre-petition Senior Secured Global Credit Facility and makes adequate protection payments subject to liquidity calculations prescribed in the DIP Credit Facility.

On May 10, 2002, the Company received final Bankruptcy Court approval of its \$250.0 million DIP Credit Facility. The DIP Credit Facility was arranged by Citicorp N.A., and Salomon Smith Barney and is being used to supplement cash flows from operations during the reorganization process including the payment of certain post-petition ordinary course trade and other payables, the payment of permitted pre-petition claims, working capital needs, letter of credit requirements and other general corporate purposes.

Upon closing, approximately \$129.0 million of the DIP Credit Facility was drawn down, \$117.0 million 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 is a secured revolving credit and term loan facility under which Exide Technologies is the borrower with certain U.S. subsidiaries acting as guarantors. The DIP Credit Facility is afforded super priority claim status in the Chapter 11 case and is 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 facility provides for borrowings up to \$121.0 million, of which up to \$65.0 million is available to Exide Technologies for on-lending to its foreign subsidiaries, subject to borrowing base availability. An additional \$50.0 million sub-facility is also available to the foreign subsidiaries based on certain collateral asset values in the United Kingdom and Canada. To the extent funds are borrowed under the DIP Credit Facility and on-lent to foreign subsidiaries, additional liens on certain assets of the borrowing foreign subsidiary and related guarantees are required. Up to \$40 million of the revolving credit tranche is available for letters of credit.

Borrowings under the DIP Credit Facility bear interest at Libor plus 3.75% per annum. Borrowings are limited to eligible collateral under the DIP Credit Facility. Eligible collateral under the DIP Credit Facility includes certain accounts receivable and inventory in the U.S. and certain property in the U.S. and Europe. Availability to the Company is 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 contains certain financial covenants requiring the Company to maintain specified levels of monthly earnings before interest,

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

taxes, depreciation, amortization, restructuring and certain other defined charges, as well as limits on capital expenditures and cash restructuring expenditures. The

Table of Contents

DIP Credit Facility also contains other customary covenants, including certain reporting requirements and covenants that restrict 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 its business or enter into related party transactions. The Standstill Agreement originally expired on December 18, 2003 and was extended to March 18, 2004. The DIP Credit Facility was set to expire on the earlier of a final order confirming a consensual revised plan of reorganization or February 15, 2004. On February 4, 2004, the Company filed a motion with the Bankruptcy Court seeking an order authorizing the Company's pending exit financing lender to accept an assignment of the obligations existing under the DIP Credit Facility and provide appropriate extensions of the debt maturities or, in the alternative, an order authorizing a further extension of the Standstill Agreement and the DIP Credit Facility.

On February 12, 2004, the Bankruptcy Court entered an interim order permitting the Company to enter into a Replacement DIP with the lender who is expected to provide the Company's exit financing. On February 13, 2004, the Company entered into the Replacement DIP which replaces the prior DIP Credit Facility. The Replacement DIP provides an aggregate financing commitment of \$500.0 million and expires on May 15, 2004. In addition to refinancing the prior DIP Credit Facility, the Replacement DIP refinances the Company's European accounts receivable securitization facility and provides additional working capital borrowing availability of up to \$40.0 million. On March 15, 2004, the Company will seek final approval of the Replacement DIP, including a standby commitment to refinance the 9.125% Senior Notes which are due April 15, 2004, which commitment is conditioned on, among other things, the Company's filing of a revised plan of reorganization and the Bankruptcy Court's approval of a disclosure statement related thereto reasonably satisfactory to the administrative agent and lenders for the Replacement DIP.

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 December 31, 2003.

In connection with the closing on the Replacement DIP, the lender who is expected to provide 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.

If the Debtors do not have a plan of reorganization confirmed by the Bankruptcy Court before the expiration of these agreements, the Company will have to request extensions of such agreements. There can be no assurance that the Company will be able to have a plan confirmed by that time or obtain the necessary extensions. Failure to have a plan of reorganization confirmed by the Bankruptcy Court prior to the expiration of the Standstill Agreement or the Replacement DIP or to be able to obtain such extensions or failure to maintain compliance with the covenants in such agreements would result in an event of default which, absent cure within defined grace periods or obtaining appropriate waivers, would restrict the Company's access to funds necessary to maintain its operations and assist in funding of its reorganization plan. 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 Prepetition Lenders as to the terms of a consensual revised plan of reorganization. The Company intends to file a revised plan of reorganization pursuant to this agreement and to seek confirmation thereof as quickly as practicable. At this time, it is not possible to predict when the Bankruptcy Court may issue a ruling on confirmation of the revised plan of reorganization.

Total availability under the DIP Credit Facility as of February 5, 2004 and December 31, 2003 was \$26.2 million and \$32.9 million, respectively.

As described above, in connection with its bankruptcy filing, the Company also entered into a Standstill Agreement with its pre-petition Senior Secured Global Credit Facility lenders. Under the agreement the lenders agreed to forebear collection of any principal payments on foreign borrowings under this facility by non-Debtor subsidiaries until June 18, 2004, subject to earlier termination upon the occurrence of certain events. Borrowings under the pre-petition Senior Secured Global Credit Facility by the Debtors are subject to compromise.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Interest obligations for the non-Debtor subsidiaries continue to be accrued and paid when due. The Standstill Agreement contains essentially the same financial covenants as the DIP Credit Facility.

Table of Contents

On May 31, 2002, the Company entered into a \$177.5 million European accounts receivable securitization facility. This facility replaced the Company's then existing \$175 million European securitization program. This 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 unaudited condensed consolidated balance sheet.

At December 31, 2003, the Company had outstanding letters of credit with a face value of \$6.3 million and surety bonds with a face value of \$43.3 million. 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 \$7.0 million 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 reached an agreement with the Surety regarding the terms of the initial forty percent collateralization: \$750,000 to be paid by February 15, 2004 and the remainder to be paid within fifteen (15) days of the Company closing its exit financing agreements.

Sources of Cash

The Company has obtained a financial institution's conditional commitment to fund the Company's proposed plan of reorganization in the amount of approximately \$600 million. The commitment is set to expire on May 15, 2004. The Company cannot provide assurances that a plan of reorganization will be confirmed by the Bankruptcy Court prior to the expiration of the funding commitment, or that financing arrangements could be obtained from alternative sources should confirmation of a plan of reorganization occur after May 15, 2004.

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.

Cash flows provided by operating activities were \$20.9 million for the nine months of fiscal 2004. This compares to cash flows used in operating activities of \$254.2 million (including \$261.7 million usage of cash related to the net change from sales of receivables) for the nine months of fiscal 2003. Excluding the effect of the accounts receivable securitization activity for the nine months of fiscal 2003, comparative cash flows were positively impacted by higher accounts receivable collections offset by higher payments of accounts payable and 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 uncertainties of the Chapter 11 filing have and could continue to have an impact on the Company's ability to attract and retain customers.

The Company generated \$19.5 million and \$1.1 million in cash from the sale of non-core businesses and other assets for the nine months of fiscal 2004 and fiscal 2003, respectively. On April 15, 2003, the Company sold its European non-lead battery assets for proceeds of \$16.3 million. Of this amount, \$13.4 million is held in escrow pursuant to the Company's borrowing arrangements and is included in Restricted cash in the unaudited condensed consolidated balance sheet at December 31, 2003. Remaining proceeds from these sales were primarily used to reduce debt.

Table of Contents

Cash flows provided by financing activities were \$2.2 million and \$294.6 million for the nine months of fiscal 2004 and fiscal 2003, respectively. Cash flows provided by financing activities in both periods relate primarily to borrowings and repayments under the DIP Credit Facility and European asset securitization facility. Borrowings in the nine months of fiscal 2003 were used to repurchase uncollected securitized accounts receivable under the Company's then existing U.S. and European receivables sale facilities.

Total debt at December 31, 2003 was \$1,855.5 million. See Note 11 to the unaudited condensed consolidated financial statements for composition of such debt. Pre-petition indebtedness of the Debtors, amounting to approximately \$1,081.3 million, is subject to settlement under the plan of reorganization to be voted upon by creditors and equity holders and approved by the Bankruptcy Court.

Going forward, in addition to operating cash flows, the Company's principal sources of liquidity will be the Replacement DIP, plus proceeds from any asset sales. The Company is continuing to evaluate various asset sales, including idle real estate, and in connection therewith has engaged The Blackstone Group to evaluate potential opportunities.

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.

Prior to the Company's Chapter 11 filing, and since that time, the Company has experienced a tightening of trade credit availability and terms. In the future there can be no assurance that the Company will be able to obtain and return to trade credit on terms traditionally obtained.

Capital expenditures were \$44.3 million and \$28.6 million for the nine months of fiscal 2004 and fiscal 2003, respectively. Capital expenditures for the nine months of fiscal 2003 were impacted by the timing of the Chapter 11 filing and related liquidity availability. Capital expenditures for the nine months of fiscal 2004 are also higher due to investment in new technologies for charging batteries.

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. At December 31, 2003 and March 31, 2003, 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.

Related Parties

The services of Lisa J. Donahue, Chief Restructuring Officer, are provided to the Company pursuant to a Services Agreement, dated October 25, 2001, between the Company and AP Services, LLC. Under the Services Agreement, the Company is charged an hourly fee for Ms. Donahue's and other temporary employees' services, and Ms. Donahue, a principal in AP Services, LLC, is compensated independently by AP Services, LLC. The

Table of Contents

agreement with AP Services, LLC also provides for payment of a one-time success fee upon the Company's emergence from bankruptcy. AP Services, LLC is an affiliate of AlixPartners, LLC, a financial advisory and consulting firm specializing in corporate restructuring, which has been retained by the Company in connection with its financial restructuring. Ms. Donahue is also a principal in AlixPartners, LLC. Fees incurred by the Company during the three and nine months ended December 31, 2003 under the Services Agreement were \$0.9 million and \$6.1 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Changes to the quantitative and qualitative market risks as of December 31, 2003 are described in Management's Discussion and Analysis - Liquidity and Capital Resources. Also, see the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003 for further information.

Item 4. Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Interim Chief Financial Officer, Vice President and Corporate Controller, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Interim Chief Financial Officer, Vice President and Corporate Controller, together with the other members of management participating in the evaluation, concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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

Table of Contents

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

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

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

Factors that could cause actual results to differ materially from these forward looking statements include, but are not limited to, the following General Factors such as: (i) the Company's ability to implement business strategies and financial reorganization and restructuring plans, (ii) unseasonable weather (warm winters and cool summers) which adversely affects demand for automotive and some industrial batteries, (iii) the Company's substantial debt and debt service requirements which restrict the Company's operational and financial flexibility, as well as imposing significant interest and financing costs, (iv) the Company is subject to a number of litigation proceedings, the results of which could have a material adverse effect on the Company and its business, (v) the Company's assets include the tax benefits of net operating loss carry forwards, realization of which are dependent upon future taxable income, (vi) lead, which experiences significant fluctuations in market price and which, as a hazardous material, may give rise to costly environmental and safety claims, can affect the Company's results because it is a major constituent in most of the Company's products, (vii) the battery markets in North America and Europe are very competitive and, as a result, it is often difficult to maintain margins, (viii) the Company's consolidation and rationalization of acquired entities requires substantial management time and financial and other resources and is not without risk, (ix) foreign operations involve risks such as disruption of markets, changes in import and export laws, currency restrictions and currency exchange rate fluctuations, (x) the Company is exposed to fluctuations in interest rates on our variable debt which can affect the Company's results, (xi) general economic conditions, (xii) the ability to acquire goods and services and/or fulfill labor needs at budgeted costs and Bankruptcy Considerations such as: (a) the Company's ability to continue as a going concern, (b) the Company's ability to operate in accordance with the terms of and maintain compliance with covenants of the DIP Credit Facility and other financing arrangements, (c) the Company's ability to obtain Bankruptcy Court approval with respect to motions in the Chapter 11 cases from time to time, (d) the Company's ability to confirm and consummate a plan of reorganization with respect to the Chapter 11 cases prior to the expiration of the Standstill Agreement or the Replacement DIP, (e) the Company's ability to attract, motivate and retain key personnel, (f) the Company's ability to obtain and maintain normal terms with vendors and service providers, (g) the Company's ability to maintain contracts that are critical to our business, and (h) the Company's ability to attract and retain customers.

Therefore, the Company cautions each reader of this Report carefully to consider those factors hereinabove set forth, because such factors have, in some instances, affected and in the future could affect, the ability of the Company to achieve its projected results and may cause actual results to differ materially from those expressed herein.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Bankruptcy Considerations

As of the Petition Date, substantially all pending litigation against the Debtors was stayed. To the extent any of the Debtors are ultimately found liable with respect to such litigation, the Debtors believe the claim resulting therefrom would constitute a general unsecured claim against the Debtors, the treatment of which would be governed by any plan of reorganization confirmed by the Bankruptcy Court. Litigation against the Company's non-Debtor subsidiaries has not been stayed and will not be affected by the bankruptcy proceedings.

Former Senior Executives and Battery Quality Matters

On March 23, 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. Under the terms of that settlement, the Company agreed to pay a fine of \$27.5 million over five years, to five-years probation and to cooperate with the U.S. Attorney in her prosecution of Arthur M. Hawkins, Douglas N. Pearson and Alan E. Gauthier, former senior executives of the Company. The payment terms of the plea agreement 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. The plea agreement was lodged with the U.S. District Court for the Southern District of Illinois, and accepted on February 27, 2002. The Company reserved \$31.0 million for this matter, including expected costs and out-of-pocket expenses, in the first quarter of fiscal 2001, and an additional \$1.0 million in the third quarter of fiscal 2002. At December 31, 2003, approximately \$27.5 million of this reserve remains and is classified as a Liability subject to compromise in the unaudited condensed consolidated financial statements. As a result of the imposition of the automatic stay arising upon the Company's Chapter 11 filing, the Company has not made installment payments of its \$27.5 million fine. The Company is uncertain as to the effect of these non-payments and the bankruptcy filing with respect to the plea agreement. On June 10, 2002, the United States Attorney's Office for the Southern District of Illinois filed a claim as a general unsecured creditor for \$27.9 million.

The Company is currently involved in litigation with the former senior executives referenced above. The former senior executives made claims to enforce separation agreements, reimbursements of legal fees and other contracts, and the Company has filed claims and counterclaims asserting fraud, breach of fiduciary duties, misappropriation of corporate assets and civil conspiracy. In addition, the Company has filed actions in the Bankruptcy Court against the former senior executives to recover certain payments of legal fees that the Company was required to advance to such individuals prior to the Petition Date.

The Company has filed two claims with its insurers for reimbursement of the amounts paid to the former executives, and believes it is entitled to obtain substantial reimbursement for those amounts. However, the Company has not recognized any receivables for such reimbursements at December 31, 2003.

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

The Company has completed an investigation and determined that due to a deviation from manufacturing procedures approximately 950,000 automotive aftermarket batteries sold during 2001 and 2002 in North America did not contain one minor feature of several advertised for the batteries. In all cases the batteries performed in accordance with their labeled specifications. The feature was reinstated and the Company has discussed the situation with certain customers. The Company cannot predict at this time the effects of this matter on its business, but the remediation that has been offered is not material to its financial condition, cash flows or results of operations.

Table of Contents

Private Party Lawsuits

Active Lawsuits

In June 2002, the following lawsuit was filed in Louisiana state court: *Hardy et. al. v. Ducote Wrecking, et. al.* The case was filed as a putative class action for damages brought by two employees of Ducote Wrecking & Demolition, an independent contractor performing multiple maintenance projects at the Company's Baton Rouge, Louisiana facility. The plaintiffs allege that while they were engaged in work at the Company's facility, they were intentionally exposed to and poisoned by lead, acid, and other heavy metals. Plaintiffs named the Company's insurance carriers and supervisory employee as defendants, along with Ducote. The case was removed to the U.S. District Court for the Western District of Louisiana. Plaintiffs filed a motion to remand, which was denied by the Court in a January 2003 decision. In the same January 2003 decision, the Court dismissed the Company's supervisory employee and the independent contractor defendant from the litigation. The Court also has denied plaintiffs' motion for class certification. The Company's insurer has issued a reservation of rights as to the Company's coverage for the alleged claims.

On April 11, 2003, the following lawsuit was filed in the Delaware Court of Chancery by the official committee of equity holders and its members: *Kandathil et. al. v. Exide*. The complaint seeks to compel the Company to convene a meeting of stockholders. On April 21, 2003, the Debtors filed a complaint against the official committee of equity holders and its members in the Bankruptcy Court seeking to enjoin their attempts to compel the Company to convene a meeting of stockholders. Hearings on the two complaints have been postponed indefinitely.

Exide is a defendant in an arbitration proceeding initiated in October of 2001 by Margulead Limited (Margulead). In June of 1997, GNB, now an operating division of Exide, entered into an agreement with Margulead, which Margulead contended obligated the Company to build a facility to test and develop certain lead acid battery recycling technology allegedly developed by Margulead. GNB terminated the contract in 1998. Exide contended, in part, that the Margulead process was not ready for pilot plant implementation and also failed to meet success criteria. Margulead claimed approximately \$13 million in damages. The Company denied that it was liable and defended the matter in the arbitration. An arbitration decision was rendered on May 7, 2003, determining that the contract was unenforceable and that neither party was entitled to damages or costs. Margulead asked the arbitrator to reconsider the decision. Margulead has now advised the Company that it intends to challenge the arbitrator's award in the English commercial court. On or about July 23, 2003, Margulead filed an Application Notice advising of its intent to apply for an extension of time in which to make an application under certain sections of the Arbitration Act of 1996.

Margulead filed an Arbitration Claim Form, dated August 13, 2003, pursuant to which it seeks to challenge the arbitrator's May 7, 2003 Final Arbitration Award and a June 26, 2003 Correction of the Final Award, in which the arbitrator corrected minor typographical errors. The Arbitration Claim Form was filed under Section 68 of the Arbitration Act of 1996 on the basis of alleged serious irregularity. The Company is opposing that Application. Further, the Company made an application for an order that Margulead be required to provide security for costs pursuant to Section 70(6) of the Arbitration Act of 1996 in connection with its application to re-open the Final Award. That application was heard by an English Court on October 31, 2003, and was successful. A hearing on this matter has been set for February 16, 2004. The Company does not believe it is likely that Margulead will succeed in any challenge to the arbitrator's Final Award.

In November 2002, the following lawsuit was filed in the Ontario Court of Justice: *Exide Canada, Inc., v. Lorne Hiltz et. al.* This lawsuit was initiated by Exide Canada, Inc. against former officers, employees and a former logistics services vendor seeking in excess of \$1.5 million in damages on multiple grounds including breach of trust, breach of contract and fraud. Defendant Hiltz filed a counterclaim against Exide Canada for severance and other benefits and seeks damages in an amount exceeding \$0.6 million. Defendant Ryad counterclaimed against Exide Canada alleging breach of contract and against Exide Technologies alleging it

Table of Contents

induced Exide Canada to breach its contract with Ryad for certain logistics services. Ryad seeks damages against each defendant in an amount exceeding \$6.3 million. The Company believes that the counterclaims are without merit and is vigorously defending itself.

The Company's preliminary review of these active claims suggest they are without merit, and, to the extent the Company is a party to these active lawsuits, it plans to vigorously defend itself. The Company does not believe any reserves are currently warranted for these claims.

Stayed Pre-Petition Lawsuits

The following lawsuits allege that Exide and its predecessors allowed hazardous materials used in the battery manufacturing process to be released from certain of its facilities, allegedly resulting in personal injury and/or property damage. On August 25, 1999 several cases were filed in the Circuit Court for Greenville County, South Carolina and are currently pending: *Joshua Lollis v. Exide*; *Buchanan v. Exide*; *Agnew v. Exide*; *Patrick Miller v. Exide*; *Kelly v. Exide*; *Amanda Thompson v. Exide*; *Jonathan Talley v. Exide*; *Smith v. Exide*; *Lakeisha Talley v. Exide*; *Brandon Dodd v. Exide*; *Prince v. Exide*; *Andriae Dodd v. Exide*; *Dominic Thompson v. Exide*; *Snoddy v. Exide*; *Antoine Dodd v. Exide*; *Roshanda Talley v. Exide*; *Fielder v. Exide*; *Rice v. Exide*; *Logan Lollis v. Exide*; and *Dallis Miller v. Exide*. In January 2002, counsel that brought the South Carolina actions filed additional claims in the Circuit Court for Greenville County, South Carolina. The following lawsuits of this type are currently pending in the Court of Common Pleas for Berks County, Pennsylvania: *Grillo v. Exide*, filed on May 24, 1995; *Blume v. Exide*, filed on March 4, 1996; *Esterly v. Exide*, filed on May 30, 1995; and *Saylor v. Exide*, filed on October 18, 1996. The following lawsuit of this type is currently pending in the United States District Court for the Southern District of Indiana: *Strange v. Exide*. Finally, the following lawsuit of this type is pending in the Circuit Court of Shelby County, Tennessee: *Cawthon v. Exide, et al.* All these cases have been stayed.

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 \$17.0 million 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 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. The Company plans to vigorously defend the action and pursue the counterclaim.

In December 2001, PDH filed a separate action in the Circuit Court for Cook County, Illinois seeking recovery of approximately \$3.1 million 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 are currently subject to the automatic bankruptcy stay, and have been transferred to the U.S. Bankruptcy Court for the District of Delaware.

Table of Contents

Between March and September 2002, the following cases were filed in the U.S. District Court for the Middle District of Louisiana: *Joseph et. al. v. Exide*; *Andrews et. al. v. Exide*; and *Armstead v. Exide*. These actions seek monetary damages and injunctive relief for alleged racial discrimination in the Company's Shreveport and Baton Rouge, Louisiana plants. The *Joseph* and *Andrews* cases have been consolidated and all three lawsuits have been stayed.

In February 2001, the following lawsuit was filed in the U.S. District Court for the Northern District of California: *Flaherty v. Exide, et. al.* Plaintiff contends the Company is responsible, in part, for contamination resulting from alleged disposal of hazardous substances at plaintiff's property. The suit contains claims predicated on CERCLA, private nuisance, public nuisance, trespass, negligence, equitable indemnity, contribution, injunctive relief under RCRA and declaratory relief under state law. The Company has filed counterclaims against plaintiff and other potentially responsible parties.

The Company's preliminary review of these claims suggests they are without merit and the Company plans to vigorously defend itself with regard to the stayed pre-petition lawsuits. The Company expects that all of these lawsuits will be compromised upon confirmation of a plan of reorganization by the Bankruptcy Court.

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").

The Company is exposed to liabilities under such EH&S laws arising from its past handling, release, storage and disposal of hazardous substances and hazardous wastes. The Company previously has been advised by the U.S. Environmental Protection Agency or state agencies that it is a Potentially Responsible Party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state laws at 94 federally defined Superfund or state equivalent sites. At 44 of these sites, the Company has paid its share of liability. At one site the Company has performed a reduced set of obligations under an arrangement with the government which has not yet been formally approved in writing. The Company expects its liability will be compromised upon confirmation of a plan of reorganization by the Bankruptcy Court as to a number of additional Superfund sites. In most instances, the Company's remaining obligations are not expected to be significant because its portion of any potential liability appears to be minor or insignificant in relation to the total liability of all identified PRPs that are financially viable. The Company's share of the anticipated remediation costs associated with all of the Superfund sites where it has been named a PRP, based on the Company's estimated volumetric contribution of waste to each site, is included in the environmental remediation reserves discussed below.

Of those sites for which the Company has not completed payment of its share of liability, it currently has greater than 50% liability at three Superfund sites, and allocated liability that exceeds five percent at an additional seven sites that averages approximately 22%. Because the Company's liability under such statutes may be imposed on a joint and several basis, the Company's liability may not necessarily be based on volumetric allocations and could be greater than the Company's estimates. The Company believes, however, that its PRP status at these Superfund sites will not have a material adverse effect on the Company's business or financial condition because, based on the Company's experience, it is reasonable to expect that the liability will be roughly proportionate to its volumetric contribution of waste to the sites.

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

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

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.

Table of Contents

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 December 31, 2003 and March 31, 2003, the amount of such reserves on the Company's unaudited condensed consolidated balance sheet was \$97.0 million and \$78.3 million, respectively. Of these amounts, \$66.4 million was included in Liabilities subject to compromise at both December 31, 2003 and March 31, 2003. Included in environmental reserves at December 31, 2003 are asset retirement obligations, which the Company recorded upon adoption of SFAS 143. See Note 3 to the unaudited condensed consolidated financial statements. 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.

In the United States., the Company has advised each state and federal authority with whom it has negotiated plans for environmental investigations or remediation of the Debtors' Chapter 11 filing as required by those agreements or applicable rules. In some cases these authorities may require the Company to undertake certain agreed remedial activities under a modified schedule, or may seek to negotiate or require modified remedial activities. Such requests have been received at several sites and are the subject of ongoing discussions. At this time no requests or directives have been received which, individually or in the aggregate, would materially alter the Company's reserves or have a material adverse effect on the Company's financial condition, cash flows or results of operations.

Tampa, Florida

The Tampa site is a former secondary lead smelter, lead oxide production facility, and sheet lead-rolling mill that operated from 1943 to 1989. Under a RCRA Part B Closure Permit and a Consent Decree with the State of Florida, Exide is required to investigate and remediate certain historic environmental impacts to the site. Cost estimates for remediation (closure and post-closure) range from \$12.5 million to \$20.5 million 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 activities began in 1988. Costs for supplemental investigations, remediation and site closure are currently estimated at \$13.5 million.

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 \$3.5 to \$7.0 million.

Other

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

Table of Contents

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 \$132 thousand, \$169 thousand and \$260 thousand in calendar years 2001, 2002 and 2003, respectively. In addition, CEAC has been adjudged liable to indemnify the agency for approximately \$45 thousand, \$78 thousand, and \$200 thousand 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, after consultation with legal counsel 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 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 continues to seek further information regarding the nature of the investigation. Exide Shanghai had total assets of approximately \$12.0 million at December 31, 2003 and revenues of \$11.3 million for the nine months then ended.

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 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.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

As a result of the Chapter 11 cases, certain of the Company's pre-petition debt arrangements are in default. See Note 2 (Proceedings Under Chapter 11 of the Bankruptcy Code) and Note 11 (Debt) to the Company's unaudited condensed consolidated financial statements.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

- 31.1 Certification of Craig H. Muhlhauser, Chairman, 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, Vice President and Corporate Controller, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
- 32 Certifications pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

Table of Contents

(b) Reports on Form 8-K.

On December 12, 2003, the Company filed an interim report on Form 8-K announcing the extension of the Standstill Agreement and DIP Credit Facility.

On January 7, 2004, the Company filed an interim report on Form 8-K attaching an order issued by the U.S. Bankruptcy Court for the District of Delaware denying Exide's Fourth Amended Plan of Reorganization.

On January 23, 2004, the Company filed an interim report on Form 8-K furnishing a press release announcing an agreement on a joint plan of reorganization between the secured lenders and the unsecured creditors.

