EXIDE TECHNOLOGIES
Form 10-K
June 29, 2006

Table of Contents

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

(Mark One)

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

For the fiscal year ended March 31, 2006

o **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**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

13000 Deerfield Parkway, Building 200 Alpharetta, Georgia	**30004**
(Address of principal executive offices)	**(Zip Code)**

(678) 566-9000
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value	**Warrants to subscribe for Common Stock**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):
Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

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

The aggregate market value of common stock held by non-affiliates of the Registrant as of September 30, 2005 was $127,000,000

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed

by a court. Yes þ No o

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

As of June 23, 2006, 24,551,008 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant s Annual Meeting of Stockholders to be held on August 22, 2006, is incorporated by reference in Part III to the extent described therein.

EXIDE TECHNOLOGIES
TABLE OF CONTENTS

	Page
PART I	
Item 1 BUSINESS	4
Item 1A RISK FACTORS	12
Item 1B UNRESOLVED STAFF COMMENTS	19
Item 2 PROPERTIES	19
Item 3 LEGAL PROCEEDINGS	20
Item 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	20
PART II	
Item 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	21
Item 6 SELECTED FINANCIAL DATA	22
Item 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	23
Item 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS	43
Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	44
Item 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	44
Item 9A CONTROLS AND PROCEDURES	44
Item 9B OTHER INFORMATION	46
PART III	
Item 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	47
Item 11 EXECUTIVE COMPENSATION	48
Item 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	48
Item 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	48

Item 14 PRINCIPAL ACCOUNTING FEES AND SERVICES 48

PART IV

Item 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES 48

SIGNATURES 49

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE F-1

EX-3.2 AMENDED AND RESTATED BYLAWS 4-28-05
EX-3.3 AMENDMENTS TO AMENDED AND RESTATED CERT. OF INCORPORATION
EX-14.1 AMENDED CODE OF ETHICS AND BUSINESS CONDUCT
EX-21 SUBSIDIARIES OF THE COMPANY
EX-23.1 CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNT FIRM
EX-31.1 SECTION 302 CERTIFICATION OF CEO
EX-31.2 SECTION 302 CERTIFICATION OF CFO
EX-32.1 SECTION 906 CERTIFICATION OF CEO & CFO

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 and objectives of the Company or its management or Board of Directors, including the introduction of new products, or estimates or predictions of actions by customers, suppliers, competitors or regulating authorities, (c) statements of future economic performance, (d) statements of assumptions, such as the prevailing weather conditions in the Company s market areas, underlying other statements and statements about the Company or its business and (e) statements regarding the ability to obtain amendments under the Company s debt agreements.

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

The Company cautions each reader of this Report to carefully consider those factors hereinabove set forth. 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

EXIDE TECHNOLOGIES
PART I

Item 1. ***Business***

Overview and General Discussion of the Business

Exide Technologies is a Delaware corporation organized in 1966 to succeed to the business of a New Jersey corporation founded in 1888. Exide s principal executive offices are located at 13000 Deerfield Parkway, Building 200, Alpharetta, GA 30004.

The Company is one of the largest manufacturers of lead acid batteries in the world, with fiscal 2006 net sales of approximately $2.8 billion. The Company s North American and European and Rest of World (ROW) operations represented approximately 42% and 58%, respectively, of fiscal 2006 net sales. Exide manufactures and supplies lead acid batteries for transportation and industrial applications worldwide.

Unless otherwise indicated, references to any fiscal year refer to the year ended March 31 of that year (e.g., fiscal 2006 refers to the period beginning April 1, 2005 and ending March 31, 2006, fiscal 2005 refers to the period beginning April 1, 2004 and ending March 31, 2005, and fiscal 2004 refers to the period beginning April 1, 2003 and ending March 31, 2004). Unless the context indicates otherwise, the Company, Exide, we or us refers to Exide Technologies and its subsidiaries.

Narrative Description of Business

The Company is a global leader in stored electrical energy solutions and one of the world s largest manufacturers of lead acid batteries used in transportation, motive power, network power and military applications. The Company reports its financial results through four principal business segments: Transportation North America, Transportation Europe and ROW, Industrial Energy North America, and Industrial Energy Europe and ROW. See Note 21 to the Consolidated Financial Statements for financial information regarding these segments.

Transportation

Transportation batteries include ignition and lighting batteries for cars, trucks, off-road vehicles, agricultural and construction vehicles, motorcycles, recreational vehicles, boats and other applications. The market for transportation batteries is divided between sales to aftermarket customers and original equipment manufacturers (OEM s).

The Company is among the leading suppliers of transportation batteries to the aftermarket and to the OEM market for a variety of applications. Transportation batteries represented 61% of the Company s net sales in fiscal 2006. Aftermarket sales represented approximately 78% of net sales and OEM sales represented 22% of net sales in the Company s transportation segments. The Company s principal batteries sold in the transportation market are primarily represented by the following brands: *Centra, Champion, Champion Trailblazer, DETA, Exide, Exide NASCAR Select, Exide Select Orbital, Fulmen, Tudor* and private labels. The Company also sells batteries for marine and recreational vehicles, including the following products:

Exide Select Orbital Marine	brings all the advantages of the Company s patented spiral wound technology to the marine market, and maintains nearly a full charge during the off-season and can be quickly recharged. This battery is also sealed, making it ideal for closed environments (such as inside a boat hull);
Nautilus Gold Dual Purpose *Stowaway Dual Purpose*	a combination battery, replacing separate starting and deep cycle batteries in two-battery marine and recreational vehicle systems;
Nautilus Mega Cycle *Stowaway Deep Cycle*	a high performance, dual terminal battery;
Stowaway Nautilus	employs technology to satisfy the power requirements of large engines, sophisticated electronics and on-board accessories; and
Stowaway Powercycler	

a completely sealed, valve regulated (VRLA) battery with absorptive glass mat (AGM) technology and prismatic plates that offers features and benefits similar to the *Exide Select Orbital,* and was the first sealed, AGM battery introduced into the marine battery market.

Most of the Company s transportation batteries are vented, maintenance-free lead acid batteries. However, the *Exide Select Orbital* and *Maxxima* batteries have a patented spiral wound technology and state-of-the-art recombinant design. The

4

STR/STE batteries use recombination technology to allow a lead acid battery to be installed in the passenger compartment of a vehicle with substantially reduced fluid loss and acid fumes under normal operating conditions.

Aftermarket sales are driven by a number of factors including the number of vehicles in use, average battery life, average age of vehicles, average miles driven, weather conditions and population growth. Aftermarket demand historically has been less cyclical than OEM demand due to the three to five-year replacement cycle. Some of the Company s major aftermarket customers include Wal-Mart, NAPA, CSK Inc., ADI and GAUI. In addition, the Company is also a supplier of authorized replacement batteries for major manufacturers, including John Deere, Renault/Nissan, Ford and PACCAR.

OEM sales are driven in large part by new vehicle build rates, which are driven by consumer demand for vehicles. The OEM market is characterized by an increasing preference by OEMs for suppliers with established global production capabilities that can meet their needs as they expand internationally and increase platform standardization across multiple markets. The Company supplies batteries for four of the 10 top-selling vehicles in the United States of America (U.S.) and three of the 10 top-selling vehicles in Europe. Select customers include Ford, Fiat, the PSA group (Peugeot S.A./Citroën), Case/New Holland, BMW, John Deere, Volkswagen and Toyota.

Transportation North America

In North America, the Company sells aftermarket transportation products through various distribution channels including mass merchandisers, auto parts outlets, wholesale distributors, battery specialists, and OEM transportation products through dealer networks. The Company s North American operations include a network of 67 branches that sell and distribute batteries and other products to the Company s distributor channel network, battery specialists, national account customers retail stores, and OEM dealers. In addition, these branches collect spent batteries for recycling at the Company s smelters.

The Company s North American transportation aftermarket battery products include the following:

Champion	enhanced power cold cranking amps and a 72 month warranty;
Champion Trailblazer	targeted at light trucks and sport utility vehicles;
Exide	enhanced power cold cranking amps and a 72 month warranty;
Exide NASCAR Select	officially licensed by NASCAR; and
Exide Select Orbital	can be recharged in less time than is needed for conventional batteries, and has high power output andsuperior vibration resistance compared with a conventional lead acid battery.

Transportation Europe and ROW

The Company sells aftermarket batteries primarily through battery wholesalers, OEM dealer networks, hypermarkets, service installers, purchasing groups in Europe and oil companies. Wholesalers and OEM dealers have traditionally represented the majority of this market, but supermarket chains, replacement-parts stores (represented by purchasing groups) and hypermarkets have become increasingly important. Battery wholesalers now sell and distribute batteries to a network of automotive parts retailers, service stations, independent retailers and supermarkets throughout Europe.

In Europe, the Company has five major Company-owned brands: *Exide* and *Tudor*, promoted as pan-European brands, and *DETA, Centra* and *Fulmen*, which have strong local awareness levels. In the European market, the Company generally offers transportation batteries in five categories:

Basic Model	marketed under private label brand names in France, Germany and Spain, under the *Basic* name in Italy and various names in other markets;
Upgrade Model	

	marketed under the *Classic* mark, which carries a 24-month warranty, and marketed under the *Equipe* name in France, the *Classic* name in Germany, the *Leader* name in Italy, the *Tudor* name in Spain and various other names in other markets;
Premium Model	marketed under the *Formula* name in France, the *Millennium 3* name in Spain, the *Top Start Plus* name in Germany, the *Ultra* name in Italy, the *Ultra* brand in the United Kingdom and under various other names in other markets;
STR/STE	approved for use by BMW and was included in some models beginning with the 2000 model year; and
Maxxima	the equivalent of the *Exide Select Orbital.*

5

Table of Contents

Industrial Energy

The Company s Industrial Energy segments supply both motive power and network power applications. Industrial Energy batteries represented 39% of the Company s net sales in fiscal 2006. Motive power sales represented approximately 59% of net sales and Network Power sales represented approximately 41% of net sales in the Company s Industrial Energy segments.

The motive power battery market is divided into the OEM market, comprised of the manufacturers of electric vehicles, and the replacement market, which includes large users of such electric vehicles as well as original equipment dealer networks. The Company s sales are split approximately equally between OEMs and aftermarket.

Motive power batteries are used in the materials handling industry for forklifts and electric counter balance trucks, pedestrian pallet trucks, low level order pickers, turret trucks, tow tractors, reach trucks and very narrow aisle (VNA) trucks, as well as in other industries, including machinery in the floor cleaning market, the golf cart market, the powered wheelchair market, mining locomotives, electric road vehicles, electric boats and non-military submersible vehicles. The Company also offers a complete range of battery chargers and associated equipment for the operation and maintenance of battery-powered vehicles. Motive power batteries have useful lives lasting an average of five years.

The Company s motive power batteries are composed of 2-volt cells assembled in numerous configurations and sizes to provide capacities ranging from 30 Ah to 1500 Ah. Battery construction for the motive power markets ranges from flooded flat plate and tubular to recombinant AGM and gel. The Company pioneered the development of recombinant valve regulated lead acid batteries in both AGM and gel constructions. These batteries provide major advantages to users by eliminating the need to add water or mix the electrolyte in order to physically maintain the batteries, as well as by providing flexibility in packaging and transport. The Company s motive power products also include systems solutions such as intelligent chargers, automatic watering systems, and fleet management devices to meet a wide spectrum of customer application requirements.

Network power (also known as standby, stationary, or reserve) batteries are used for back-up power applications to ensure continuous power supply in case of main (primary) power failure or outage. Network power batteries are used to provide back-up power for use with telecommunications systems, computers, hospitals, process control, air traffic control, security systems, utility, railway and military applications. Telecommunications applications include central and local switching systems, satellite stations, wireless base stations and mobile switches, optical fiber repeating boxes, cable TV transmission boxes and radio transmission stations.

The Company s network power battery products are generally sold to three principal types of end users, communications/data, industrial and military, and are used for back-up power applications. Network power batteries are designed to offer service lives ranging from five to twenty years depending on construction and application.

There are two primary network power lead acid battery technologies: valve-regulated (VRLA , or sealed) and vented (flooded). There are two types of VRLA technologies AGM and gel. These technologies are described as follows:

Vented (flooded):	This technology is used in applications requiring high reliability but with the ability to allow for regular maintenance. The construction involves positive flat or tubular positive plates. Transparent containers and accessible internal construction are features of these batteries that allow end users to check the battery s physical condition.
VRLA / AGM:	This technology utilizes an electrolyte immobilized in an absorbent glass mat separator. This technology, offering higher energy density than gel, is particularly well adapted to high rate applications and is designed to offer up to a 20-year service life, depending on environment and application.
VRLA gel:	This technology utilizes a gel electrolyte. VRLA batteries have replaced other types of network power batteries because they can enhance safety and

reduce maintenance compared to vented batteries and can be used in both vertical and horizontal positions. The *Sonnenschein* gel technology offers the advantages of high reliability and long life. The gel product range offers a wide range of capabilities including heat resistance, deep discharge resistance, long shelf life and high cyclic performance.

The Company s dominant network power battery brands, *Absolyte* and *Sonnenschein*, offer customers the choice of AGM and gel valve regulated battery technologies and deliver among the highest energy and power densities in their class. Service and technical assistance are important to the network power business. The Company often ships network power batteries directly to equipment manufacturers and systems integrators who include the Company s batteries in their original equipment and distribute products to end users.

Table of Contents

The Company offers a global product line which is marketed under the following five brands associated with product type and technology:

Absolyte:	Large 2-volt cells, incorporating AGM technology, for long duration (e.g. telecommunications) and short duration applications;
Classic:	Primarily 2-volt and some multi-cell vented (or flooded) products for a wide range of applications;
Marathon:	Single- and multi-cell AGM monobloc batteries for long duration applications;
Sonnenschein:	Multi-cell monoblocs and 2-volt cells, incorporating gel technology; and
Sprinter:	Multi-cell AGM monobloc batteries for short duration, high discharge rate applications

The Company s major network power battery customers for telecommunications services include China Mobile, Cingular, Deutsche Telecom, Singapore Telecom, Telecom Italia, Telefonica of Spain, Verizon Wireless and Vodafone. Major telecommunications OEM customers include Alcatel, Emerson Electric, Ericsson, Motorola, Nortel, Siemens and Tyco. UPS manufacturing and end user customers include Liebert and MGE. The Company is the sole supplier to the U.S. Navy for submarine batteries, as well as a number of major naval fleets in Europe. In addition, the Company supplies batteries for military vehicles (i.e. tanks and personnel carriers) to the German and other armies. The Company promotes its products through technical seminars, trade shows and technical literature.

Industrial Energy North America

Motive Power

Motive power products are sold primarily to independent lift truck dealers or directly to national accounts or end users. The Company s primary motive power customers in North America include Crown, Ford, NACCO, Toyota and WalMart. Motive power products and services are distributed in North America by sales and service locations owned by the Company which are augmented by a network of independent manufacturers representatives who provide local service on their own behalf.

Network Power

Network power products and services are distributed in North America by sales and service locations owned by the Company which are augmented by a network of independent manufacturers representatives who provide local service on their own behalf. The Company s primary network power customers in North America include Cingular, Emerson Electric, Nortel, and the U.S. Navy.

Industrial Energy Europe and ROW

Motive Power

The Company distributes motive power products and services in Europe through in-house sales and service organizations in each country and utilizes distributors and agents for export of products from Europe to the rest of the world. Motive power products in Europe are also sold to a wide range of customers in the aftermarket, ranging from large industrial companies and retail distributors to small warehouse and manufacturing operations. Motive power batteries are also sold in complete packages, including batteries, chargers and, with a growing number of customers, on-site service. The Company s major OEM motive power customers include the Linde Group, the Jungheinrich Group and Toyota.

Network Power

The Company distributes network power products and services in Europe through in-house sales and service organizations in each country. In Australia and New Zealand, batteries and chargers are distributed through in-house sales and service organizations. In Asia, products are distributed through independent distributors. The Company utilizes distributors, agents, and direct sales for export of products from Europe and North America to the rest of the

world.

Quality

The Company recognizes that product performance and quality are critical to its success. Both the EXCELL (Exide s Customer-focused Excellence Lean Leadership) initiative and the Company s Quality Management System are important drivers of operational excellence, which results in improved levels of quality, productivity, and delivery of goods and services to the global transportation and industrial energy markets.

7

EXCELL

The Company implemented EXCELL to systematically reduce and ultimately eliminate waste and implement the concepts of continuous flow and customer pull throughout the entire Company s supply chain. The EXCELL framework follows lean production techniques and process improvements, and is also designed to prioritize improvement initiatives that drive quality improvement and customer satisfaction while achieving all business objectives for the Company. The five plateaus of EXCELL achievement include Copper, Bronze, Silver, Gold and Platinum; the Platinum level indicates the threshold beyond world-class quality status where a manufacturing location generates virtually zero waste through its best practices.

Quality Management System (QMS)

The Company s QMS was developed to streamline and standardize the global quality systems so that key measurements could be evaluated to drive best practices as it continues to pursue improved EXCELL certifications across all facilities. The QMS plays a major role as the Company strives to achieve world-class product quality.

The Company s quality process begins in the design phase with an in-depth understanding of customer and application requirements. The Company s products are designed to the required performance and industry and customer quality standards using design processes, tools and materials to achieve reliability and durability. The Company s commitment to quality continues through the manufacturing process. The Company has quality audit processes and standards in each of its production and distribution facilities. The Company s quality process extends throughout the entire product lifecycle and operation in service.

Most of the Company s major production facilities are approved under ISO 9000, QS 9000 or TS 16949 quality systems standards. The Company has obtained ISO 14001 Environmental Health & Safety (EH&S) certification at eight of its manufacturing plants and also has received quality certifications and awards from a number of OEM and aftermarket customers.

Research and Development

The Company is committed to developing new and technologically advanced products, services and systems that provide superior performance and value to customers. To support this commitment, the Company focuses on developing opportunities across its global markets.

The Company has focused its global research and development activities into one location in Europe. Scientists and engineers at this facility are currently focused on projects to enhance the lead acid battery technology for the benefit of the entire company.

In addition, the Company also operates a number of product and process-development centers of excellence around the world. These centers work cooperatively to define and improve the Company s product design and production processes. By leveraging this network, the Company is able to transfer technologies, product and process knowledge among its various operating facilities, thereby adapting best practices from around the world for use throughout the Company.

In addition to in-house efforts, the Company continues to pursue the formation of potential alliances and collaborative partnerships to enhance system technology development. One example of this strategy is a collaborative agreement with Siemens VDO Automotive AG to develop energy-management systems for automotive electrical and electronic architectures for the global OEM market. In addition, the Company has various development activities targeted at the industrial and military markets.

Patents, Trademarks and Licenses

The Company owns or has a license to use various trademarks that are valuable to its business. The Company believes these trademarks and licenses enhance the brand recognition of the Company s products. The Company currently owns approximately 300 trademarks and licenses from others the right to use fewer than 25 trademarks worldwide. For example, the Company licenses the *NASCAR* mark from NASCAR, the *Exide* mark in the United Kingdom and Ireland from Chloride Group Plc., and the *CHAMPION* mark from Federal Mogul Corporation. The Company also acts as licensor under certain licenses. For example, Exide Electronics Group, Inc., an unaffiliated company, is licensed to use the *EXIDE* mark on certain devices and EnerSys, Inc. is licensed to use the *EXIDE* mark on industrial battery products in certain countries, subject to the outcome of the litigation discussed below. The Company s current license for *CHAMPION* expires March 31, 2007 and the license with NASCAR will expire on

December 31, 2011.

The Company has generated a number of patents in the operation of its business and currently owns all or a partial interest in approximately 400 patents and applications for patents pending worldwide. Although the Company believes its patents and patent applications collectively are important to the Company s business, and that technological innovation is important to the Company s market competitiveness, currently no patent is individually material to the operation of the business or the Company s financial condition.

In March 2003, the Company brought legal proceedings in the Bankruptcy Court to reject certain agreements relating to EnerSys, Inc. s right to use the Exide trademark on certain industrial battery products in the United States and 80 foreign countries. In April 2006, the Court granted the Company s request to reject those agreements. EnerSys has appealed this decision. For further information regarding this matter, see Note 15 to the Consolidated Financial Statements.

Manufacturing, Raw Materials and Suppliers

Lead is the primary material used in the manufacture of the Company s lead acid batteries, representing approximately one third of the cost of goods produced. The Company obtains substantially all of its North American lead requirements through the operation of six secondary lead recycling plants, which reclaim lead by recycling spent lead acid batteries. In North America, spent batteries are obtained for recycling primarily from the Company s customers, through the company-owned branch networks and from outside spent-battery collectors. In Europe, lead requirements of battery manufacturers, including the Company, are principally obtained from third party suppliers.

The Company uses both polyethylene and AGM battery separators. There are a number of suppliers from whom the Company purchases AGM separators. Polyethylene separators are purchased solely from one supplier, with supply agreements expiring in December 2009. The agreements restrict the Company s ability to source separators from other suppliers unless there is a technical benefit that the Company s sole supplier cannot provide. In addition, the agreements provide for substantial minimum annual purchase commitments. There is no second source that could readily provide the volume of polyethylene separators used by the Company. As a result, any major disruption in supply from the Company s sole supplier would have a material adverse impact on the Company.

Other key raw materials and components in the production of batteries include lead oxide, acid, steel, plastics and chemicals, which are generally available from multiple sources. The Company has not experienced any material stoppage or disruption in production as a result of unavailability, or delays in the availability, of raw materials.

Competition

Transportation Segments

The North American and European transportation markets are highly competitive. The manufacturers in these markets compete on price, quality, technical innovation, service and warranty. Well-recognized brand names are also important for aftermarket customers who do not purchase private label batteries. Most sales are made without long-term contracts.

In the North American transportation aftermarket, the Company believes it has the second largest market position. Other principal competitors in this market are Johnson Controls and East Penn. Price competition in this market has been severe in recent years. Competition is strongest in the auto parts retail and mass merchandiser channels where large customers use their buying power to negotiate lower prices.

The largest competitor in the North American transportation OEM market is Johnson Controls. Due to technical and production qualification requirements, OEMs change battery suppliers less frequently than aftermarket customers but, because of their purchasing size, can influence market participants to compete on price and other terms.

The Company has the overall largest market position in Europe in transportation batteries, ranking first in aftermarket sales and second in sales to OEMs. The Company s next largest competitor in the transportation markets is Johnson Controls. The European battery markets, particularly in the transportation OEM market, have experienced severe price competition. In addition, the strength of the Euro in the Company s European markets has resulted in competitive pricing pressures from Asian imports, negatively impacting average selling prices.

Industrial Energy Segments

Motive Power

The Company is one of the major players in the global motive power battery market. Competitors in Europe include EnerSys, Hoppecke, BAE and MIDAC. The Company believes it ranks second to EnerSys in market share in

North America, where other major competitors include C&D Technologies and East Penn. In Asia, GS/Yuasa, Shinkobe and EnerSys are the

Table of Contents

major competitors, with GS/Yuasa being the market leader. The Company currently serves markets in countries such as Brazil, China, and India on a limited basis through export sales.

Quality, product performance, in-service reliability, delivery and price are important differentiators in the motive power market. Well-known brands are also important and the Company s *Chloride Motive Power*, *DETA*, *GNB*, *Sonnenschein* and *Tudor* are among the leading brands in the world. In addition, the Company has developed a range of low maintenance batteries (the *Liberator* series) which are combined with a matched range of Exide-regulated or high frequency chargers which work together to reduce customers operating costs.

Network Power

EnerSys has the largest market share for network power batteries on a global basis with the Company ranking second in the world.

The Company estimates it ranks third to C&D Technologies and EnerSys in North America and second to EnerSys in Europe. In Asia, Yuasa has a market leadership position which has been further strengthened following the merger of Yuasa with Japan Storage Battery, another leading Japanese battery company. Further consolidation in Japan took place with the merger of National Panasonic and Shinkobe. Competition for network power batteries has intensified given the decline in industry demand and overcapacity, resulting in aggressive competition in most industry segments. Emerging Chinese battery manufacturers are increasing market share.

Quality, reliability, delivery and price are important differentiators in the network power market, along with technical innovation and responsive service. Well-known brands are also important, and the Company s *Absolyte*, *Classic, Marathon, Sonnenschein* and *Sprinter* are among the leading brands in the world.

Environmental, Health and Safety Matters

As a result of its manufacturing, distribution and recycling operations, the Company is subject to numerous federal, state and local environmental, occupational safety and health laws and regulations, 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, health and safety matters see Note 15 to the Consolidated Financial Statements.

Employees

Total worldwide employment was approximately 13,982 at March 31, 2006, compared to approximately 14,268 at March 31, 2005.

North America

As of March 31, 2006, the Company employed approximately 1,432 salaried employees and approximately 4,311 hourly employees in North America, primarily in the U.S. Approximately 61% of such salaried employees are engaged in sales, service, marketing and administration and approximately 39% in manufacturing and engineering. Approximately 20% of the Company s North American hourly employees are represented by unions. Relations with the unions are generally good. Union contracts covering approximately 591of the Company s domestic employees expire in fiscal 2007, and the remainder thereafter.

Europe and ROW

As of March 31, 2006, the Company employed approximately 3,062 salaried employees and approximately 5,177 hourly employees outside of North America, primarily in Europe. Approximately 62% of such salaried employees are engaged in sales, service, marketing and administration and approximately 38% in manufacturing and engineering. The Company s hourly employees are generally represented by unions. The Company meets regularly with the European Works Councils. Relations with the unions are generally good. Contracts covering most of the Company s union employees generally expire on various dates through fiscal 2007.

Backlog

The Company s order backlog at March 31, 2006 was approximately $53.0 million for Industrial Energy North America and $101.4 million for Industrial Energy Europe and ROW. The Company expects to fill all of the March 31, 2006 backlog during fiscal 2007, except for $8.5 million forward orders for military phased for delivery through 2008. The Transportation backlog at March 31, 2006 was not significant.

Emergence from Chapter 11 Bankruptcy Protection

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

Exide Technologies and such subsidiaries (the Debtors) continued to operate their businesses and manage their properties as debtors-in-possession throughout the course of the bankruptcy case. The Debtors, along with the Official Committee of Unsecured Creditors, filed a Joint Plan of Reorganization (the Plan) with the Bankruptcy Court on February 27, 2004 and, on April 21, 2004, the Bankruptcy Court confirmed the Plan. The Debtors declared May 5, 2004 as the effective date of the Plan, and substantially consummated the transactions provided for in the Plan on such date (the Effective Date).

The following is a summary of certain transactions which became effective on the Effective Date pursuant to consummation of the Plan. This summary is qualified in its entirety by the full text of the Plan, as well as technical amendments to the Plan, which were filed as Exhibits 2.1 and 2.2 to the Report on Form 8-K filed on May 6, 2004.

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

The Company was authorized to issue (i) 25 million shares of new common stock, par value $0.01 per share for distribution in accordance with the Plan, and (ii) warrants initially exercisable for 6.25 million shares of new common stock (the Warrants). Pursuant to the terms of the Plan, the common stock and Warrants are being distributed as follows:

Holders of pre-petition Senior Secured Global Credit Facility claims received, collectively, 22.5 million shares of new common stock; and

Holders of general unsecured claims received, collectively, 2.5 million shares of new common stock and Warrants to purchase 6.25 million shares of new common stock at $32.11 per share, with approximately 13.4% of such new common stock and Warrants to be reserved for distribution for disputed claims under the Plan s claim reconciliation and allowance procedures.

As claims are evaluated and processed, the Company will object to some claims or portions thereof, and upward adjustments (to the extent stock and Warrants not previously distributed remain) or downward adjustments to the reserve will be made pending or following adjudication of such objections. Predictions regarding the allowance and classification of claims are inherently difficult to make. With respect to environmental claims in particular, there is inherent difficulty in assessing the Company s potential liability due to the large number of other potentially responsible parties. For example, a demand for the total cleanup costs of a landfill used by many entities may be asserted by the government using joint and several liability theories. Although the Company believes that there is a reasonable basis to believe that it will ultimately be responsible for only its share of these remediation costs, there can be no assurance that the Company will prevail on these claims. In addition, the scope of remedial costs or other environmental injuries are highly variable and estimating these costs involves complex legal, scientific and technical judgments. Many of the claimants who have filed disputed claims, particularly environmental and personal injury claims produce little or no proof of fault on which the Company can assess its potential liability and either specify no determinate amount of damages or provide little or no basis for the alleged damages. In some cases, the Company is still seeking additional information needed for claims assessment and information that is unknown to the Company at the

current time may significantly affect the Company s assessment regarding the adequacy of the reserve amounts in the future.

As general unsecured claims have been allowed in the bankruptcy court, the Company has distributed approximately one share per $383.00 in allowed claim amount and approximately one Warrant per $153.00 in allowed claim amount. These rates were established based upon the assumption that the common stock and Warrants allocated to holders of general unsecured claims on the effective date of the Plan, including the reserve established for disputed claims, would be fully distributed so that the recovery rates for all allowed unsecured claims would comply with the Plan without the need for any redistribution or supplemental issuance of securities.

If the amount of general unsecured claims that is eventually allowed exceeds the amount of claims anticipated in the setting of the reserve, additional common stock and Warrants will be issued for the excess claim amounts at the same rates as used for the other general unsecured claims. If this were to occur, additional common stock would also be issued to the holders of pre-petition secured claims to maintain the ratio of their distribution in common stock at nine times the amount of common stock distributed for all unsecured claims.

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

Available Information

The Company maintains a website on the Internet at www.exide.com. The Company makes available free of charge through its website, by way of a hyperlink to a third-party Securities Exchange Commission (SEC) filing website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports electronically filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934. Such information is available as soon as reasonably practicable after it is filed with the SEC. The SEC website (www.sec.gov) contains reports, proxy and other statements, and other information regarding issuers that file electronically with the SEC. Also, the public may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington D.C., 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Additionally, the Company s Code of Ethics may be accessed within the Investor Relations section of its website. Amendments and waivers of the Code of Ethics will also be disclosed within four business days on the website. Information found in the Exide website is not part of this annual report on Form 10-K or any other report filed with the SEC.

Item 1A. ***Risk Factors***

(in thousands, except per share data)

The Company has experienced significant increases in raw material prices, particularly lead, and further changes in the prices of raw materials or in energy costs could have a material adverse impact on the Company.

Lead is the primary material by weight used in the manufacture of batteries, representing approximately one-third of the Company s cost of goods sold. Average lead prices quoted on the London Metal Exchange (LME) have risen dramatically, increasing from $920.00 per metric tonne for fiscal 2005 to $1,041.00 per metric tonne for fiscal 2006. As of June 23, 2006, lead prices quoted on the LME were $927.00 per metric tonne. If the Company is unable to increase the prices of its products proportionate to the increase in raw material costs, the Company s gross margins will decline. The Company cannot provide assurance that it will be able to hedge its lead requirements at reasonable costs or that the Company will be able to pass on these costs to its customers. Increases in the Company s prices could also cause customer demand for the Company s products to be reduced and net sales to decline. The rising cost of lead requires the Company to make significant investments in inventory and accounts receivable, which reduces amounts of cash available for other purposes, including making payments on its notes and other indebtedness. The Company also consumes significant amounts of steel and other materials in its manufacturing process and incurs energy costs in connection with manufacturing and shipping of its products. The market prices of these materials are also subject to fluctuation, which could further reduce the Company s available cash.

The going concern modification received from the Company s independent registered public accounting firm could cause adverse reactions from the Company s creditors, vendors, customers and others.

Our financial statements for our fiscal year ended March 31, 2006 contain an audit report from our independent registered public accounting firm PricewaterhouseCoopers LLP that contains a going concern modification stating that the uncertainty with respect to our ability to maintain compliance with our financial covenants through fiscal 2007 raises substantial doubt about our ability to continue as a going concern. This going concern modification was based on our suffering recurring losses and negative cash flows from operations and our inability to comply with one or more of the covenants of our senior secured credit facility during fiscal 2005 and 2006. There is no assurance that we will be able to meet our fiscal 2007 business plan and be in compliance with our senior secured credit facility through

the period as of March 31, 2007. This going concern modification could create concerns on the part of our creditors, vendors, customers and others about whether we will be able to fulfill our contractual obligations and otherwise continue to operate our business, which could result in a tightening of our liquidity. The going concern modification could also be perceived negatively by the capital markets, which could adversely affect the prices of our common stock and our notes as well as our ability to raise capital.

The Company is subject to a preliminary SEC inquiry.

The Enforcement Division of the SEC has told the Company that it has commenced a preliminary inquiry into statements the Company made during fiscal year 2006 about its ability to comply with fiscal 2005 loan covenants and the going concern qualification in the audit report in the Company s Annual report on Form 10-K for fiscal 2005, which the Company filed with the SEC in June 2005. If the preliminary inquiry results in a formal investigation, it could have a material adverse effect on the Company s financial position, results of operations and cash flows.

The Company is subject to fluctuations in exchange rates and other risks associated with its non-U.S. operations which could adversely affect the Company s results of operations.

The Company has significant manufacturing operations in, and exports to, several countries outside the U.S. Approximately 58% of the Company s net sales for fiscal 2006 were generated in Europe, Asia and Australia with the vast majority generated in Europe in Euros and British Pounds. Because such a significant portion of the Company s operations is based overseas, the Company is exposed to foreign currency risk, resulting in uncertainty as to future assets and liability values, and results of operations that are denominated in foreign currencies. The Company invoices foreign sales and service transactions in local currencies, using actual exchange rates during the period, and translates these revenues and expenses into U.S. dollars at average monthly exchange rates. Because a significant portion of the Company s net sales and expenses are denominated in foreign currencies, the depreciation of these foreign currencies in relation to the U.S. dollar could adversely affect the Company s reported net sales and operating margins. The Company translates its non-U.S. assets and liabilities into U.S. dollars using current rates as of the balance sheet date. Therefore, foreign currency depreciation against the U.S. dollar would result in a decrease of the Company s net investment in foreign subsidiaries.

In addition, foreign currency depreciation, particularly depreciation of the Euro, would make it more expensive for the Company s non-U.S. subsidiaries to purchase certain of the Company s raw material commodities that are priced globally in U.S. dollars, such as lead, which is quoted on the LME in U.S. dollars. The Company does not engage in significant hedging of its foreign currency exposure and cannot assure that it will be able to hedge its foreign currency exposures at a reasonable cost.

There are other risks inherent in the Company s non-U.S. operations, including:

- changes in local economic conditions, including disruption of markets;
- changes in laws and regulations, including changes in import, export, labor and environmental laws;
- exposure to possible expropriation or other government actions; and
- unsettled political conditions and possible terrorist attacks against American interests.

These and other factors may have a material adverse effect on the Company s non-U.S. operations or on its results of operations and financial condition.

The Company s liquidity is affected by the seasonality of its business. Warm winters and cool summers adversely affect the Company.

The Company sells a disproportionate share of its automotive aftermarket batteries during the fall and early winter. Resellers buy automotive batteries during these periods so they will have sufficient inventory for cold weather periods. In addition, many of the Company s industrial battery customers in Europe do not place their battery orders until the end of the calendar year. This seasonality increases the Company s working capital requirements and makes it more sensitive to fluctuations in the availability of liquidity. Unusually cold winters or hot summers may accelerate battery failure and increase demand for automotive replacement batteries. Mild winters and cool summers may have the opposite effect. As a result, if the Company s sales are reduced by an unusually warm winter or cool summer, it is not possible for the Company to recover these sales in later periods. Further, if the Company s sales are adversely affected by the weather, it cannot make offsetting cost reductions to protect the Company s liquidity and gross margins in the short-term because a large portion of the Company s manufacturing and distribution costs are fixed.

Decreased demand in the industries in which the Company operates may adversely affect its business.

The Company s financial performance depends, in part, on conditions in the automotive, material handling and telecommunications industries, which, in turn, are generally dependent on the U.S. and global economies. As a result,

economic and other factors adversely affecting production by OEMs and their customers spending could adversely impact the Company s business. Relatively modest declines in customer purchases from the Company could have a significant adverse impact on its profitability because the Company has substantial fixed production costs. If the Company s OEM and large aftermarket customers reduce their inventory levels, and reduce their orders, the Company s performance would be significantly adversely impacted. In this environment, the Company cannot predict future production rates or inventory levels or the underlying economic factors. Continued uncertainty and unexpected fluctuations may have a significant negative impact on the Company s business.

The remaining portion of the Company s battery sales are of aftermarket batteries. The factors influencing demand for automotive replacement batteries include: (1) the number of vehicles in use; (2) average battery life; (3) the average age of vehicles and their operating environment; (4) weather conditions; and (5) population growth and overall economic conditions. Any significant adverse change in any one of these factors may have a significant negative impact on the Company s business.

The loss of the Company s sole supplier of polyethylene battery separators would have a material adverse effect on the Company s business.

The Company relies exclusively on a single supplier to fulfill its needs for polyethylene battery separators a critical component to many of the Company s products. There is no second source that could readily provide the volume of polyethylene separators used by the Company. As a result, any major disruption in supply from this supplier would have a material adverse impact on the Company. If the Company is not able to maintain a good relationship with this supplier, or if for reasons beyond the Company s control the supplier s service were disrupted, the Company s business may experience a significant negative impact.

Many of the industries in which the Company operates are cyclical.

The Company s operating results are affected by the general cyclical pattern of the industries in which its major customer groups operate. Any decline in the demand for new automobiles, light trucks, and sport utility vehicles could have a material adverse impact on the financial condition and results of operations of the Company s Transportation divisions. A weak capital expenditure environment in the telecommunications, uninterruptible power systems and electric industrial forklift truck markets could have a material adverse impact on the financial condition and results of operations of the Company s Industrial Energy divisions.

The Company is subject to pricing pressure from its larger customers.

The Company faces significant pricing pressures in all of its business segments from its larger customers. Because of their purchasing size, the Company s larger customers can influence market participants to compete on price and other terms. Such customers also use their buying power to negotiate lower prices. If the Company is not able to offset pricing reductions resulting from these pressures by improved operating efficiencies and reduced expenditures, those price reductions may have an adverse impact on the Company s business.

The Company faces increasing competition and pricing pressure from other companies in its industries, and if the Company is unable to compete effectively with these competitors, the Company s sales and profitability could be adversely affected.

The Company competes with a number of major domestic and international manufacturers and distributors of lead acid batteries, as well as a large number of smaller, regional competitors. Due to excess capacity in some sectors of its industry and consolidation among industrial purchasers, the Company has been subjected to continual and significant pricing pressures. The North American, European and Asian lead-acid battery markets are highly competitive. The manufacturers in these markets compete on price, quality, technical innovation, service and warranty. In addition, the Company is experiencing heightened competitive pricing pressure as Asian producers, able to employ labor at significantly lower costs than producers in the U.S. and Western Europe, expand their export capacity and increase their marketing presence in the Company s major markets.

If the Company is not able to develop new products or improve upon its existing products on a timely basis, the Company s business and financial condition could be adversely affected.

The Company believes that its future success depends, in part, on the ability to develop, on a timely basis, new technologically advanced products or improve on the Company s existing products in innovative ways that meet or exceed its competitors product offerings. Maintaining the Company s market position will require continued investment in research and development and sales and marketing. Industry standards, customer expectations, or other products may emerge that could render one or more of the Company s products less desirable or obsolete. The Company may be unsuccessful in making the technological advances necessary to develop new products or improve our existing products to maintain its market position. If any of these events occur, it could cause decreases in sales and have an adverse effect on the Company s business and financial condition.

The Company may be adversely affected by the instability and uncertainty in the world financial markets and the global economy, including the effects of turmoil in the Middle East.

Instability in the world financial markets and the global economy, including (and as a result of) the turmoil in the Middle East, may create uncertainty in the industries in which the Company operates, and may adversely affect its business. In addition, terrorist activities may cause unpredictable or unfavorable economic conditions and could have a material adverse impact on the Company s operating results and financial condition.

The Company may be unable to successfully implement its business strategy, which could adversely affect its results of operations and financial condition.

The Company s ability to achieve its business and financial objectives is subject to a variety of factors, many of which are beyond the Company s control. For example, the Company may not be successful in increasing its manufacturing and distribution efficiency through productivity, process improvements and cost reduction initiatives. Further, the Company may not be able to realize the benefits of these improvements and initiatives within the time frames the Company currently expects. In addition, we may not be successful in increasing the Company s percentage of captive arrangements and spent battery collections or in hedging its lead requirements, leaving it exposed to fluctuations in the price of lead. Additionally, the Company s implementation of these strategies could be delayed due to our limited liquidity. Any failure to successfully implement the Company s business strategy could adversely affect results of operations and financial condition, and could further impair the Company s ability to make certain strategic capital expenditures and meet its restructuring objectives.

The Company is subject to costly regulation in relation to environmental, health and safety matters, which could adversely affect its business and results of operations.

In the manufacture of its products throughout the world, the Company manufactures, distributes, recycles and otherwise uses large amounts of potentially hazardous materials, especially lead and acid. As a result, the Company is subject to a substantial number of costly regulations, including limits on employee blood lead levels. In particular, the Company is required to comply with increasingly stringent requirements of federal, state and local environmental and occupational safety and health laws and regulations in the U.S. and other countries, including those governing emissions to air, discharges to water, noise and odor emissions; the generation, handling, storage, transportation, treatment and disposal of waste materials; and the cleanup of contaminated properties and human health and safety. Compliance with these laws and regulations results in ongoing costs. The Company could also incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, third party property damage or personal injury claims, or costs to upgrade or replace existing equipment, as a result of violations of or liabilities under environmental laws or non-compliance with environmental permits required at its facilities. In addition, many of the Company s current and former facilities are located on properties with histories of industrial or commercial operations. Because some environmental laws can impose liability for the entire cost of cleanup upon any of the current or former owners or operators, regardless of fault, the Company could become liable for the cost of investigating or remediating contamination at these properties if contamination requiring such activities is discovered in the future. The Company may become obligated to pay material remediation-related costs at its Tampa, Florida facility in the amount of approximately $12,500 to $20,500, at the Columbus, Georgia facility in the amount of approximately $6,000 to $9,000 and at the Sonalur, Portugal facility in the amount of $3,500 to $7,000.

The Company cannot be certain that it has been, or will at all times be, in complete compliance with all environmental requirements, or that the Company will not incur additional material costs or liabilities in connection with these requirements in excess of amounts it has reserved. Private parties, including current or former employees,

could bring personal injury or other claims against the Company due to the presence of, or exposure to, hazardous substances used, stored or disposed of by it, or contained in its products, especially lead. Environmental requirements are complex and have tended to become more stringent over time. These requirements or their enforcement may change in the future in a manner that could have a material adverse effect on the Company s business, results of operations and financial condition. The Company has

made and will continue to make expenditures to comply with environmental requirements. These requirements, responsibilities and associated expenses and expenditures, if they continue to increase, could have a material adverse effect on the Company s business and results of operations. While the Company s costs to defend and settle claims arising under environmental laws in the past have not been material, the Company cannot provide assurance that this will remain so in the future.

The EPA or state environmental agencies could take the position that the Company has liability under environmental laws that were not discharged in bankruptcy. To the extent these authorities are successful in disputing the pre-petition nature of these claims, the Company could be required to perform remedial work that has not yet been performed for alleged pre-petition contamination, which would have a material adverse effect on the Company s financial condition, cash flows or results of operations.

The EPA or state environmental agencies could take the position that the Company has liability under environmental laws that were not discharged in bankruptcy. To the extent these authorities are successful in disputing the pre-petition nature of these claims, the Company could be required to perform remedial work that has not yet been performed for alleged pre-petition contamination, which would have a material adverse effect on the Company s financial condition, cash flows or results of operations. The Company has previously been advised by the EPA or state agencies that it is a Potentially Responsible Party under the Comprehensive Environmental Response, Compensation and Liability Act or similar state laws at 97 federally defined Superfund or state equivalent sites. At 45 of these sites, the Company has paid its share of liability and believes that it is probable that its liability for most of the remaining sites will be treated as disputed unsecured claims under the Company s Joint Plan of Reorganization under the Plan. However, there can be no assurance that these matters will be discharged. In addition, the EPA, in the course of negotiating this pre-petition claim, had notified the Company of the possibility of additional clean-up costs associated with Hamburg, Pennsylvania properties of approximately $35,000. To date, the EPA has not made a formal claim for this amount or provided any support for this estimate. To the extent the EPA or other environmental authorities disputed the pre-petition nature of these claims, the Company would intend to resist any such effort to evade the bankruptcy law s intended result, and believes there are substantial legal defenses to be asserted in that case. However, there can be no assurance that we would be successful in challenging any such actions.

The Company may be adversely affected by legal proceedings to which the Company is, or may become, a party.

The Company and its subsidiaries are currently, and may in the future become, subject to legal proceedings which could adversely affect our results of operations, liquidity and financial condition. See Note 15 to the Consolidated Financial Statements.

The cost of resolving the Company s pre-petition disputed claims, including legal and other professional fees involved in settling or litigating these matters, could have a material adverse effect on its financial condition, cash flows and results of operations.

At March 31, 2006, there are approximately fourteen hundred pre-petition disputed unsecured claims on file in the bankruptcy case that remain to be resolved through the Plan s claims reconciliation and allowance procedures. The Company established a reserve of common stock and warrants to purchase common stock for issuance to holders of these disputed unsecured claims as the claims are allowed by the bankruptcy court. Although these claims are generally resolved through the issuance of common stock and warrants from the reserve rather than the payment of money, the process of resolving these claims through settlement or litigation requires considerable Company resources, including expenditures for legal and professional fees and the attention of Company personnel. These costs could have a material adverse effect on the Company s financial condition, cash flows and results of operations. The Company is unable to predict how the recent declines in its stock price will impact this process given that its common stock is the currency in which these claims are resolved. On the one hand, lower stock prices may make some plaintiffs less willing to litigate but, on the other hand, may make some plaintiffs less willing to settle for less than the full amount of their claims depending on a variety of factors, including the strength of the plaintiff s claims and the size of the plaintiff s anticipated ultimate award.

The Company s ability to operate its business effectively could be impaired if the Company fails to attract and retain experienced key personnel.

The Company s success depends, in part, on the continued contributions and experience of its senior officers and other key personnel. Certain of the Company s senior officers are relatively new. The fact that certain of the Company s key senior officers are recent additions to its staff, and may not possess knowledge of historical operations, could adversely affect the operation of the Company s business. Moreover, if in

the future the Company loses or suffers an extended interruption in the service of one or more of its other senior officers or key employees, the Company s financial condition and operating results may be adversely affected.

Work stoppages or other labor issues at the Company s facilities or its customers or suppliers facilities could adversely affect the Company s operations.

At March 31, 2006, approximately 20% of the Company s North American and many of its non-U.S. employees were unionized. It is likely that a significant portion of the Company s workforce will remain unionized for the foreseeable future. It is also possible that the portion of the Company s workforce that is unionized may increase in the future. Contracts covering approximately 591 of the Company s domestic employees will expire in 2007, and the remainder thereafter. In addition, contracts covering most of the Company s union employees in Europe and the rest of the world expire on various dates through fiscal 2007. Although the Company believes that its relations with employees are generally good, if conflicts develop between the Company and its employees unions in connection with the renegotiation of these contracts or otherwise, work stoppages or other labor disputes could result. A work stoppage at one or more of the Company s plants, or a material increase in its costs due to unionization activities, may have a material adverse effect on the Company s business. Work stoppages at the facilities of the Company s customers or suppliers may also negatively affect the Company s business. If any of the Company s customers experience a material work stoppage, that customer may halt or limit the purchase of the Company s products. This could require the Company to shut down or significantly reduce production at facilities relating to those products. Moreover, if any of the Company s suppliers experience a work stoppage, the Company s operations could be adversely affected if an alternative source of supply is not readily available.

The Company s substantial indebtedness could adversely affect its financial condition.

The Company has a significant amount of indebtedness. As of March 31, 2006, the Company had total indebtedness, including capital leases, of approximately $701,004 . The Company s level of indebtedness could have significant consequences. For example, it could:

- limit the Company s ability to borrow money or sell stock to fund its working capital, capital expenditures, acquisitions and debt service requirements;

- substantially increase the Company s vulnerability to changes in interest rates, because a substantial portion of its indebtedness will bear interest at floating rates;

- limit the Company s flexibility in planning for, or reacting to, changes in its business and future business opportunities;

- make the Company more vulnerable to a downturn in its business or in the economy;

- place the Company at a disadvantage to some of its competitors, who may be less highly leveraged; and

- require a substantial portion of the Company s cash flow from operations to be used for debt payments, thereby reducing the availability of its cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes.

One or a combination of these factors could adversely affect the Company s financial condition. Subject to restrictions in the indenture governing the Company s senior secured notes and convertible notes and its senior secured credit facility, the Company may incur additional indebtedness, which could increase the risks associated with its already substantial indebtedness.

Restrictive covenants limit the Company s ability to operate its business and to pursue its business strategies, and its failure to comply with these covenants could result in an acceleration of its indebtedness.

The Company s senior credit facility and the indenture governing its senior secured notes contain covenants that restrict its ability to finance future operations or capital needs, to respond to changing business and economic conditions or to engage in other transactions or business activities that may be important to its growth strategy or otherwise important to the Company. The credit agreement and the indenture governing the Company s senior secured

notes restrict, among other things, the Company s ability and the ability of its subsidiaries to:

incur additional indebtedness or enter into sale and leaseback transactions;

pay dividends or make distributions on the Company s capital stock or certain other restricted payments or investments;

purchase or redeem stock;

issue stock of the Company s subsidiaries;

make investments and extend credit;

engage in transactions with affiliates;

transfer and sell assets;

effect a consolidation or merger or sell, transfer, lease or otherwise dispose of all or substantially all of the Company s assets; and

create liens on the Company s assets to secure debt.

In addition, the Company s senior credit facility requires the Company to maintain minimum consolidated earnings before interest, taxes, depreciation, amortization, and restructuring (Adjusted EBITDA) and minimum leverage ratio of consolidated debt to Adjusted EBITDA, as well as requiring the Company to repay outstanding borrowings with portions of the proceeds the Company receives from certain sales of property or assets and specified future debt offerings. The Company s ability to comply with these provisions may be affected by events beyond its control, and it may not be able to meet the financial ratios.

Any breach of the covenants in the Company s senior secured credit agreement or the indenture governing its senior secured notes could cause a default under the Company s senior secured credit agreement and other debt (including the notes), which would restrict the Company s ability to borrow under its credit facility, thereby significantly impacting the Company s liquidity. If there were an event of default under any of the Company s debt instruments that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to the debt instrument to be due and payable immediately. The Company s assets and cash flow may not be sufficient to fully repay borrowings under its outstanding debt instruments if accelerated upon an event of default. If, as or when required, the Company is unable to repay, refinance or restructure its indebtedness under, or amend the covenants contained in, its senior credit facility, the lenders under its senior credit facility could institute foreclosure proceedings against the assets securing borrowings under the senior credit facility.

The Company s internal control over financial reporting was not effective as of March 31, 2006.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated thereunder, our management was required to furnish a report on, and our independent registered public accounting firm attested to, our internal controls over financial reporting in our annual report on Form 10-K for the year ending March 31, 2006. In connection with the preparation of this report, our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2006, and this assessment identified several material weaknesses relating to ineffective controls over accounting for inventories and investments in affiliates, lack of sufficient resources in accounting and finance, lack of segregation of duties and ineffective controls over period-end accounting for income taxes. Because of these material weaknesses, our management concluded that our internal controls over financial reporting were not effective as of March 31, 2006, based on the criteria in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In an effort to remediate the material weaknesses and other deficiencies, we are currently implementing a number of changes to our internal control including hiring additional accounting personnel to focus on ongoing remediation initiatives. However, there can be no assurance that such remediation steps will be successful, that we will not have significant

deficiencies or other material weaknesses in the future or that, when next evaluated, our management will conclude, and our auditors will determine, that our internal control over financial reporting is effective. Any failure to implement effective

Table of Contents

internal controls could harm our operating results or cause us to fail to meet our reporting obligations. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of the notes or our common stock, and may require us to incur additional costs to improve our internal control system.

The Company s liquidity position remains constrained. If the Company fails to meet operations objectives and the shortfall is not replaced through other means, the lack of liquidity would have a material adverse impact on the Company.

The company s current liquidity position remains constrained. The Company has an operational plan that would provide adequate liquidity to fund its operations through the remainder of the fiscal year. The Company has reduced its planned capital expenditures and planned restructuring activities in order to provide additional liquidity.

If the Company fails to meet its operations objectives, including working capital reductions, and if such shortfall is not replaced through proceeds from a rights offering or other means, the lack of liquidity would have a material adverse impact on the Company s ability to fund its operations and financial obligations and cause the Company to evaluate a restructuring of its obligations.

The Company has entered into a plea agreement with the U.S. Attorney for the Southern District of Illinois under which it is required to pay a fine of $27.5 million over five years. If the Company is unable to post adequate security for this fine by February 2007 and the U.S. District Court is unwilling to modify the plea agreement, the Company could be unable to remain in compliance with its senior credit facility and senior secured notes, which could have a material adverse effect on its business and financial condition.

In 2001, the Company reached a plea agreement with the U.S. Attorney for the Southern District of Illinois (the U.S. Attorney) resolving an investigation into a scheme by former officers and certain corporate entities involving fraudulent representations and promises in connection with the distribution, sale and marketing of automotive batteries between 1994 and 1997. The Company agreed to pay a fine of $27.5 million over five-years to five years probation and to cooperate with the U.S. Attorney in its prosecution of the former officers. The Company filed for bankruptcy in April 2002 and did not pay any installments of the criminal fine before or during its bankruptey proceedings, nor did it pay any installments of the criminal fine after the Company emerged from bankruptcy in May 2004. In 2002, the U.S. Attorney filed a claim against the Company as a general unsecured creditor and on May 31, 2006, the District Court approved a Joint Agreement and Proposed Joint Resolution of Issues Raised in the Government s Motion Filed on November 18, 2005 Regarding the Payment of Criminal Fine and modified our schedule to pay the $27.5 million fine through quarterly payments over the next five years, ending in 2011. Under the order, the Company must provide security in a form acceptable to the court and to the government by February 26, 2007 for its guarantee of any remaining unpaid portion of the fine, but may petition the court if it believes its financial viability would be jeopardized by providing such security. If the Company is not able to provide security in a form acceptable to the court and to the government by February 26, 2007 and the district court is unwilling to modify the plea agreement, then the resulting obligation to provide such security could result in the inability to maintain compliance with the senior credit facility and senior secured notes, which could have a material adverse effect on the Company s business and financial condition.

Holders of the Company s common stock are subject to the risk of dilution of their investment as the result of the issuance of additional shares of common stock and warrants to purchase common stock to holders of pre-petition claims to the extent the reserve of common stock and warrants established to satisfy such claims is insufficient.

Pursuant to the Company s 2004 Plan of Reorganization (the Plan), the Company has established a reserve of common stock and warrants to purchase common stock for issuance to holders of unsecured pre-petition disputed claims. To the extent this reserve is insufficient to satisfy these disputed claims, the Company would be required to issue additional shares of common stock and warrants, which would result in dilution to holders of its common stock.

The Company agreed pursuant to the Plan to issue 25,000 shares of common stock and warrants initially exercisable for 6,250 shares of common stock, distributed as follows:

holders of pre-petition secured claims were allocated collectively 22,500 shares of common stock; and

holders of general unsecured claims were allocated collectively 2,500 shares of common stock and warrants to purchase 6,250 shares of common stock at $32.11 per share, and approximately 13.4% of such new common stock and warrants were initially reserved for distribution for disputed claims under the Plan s claims reconciliation and allowance procedures.

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

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

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The chart below lists the locations of the Company s principal facilities. All of the facilities are owned unless otherwise indicated. Most of the Company s significant U.S. properties and some of its European properties secure its financing arrangements. For a description of the financing arrangements, see Liquidity and Capital Resources in Item 7- Management s Discussion and Analysis of Financial Condition and Results of Operations. The leases for leased facilities expire at various dates through 2015.

Location	Approximate Square Footage		Use
North America:			
Alpharetta, GA	83,600	(leased)	Executive Offices
Aurora, IL	43,200	(leased)	Executive Offices
Baton Rouge, LA	176,000		Secondary Lead Smelting
Bristol, TN	631,000		Battery Manufacturing and Distribution Center
Cannon Hollow, MO	137,000		Secondary Lead Smelting

Columbus, GA	330,000		Industrial Battery Manufacturing and Distribution Center
Florence, MS	113,000		Battery Manufacturing
Florence, MS	95,700	(leased)	Battery Manufacturing
Fort Erie, Canada	90,000		Distribution Center
Fort Smith, AR	224,000	(leased)	Industrial Battery Manufacturing and Distribution Center
Frisco, TX	132,000		Secondary Lead Smelting
Kansas City, KS	140,000		Industrial Battery Manufacturing
Kansas City, KS	93,800	(leased)	Distribution Center
Lampeter, PA	82,000		Battery Plastics Manufacturing
Manchester, IA	286,000		Battery Manufacturing Distribution Center
Muncie, IN	174,000		Secondary Lead Smelting
Reading, PA	125,000		Secondary Lead Smelting and Polypropylene Reprocessing
Reading, PA	358,000		Distribution and Formation Center
Salina, KS	438,000		Battery Manufacturing and Distribution Center
Shreveport, LA (a)	239,000	(leased)	Battery Manufacturing
Sumner, WA	85,000	(leased)	Distribution Center
Vernon, CA	220,000		Secondary Lead Smelting

(a) In April of 2006, the Company closed the battery manufacturing plant in Shreveport, LA.

Table of Contents

Location	Approximate Square Footage		Use
Europe and ROW:			
Adelaide, Australia	436,000		Automotive Battery Manufacturing and Distribution Center
Sydney, Australia	700,000		Industrial Battery Manufacturing and Distribution Center
Florival, Belgium	228,000		Transportation Distribution Center and Offices
Bolton, England	274,000		Industrial Battery Manufacturing
Manchester, England	9,600	(leased)	Executive Offices
Trafford Park, England	40,100	(leased)	Charger Manufacturing
Auxerre, France	341,000		Automotive Battery Manufacturing
Gennevilliers, France	60,000	(leased)	Executive Offices
Lille, France	630,000		Industrial Battery Manufacturing
Peronne, France	106,000		Plastics Manufacturing
Bad Lauterberg, Germany	495,190		Manufacturing, Administrative and Warehouse
Budingen, Germany	233,062		Industrial Battery Manufacturing, Distribution and Administration
Vlaardingen, Holland	118,000		Industrial Distribution Center and Offices
Avelino, Italy	86,100		Plastics Manufacturing
Canonica d Adda, Italy	193,800		Plastics Manufacturing
Fumane di Valipolicella, Italy	66,600		Automotive Battery Manufacturing
Romano Di Lombardia, Italy	312,200	(leased)	Automotive Battery Manufacturing
Lower Hutt, New Zealand	90,000		Automotive Battery Manufacturing
Petone, New Zealand	24,000		Secondary Lead Smelting
Poznan, Poland	698,000		Automotive Battery Manufacturing
Castanheira do Riatejo, Portugal	533,400		Industrial Battery Manufacturing
Azambuja, Portugal	39,700		Secondary Lead Smelting and Plastics Manufacturing
Azuqueca de Henares, Spain	209,100		Automotive Battery Manufacturing
San Esteban de Gomez, Spain	62,900		Secondary Lead Smelting
La Cartuja, Spain	385,000		Industrial Battery Manufacturing
Manzanares, Spain	465,000		Automotive Battery Manufacturing
Pontypool, Wales	91,000	(leased)	Distribution Center

In addition, the Company also leases sales and distribution outlets in North America, Europe and Asia.

The Company believes that its facilities are in good operating condition, adequately maintained, and suitable to meet the Company s present needs.

Item 3. ***Legal Proceedings***

See Note 15 to the Consolidated Financial Statements, which is hereby incorporated herein by reference.

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

None.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Data

Since May 6, 2004, the Company s common stock and warrants have traded on the NASDAQ National Market under the symbol XIDE and XIDEW , respectively. The high and low closing bid prices for the Company s common stock and warrants are set forth below.

	High	Low
Common Stock		
Fiscal 2005:		
First Quarter	$ 21.50	$ 18.43
Second Quarter	$ 21.25	$ 14.80
Third Quarter	$ 16.10	$ 10.30
Fourth Quarter	$ 16.12	$ 12.81
Fiscal 2006:		
First Quarter	$ 13.34	$ 4.32
Second Quarter	$ 5.53	$ 4.24
Third Quarter	$ 5.11	$ 3.45
Fourth Quarter	$ 4.20	$ 2.35

	High	Low
Warrants		
Fiscal 2005:		
First Quarter	$ 5.72	$ 3.86
Second Quarter	$ 4.65	$ 2.50
Third Quarter	$ 3.06	$ 1.28
Fourth Quarter	$ 2.46	$ 1.69
Fiscal 2006:		
First Quarter	$ 1.85	$ 0.37
Second Quarter	$ 0.81	$ 0.39
Third Quarter	$ 0.54	$ 0.26
Fourth Quarter	$ 0.57	$ 0.22

Prior to May 6, 2004, the Company s old common stock was traded on the over-the-counter market and quoted on the OTC Bulletin Board under the symbol EXDTQ . The old common stock was cancelled, effective May 5, 2004, pursuant to the Plan.

The Company has not declared or paid dividends on its common stock during fiscal years 2006 and 2005. Covenants in the Company s Credit Agreement restrict the Company s ability to pay cash dividends on capital stock and the Company presently does not intend to pay dividends on its common stock.

As of June 23, 2006, the Company had 24,551,008 shares of its common stock and, 4,881,048 of its warrants outstanding, with 3,610 and 4,912 holders of record, respectively.

Equity Compensation Plan Information

As of March 31, 2006, the Company maintained stock option and incentive plans under which employees and non-employee directors could be granted options to purchase shares of the Company s common stock or awarded shares of common stock. The following table contains information relating to such plans as of March 31, 2006.

Table of Contents

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,320,000	$ 8.83	1,805,000
Equity compensation plans not approved by security holders			
Total	1,320,000	$ 8.83	1,805,000

Of the total of 3,125,000 shares of common stock available for issuance under stock option and incentive plans for employees and non-employee directors, no more than 850,000 shares may be issued as restricted shares.

Item 6. ***Selected Financial Data***

(in thousands, except per share data)

The following table sets forth selected financial data for the Company. The reader should read this information in conjunction with the Company s Consolidated Financial Statements and Notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations that appear elsewhere in this report. See Note 1 to the Consolidated Financial Statements regarding the Predecessor Company and the Successor Company.

Table of Contents

	Successor Company			Predecessor Company		
	Fiscal Year Ended	Period From May 6, 2004 to March 31,	Period from April 1, 2004 to May 5,	Fiscal Year Ended		
	2006	2005	2004	2004	2003	2002
Statement of Operations Data						
Net sales	$ 2,819,876	$ 2,476,259	$ 214,607	$ 2,500,493	$ 2,361,101	$ 2,428,550
Gross profit	406,831	377,502	35,470	509,325	516,541	463,919
Selling, marketing and advertising expenses	271,059	251,085	24,504	264,753	261,299	290,957
General and administrative expenses	190,993	150,871	17,940	161,271	175,177	178,842
Restructuring and impairment	21,714	42,479	602	52,708	25,658	33,122
Goodwill impairment charge		388,524			37,000	105,000
Other (income) expense net	3,684	(56,898)	6,222	(40,724)	(11,035)	24,554
Interest expense, net	69,464	42,636	8,870	99,027	105,788	136,241
Loss before reorganization items, income tax, minority interest and cumulative effect of change in accounting principle	(150,083)	(441,195)	(22,668)	(27,710)	(77,346)	(304,797)
Reorganization items, net	6,158	11,527	18,434	67,042	36,370	
Fresh start accounting			(228,371)			
Gain on discharge			(1,558,839)			
Minority interest	529	(18)	26	467	200	211
Income taxes	15,962	14,219	(2,482)	3,271	26,969	(1,422)
Income (Loss) before cumulative effect of change in accounting principle	(172,732)	(466,923)	1,748,564	(98,490)	(140,885)	(303,586)
Cumulative effect of change in accounting principle (1)				(15,593)		(496)
Net income (loss)	$ (172,732)	$ (466,923)	$ 1,748,564	$ (114,083)	$ (140,885)	$ (304,082)
Basic and diluted net income (loss) per share	$ (6.91)	$ (18.68)	$ 63.86	$ (4.17)	$ (5.14)	$ (11.35)

Balance Sheet Data (at period end)						
Working capital (deficit) (2)	$ 431,570	$ (180,172)	$ 402,076	$ (270,394)	$ (15,876)	$ (951,866)
Property, plant and equipment, net	685,842	799,763	826,900	543,124	533,375	530,220
Total assets	2,082,909	2,290,780	2,729,404	2,471,808	2,372,691	1,915,868
Total debt	701,004	653,758	547,549	1,847,656	1,804,903	1,413,272
Total stockholders equity (deficit)	224,739	427,259	888,391	(769,769)	(695,369)	(555,742)
Other Financial Data						
Cash provided by (used in):						
Operating activities (3)	$ (44,348)	$ (9,691)	$ (7,186)	$ 40,551	$ (239,858)	$ (6,665)
Investing activities	(32,817)	(44,013)	(4,352)	(38,411)	(39,095)	(58,462)
Financing activities	34,646	68,925	35,168	(9,667)	278,882	73,720
Capital expenditures	58,133	69,114	7,152	65,128	45,878	61,323
Cash dividends per share						0.04

(1) The cumulative effect of change in accounting principle in fiscal 2002 resulted from the adoption of SFAS 133 on April 1, 2001 and in fiscal 2004 resulted from the adoption of SFAS 143 on April 1, 2003.

(2) Working capital (deficit) is calculated as current assets less current liabilities, which at March 31, 2005 and March 31, 2002 reflects the reclassification of certain long-term debt as current. At March 31,

2003 and March 31, 2004, working capital (deficit) excludes liabilities of the Debtors classified as subject to compromise.

(3) Cash used in operating activities in fiscal 2003 includes the repurchase of uncollected securitized accounts receivable under the terminated U.S. and European securitization programs of $117,455 and $124,793, respectively.

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

(in thousands, except per share data)

Important Matters

On June 13, 2006, the Company was advised by its independent registered public accounting firm, PricewaterhouseCoopers LLP, that its report on the Company s Consolidated Financial Statements as of and for the fiscal year ended March 31, 2006 will contain a going-concern modification.

On June 28, 2006, the Company entered into a Standby Purchase Agreement with investors who would backstop a rights offering of common stock by the Company to its shareholders and purchase additional shares of common stock. Such

transactions would provide gross proceeds to the Company of up to $125,000 before expenses. The closing of such transactions is subject to several conditions, including shareholder approval (which the Company plans to seek at its annual meeting of shareholders in August 2006), there being no material adverse effect on the Company s business and there not being trading suspensions or other adverse developments in the financial markets.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company s consolidated results of operation and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in this annual report on Form 10-K. In particular, this discussion should be read in conjunction with Note 1. Basis of Presentation which describe the filing by Exide Technologies and certain of its subsidiaries of voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code on April 15, 2002 and the financial restructuring associated with the Company s emergence from Chapter 11, effective May 5, 2004.

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

The Consolidated Financial Statements contained herein have been prepared in accordance with Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7). Financial statements for periods subsequent to the Company s emergence from Chapter 11 are not comparable with those of prior periods.

Some of the statements contained in the following discussion of the Company s financial condition and results of operations refer to future expectations or include other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived from numerous assumptions. See Cautionary Statement for Purpose of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995, and Item 1A. Risk Factors included in Part I of this report on Form 10-K for risk factors that should be considered when evaluating forward-looking information detailed below. These factors could cause actual results to differ materially from the forward looking statements.

Factors Which Affect the Company s Financial Performance

Lead and other Raw Materials. Lead represents approximately one-third of the Company s cost of goods sold. The market price of lead fluctuates. Generally, when lead prices decrease, customers may seek disproportionate price reductions from the Company, and when lead prices increase, customers may resist price increases. Both of these situations may cause customer demand for the Company s products to be reduced and the Company s net sales and gross margins to decline. The average of the lead prices quoted on the London Metal Exchange (LME) have increased from $920.00 per metric tonne for the fiscal year ended March 31, 2005 to $1,041.00 for the fiscal year ended March 31, 2006. At June 23, 2006, the quoted price on the LME was $927.00 per metric tonne. The Company is also experiencing higher costs for other raw materials, including polypropylene. To the extent that lead prices continue to be volatile, going up or down, and the Company is unable to pass on these or other higher material costs to its customers, its financial performance is adversely impacted. Inversely, as lead prices decrease the Company may not be able to retain the current pricing as customers seek disproportionate price reductions.

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

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

Exchange Rates. The Company is exposed to foreign currency risk in most European countries, principally from fluctuations in the Euro and British Pound. The Company is also exposed, although to a lesser extent, to foreign currency risk in Australia and the Pacific Rim. Movements of exchange rates against the U.S. dollar can result in variations in the U.S. dollar value of non-U.S. sales, expenses, assets and liabilities. In some instances, gains in one currency may be offset by losses in another. Movements in European currencies impacted the Company s results for the periods presented herein. For the fiscal year ended March 31, 2006, approximately 58% of the Company s net sales were generated in Europe, Asia, and

Australia. Further, approximately 61% of the Company s aggregate accounts receivable and inventory as of March 31, 2006 were held by its European subsidiaries.

Markets. The Company is subject to concentrations of customers and sales in a few geographic locations and is dependent on customers in certain industries, including the automotive, communications and data and material handling markets. Economic difficulties experienced in these markets and geographic locations impact the Company s financial results.

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

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

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

Fiscal 2006 Highlights and Outlook

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

In the North American market, the Company obtains the vast majority of its lead requirements from six Company-owned and operated secondary lead recycling plants. These facilities reclaim lead by recycling spent lead-acid batteries, which are obtained for recycling from the Company s customers and outside spent-battery collectors. This helps the Company in North America control the cost of its principal raw material as compared to purchasing lead at prevailing market prices. Similar to the rise in lead prices, however, the cost of spent batteries has also increased. For fiscal 2006, the average cost of spent batteries has increased approximately 42% versus fiscal 2005. Therefore, the higher market price of lead with respect to North American manufacturing continues to impact results. The Company continues to take selective pricing actions and attempts to secure higher captive spent battery return rates to help mitigate these risks.

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

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

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

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

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

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

Critical Accounting Policies and Estimates

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Inventory Reserves. The Company adjusts its inventory carrying value to estimated market value (when below historical cost basis) based upon assumptions of future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required.

Valuation of Long-lived Assets. The Company s long-lived assets include property, plant and equipment, and identified intangible assets. Long-lived assets (other than indefinite lived intangible assets) are depreciated and amortized over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value may not be recoverable. Indefinite-lived intangible assets are reviewed for impairment on both an annual basis and whenever changes in circumstances indicate that the carrying value may not be recoverable. The fair value of indefinite-lived intangible assets are based upon the Company s estimates of future cash flows and other factors including discount rates to determine the fair value of the respective assets. An erosion of future business results in any of the Company s business units could create impairment in other long-lived assets and require a significant write down in future periods.

Employee Benefit Plans. The Company s pension plans and postretirement benefit plans are accounted for using actuarial valuations required by SFAS No. 87, Employers Accounting for Pensions (SFAS 87) and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (SFAS 106) . The Company considers accounting for employee benefit plans critical because management is required to make significant subjective judgments about a number of actuarial assumptions, including discount rates, compensation growth, long-term return on plan assets, retirement, turnover, health care cost trend rates and mortality rates. Depending on the assumptions and estimates used, the pension and postretirement benefit expense could vary within a range of outcomes and have a material effect on reported results. In addition, the assumptions can materially affect accumulated benefit obligations and future cash funding. For a detailed discussion of the Company s retirement benefits, see Employee Benefit Plans herein and Note 11 to the Consolidated Financial Statements.

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

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

Warranty and Return Allowance. For a majority of the Company s sales, an up-front warranty discount is provided at the time of sale, after which there is no additional warranty obligation or customer right-of-return. For the remaining sales on which an up-front discount is not provided, the Company provides for an allowance for product returns and/or allowances.

Based upon its manufacturing re-work process, the Company believes that the majority of its product returns are not the result of product defects. Most returns are in fact subsequently sold as seconds at a reduced price. The Company recognizes warranty discounts and the estimated cost of product returns as a reduction of sales in the period in which the related revenue is recognized. The product return estimates are based upon historical trends and claims experience, and include assessment of the anticipated lag between the date of sale and claim/return date.

Environmental Reserves. The Company is subject to numerous environmental laws and regulations in all the countries in which it operates. In addition, the Company can be held liable for investigation and remediation of sites impacted by its past operating activities. The Company maintains reserves for the cost of addressing these liabilities once they are determined to be both probable and reasonably estimable. These estimates are determined through a combination of methods, including outside estimates of likely expense and the Company s historical experience in the management of these matters.

Because environmental liabilities are not accrued until a liability is determined to be probable and reasonably estimable and there is a constructive obligation to remediate, not all potential future environmental liabilities have been included in the Company s environmental reserves and, therefore, additional earnings charges are possible. Also, future findings or changes in estimates could result in either an increase or decrease in the reserves and have a significant impact on the Company s liquidity and its results of operations.

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

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

Recently Issued Accounting Standards. See Note 2 to the Consolidated Financial Statements for a description of new accounting pronouncements and their impact to the Company.

Results of Operations

The Company reports its results as four business segments: Transportation North America, Transportation Europe and ROW, Industrial Energy North America, and Industrial Energy Europe and ROW. The following discussions provide a comparison of the Company s results of operations for the fiscal year ended March 31, 2006 with the combined results of its operations and those of the Predecessor Company on a combined basis for the year ended March 31, 2005, and the results of operations of the Predecessor Company for the fiscal year ended March 31, 2004. The combined results of operations for the fiscal year ended March 31, 2005 include the Company s results of operations for the period May 6, 2004 to March 31, 2005 combined with the results of operations of the Predecessor Company for the period April 1, 2004 to May 5, 2004. The combined financial information for the year ended March 31, 2005 is merely additive and does not give pro forma effect to the transactions provided for in the plan of reorganization or the application of fresh-start accounting. As a result of the reorganization and adoption of fresh-start accounting, the Company s results of operations after May 5, 2005 are not comparable to the results of operations of the Predecessor Company for periods prior to May 6, 2005. The discussions with respect to the years ended March 31, 2005 and 2004 are provided for comparative purposes only, but the value of such comparisons may be limited. The information in this section should be read in conjunction with the Consolidated Financial Statements and related notes thereto appearing in Item 8. Financial Statements and Supplementary Data.

Table of Contents

	Successor Company	COMBINED	Successor Company	Predecessor Company	
		For the fiscal year ended March 31, 2005			
	For the fiscal year ended March 31, 2006	For the fiscal year ended March 31, 2005	For the Period May 6, 2004 to March 31, 2005	For the Period April 1, 2004 to May 5, 2004	For the fiscal year ended March 31, 2004
NET SALES					
Transportation					
North America	$ 913,317	$ 847,571	$ 772,272	$ 75,299	$ 817,710
Europe & ROW	810,894	823,165	764,238	58,927	760,512
Industrial Energy					
North America	274,976	223,008	203,815	19,193	210,572
Europe & ROW	820,689	797,122	735,934	61,188	711,699
TOTAL	$ 2,819,876	$ 2,690,866	$ 2,476,259	$ 214,607	$ 2,500,493
GROSS PROFIT					
Transportation					
North America	$ 97,092	$ 112,091	$ 100,970	$ 11,121	$ 146,790
Europe & ROW	102,680	114,495	106,645	7,850	159,062
Industrial Energy					
North America	53,153	49,039	44,264	4,775	47,032
Europe & ROW	153,906	137,347	125,623	11,724	156,441
TOTAL	$ 406,831	$ 412,972	$ 377,502	$ 35,470	$ 509,325
EXPENSES					
Transportation					
North America	$ 103,172	$ 216,863	$ 208,155	$ 8,708	$ 83,770
Europe & ROW	78,284	219,987	212,828	7,159	83,422
Industrial Energy					
North America	44,307	68,494	65,326	3,168	32,635
Europe & ROW	114,210	233,127	223,317	9,810	152,002
Unallocated expenses	216,941	138,364	109,071	29,293	185,206
TOTAL	$ 556,914	$ 876,835	$ 818,697	$ 58,138	$ 537,035

INCOME (LOSS) BEFORE REORGANIZATION ITEMS, TAXES, MINORITY INTEREST,

AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES					
Transportation					
North America	($ 6,080)	($ 104,772)	($ 107,185)	$ 2,413	$ 63,020
Europe & ROW	24,396	(105,492)	(106,183)	691	75,640
Industrial Energy					
North America	8,846	(19,455)	(21,062)	1,607	14,397
Europe & ROW	39,696	(95,780)	(97,694)	1,914	4,439
Unallocated expenses	(216,941)	(138,364)	(109,071)	(29,293)	(185,206)
TOTAL	($ 150,083)	($ 463,863)	($ 441,195)	($ 22,668)	($ 27,710)

Fiscal Year Ended March 31, 2006 compared with Fiscal Year Ended March 31, 2005

Overview

Net loss for fiscal 2006 was $172,732 versus fiscal 2005 net income of $1,281,641. Included in fiscal 2006 consolidated net income were reorganization items of $6,158, restructuring costs of $21,714, and a charge of $23,837 related to the resolution of a U.S. Attorney matter (see Note 15 to the Consolidated Financial Statements for further discussion of this matter). In addition, in Other (income) expense net currency remeasurement gains (losses) of ($11,280) and ($3,703), primarily on U.S. dollar denominated debt in Europe, were recognized in fiscal 2006 and 2005, respectively. A gain (loss) on revaluation of a foreign currency forward contract of $1,081 and ($13,165) was recognized in fiscal 2006 and 2005 respectively. Gains on revaluation of warrants of $9,125 and $63,112 were recognized in fiscal 2006 and 2005, respectively. Included in fiscal 2005 consolidated net income were a gain on discharge of liabilities subject to compromise of $1,558,839, a gain on Fresh Start reporting adjustments of $228,371, and a non cash charge of $388,524 for goodwill impairment.

Table of Contents

Net Sales

Net sales were $ 2,819,876 for fiscal 2006 versus $2,690,866 in fiscal 2005. Currency fluctuations (primarily the weakening of the Euro against the U.S. dollar) negatively impacted net sales in fiscal 2006 by approximately $53,232. Excluding the currency impact, net sales increased by approximately $182,242 or 7% as a result of higher volumes, particularly in North America, and higher average selling prices due to lead and other related pricing actions.

	For the fiscal year ended March 31, 2006	For the fiscal year ended March 31, 2005	INCREASE / (DECREASE) TOTAL	Currency Related	Non-Currency Related
Transportation					
North America	$ 913,317	$ 847,571	$ 65,746		$ 65,746
Europe & ROW	810,894	823,165	(12,271)	(27,721)	15,450
	1,724,211	1,670,736	53,475	(27,721)	81,196
Industrial Energy					
North America	274,976	223,008	51,968		51,968
Europe & ROW	820,689	797,122	23,567	(25,511)	49,078
	1,095,665	1,020,130	75,535	(25,511)	101,046
TOTAL	$ 2,819,876	$ 2,690,866	$ 129,010	($53,232)	$ 182,242

Transportation North America net sales were $913,317 for fiscal 2006 versus $847,571 for fiscal 2005. Third party lead sales revenues for fiscal 2006 were approximately $ 8,600 higher than fiscal 2005 due to rising lead prices. Net sales for fiscal 2006 were $65,746 or 7.8% higher than fiscal 2005 due mainly to an increase in aftermarket volumes in the U.S. and Mexico. The Company also achieved higher average selling prices which, in part, reflected the pass-through of cost increases from lead, other materials, and energy. Price increases, however, have lagged rising costs, resulting in an overall net reduction in margins.

Transportation Europe and ROW net sales were $810,894 for fiscal 2006 versus $823,165 for fiscal 2005. Net sales, before the unfavorable impact of $27,721 in net foreign exchange rate fluctuations, were higher by 1.8% mainly due to higher OEM and OES sales. This increase was, however, substantially offset by lower aftermarket sales.

Industrial Energy North America net sales were $274,976 for fiscal 2006 versus $223,008 for fiscal 2005. Net sales were $51,968 or 23.3% higher due to strong volume growth in both the motive power and network power markets, particularly in telecommunications, and higher average selling prices related to lead and other pricing actions.

Industrial Energy Europe and ROW net sales were $820,689 for fiscal 2006 versus $797,122 for fiscal 2005. Net sales, before an unfavorable currency impact of $25,511, increased $49,078 or 6.2% due to higher volumes in the material handling application and telecommunication channels, as well as higher average selling prices related to lead and other pricing actions. This favorability was, however, partially offset by competitive pricing pressures in both the original equipment and aftermarket channels.

Gross Profit

Gross profit was $406,831in fiscal 2006 versus $412,972 in fiscal 2005. Gross margin decreased to 14.4% in fiscal 2006 from 15.3% in fiscal 2005. Currency negatively impacted gross profit in fiscal 2006 by approximately $8,409. Gross profit in each of the Company s business segments was negatively impacted by higher lead costs (average LME prices were $1,041 dollars per metric tonne in fiscal 2006 versus $920 dollars per metric tonne in fiscal 2005), and were only partially recovered by higher average selling prices.

	For the fiscal year ended March 31, 2006		For the fiscal year ended March 31, 2005		INCREASE / (DECREASE)		
	TOTAL	Percent of Net Sales	TOTAL	Percent of Net Sales	TOTAL	Currency Related	Non-Currency Related
Transportation							
North America	$ 97,092	10.6%	$ 112,091	13.2%	($ 14,999)		($ 14,999)
Europe & ROW	102,680	12.7%	114,495	13.9%	(11,815)	(3,683)	($ 8,132)
	199,772	11.6%	226,586	13.6%	(26,814)	(3,683)	($ 23,131)
Industrial Energy							
North America	53,153	19.3%	49,039	22.0%	4,114		$ 4,114
Europe & ROW	153,906	18.8%	137,347	17.2%	16,559	(4,726)	$ 21,285
	207,059	18.9%	186,386	18.3%	20,673	(4,726)	$ 25,399
TOTAL	$ 406,831	14.4%	$ 412,972	15.3%	($ 6,141)	($ 8,409)	$ 2,268

Transportation North America gross profit was $97,092 or 10.6% of net sales in fiscal 2006 versus $112,091 or 13.2% of net sales in fiscal 2005. The decrease in gross margin is primarily due to increases in costs for lead, other materials, and energy. Our U.S. battery recycling plants were adversely affected by a tight market for spent batteries as well as increases in the cost of ancillary materials used in the lead conversion process. The effect of higher lead, other materials and energy costs was only partially recovered by higher average selling prices. Additionally, a favorable change in the allocation of lead costs between Transportation North America and Industrial Energy North America partially offset the negative impact of the lead increases to the segment by approximately $6,275.

Transportation Europe and ROW gross profit was $102,680 or 12.7% of net sales in fiscal 2006 versus $114,495 or 13.9% of net sales in fiscal 2005. Currency negatively impacted gross profit during fiscal 2006 by approximately $3,683. The decrease in gross margin was primarily due to lower sales volumes in the Aftermarket channel combined with higher raw material costs, partially offset by recoveries through pricing actions. Additionally, benefits of increased efficiencies resulting from the plant closure in Nanterre, France and other rationalization projects helped to mitigate the decrease in gross margins versus fiscal 2005.

Industrial Energy North America gross profit was $53,153 or 19.3% of net sales in fiscal 2006 versus $49,039 or 22.0% of net sales in fiscal 2005. The increase in gross profit was primarily due to higher sales volumes, partially offset by higher lead costs and other commodity costs not fully recovered through price increases and an unfavorable change of approximately $6,275 in the allocation of lead costs between Transportation North America and Industrial Energy North America.

Industrial Energy Europe and ROW gross profit was $153,906 or 18.8% of net sales in fiscal 2006 versus $137,347 or 17.2% of net sales in fiscal 2005. Currency negatively impacted Industrial Energy Europe and ROW gross profit in fiscal 2006 by approximately $4,726. Gross profit was positively impacted by higher sales volume, higher average selling prices, and the benefits of headcount and other cost reduction programs, partially offset by higher lead and other commodity costs.

Expenses

Expenses were $556,914 in fiscal 2006 versus $876,835 in fiscal 2005. Included in expenses are restructuring charges of $21,714 in fiscal 2006 and $43,081 in fiscal 2005. Also included in fiscal 2005 expenses is a charge for

goodwill impairment of $388,524. Excluding these items, expenses were $535,200 and $445,230 in fiscal 2006 and fiscal 2005, respectively. Weaker foreign currencies favorably impacted expenses by approximately $8,040 in fiscal 2006. The change in expenses was attributable to the following matters:

(i) fiscal 2006 and 2005 included a gain (loss) on revaluation of foreign currency forward contract of $1,081and ($13,165) respectively;

(ii) interest, net increased $17,958 principally due to higher interest rates and higher debt levels;

(iii) fiscal 2006 and fiscal 2005 expenses included currency remeasurement losses of $11,280 and $3,703, respectively, included in Other (income) expense, net;

(iv) fiscal 2006 and 2005 expenses included a gain on revaluation of Warrants of $9,125 and $63,112, included in Other (income) expense, net;

(v) fiscal 2006 and 2005 expenses included a loss on sale of assets of $8,044 and $7,649, included in other (income) expense, net; and

(vi) fiscal 2006 expenses included $23,837 for settlement of a U.S. Attorney matter, which was recorded on a discounted basis as payments will occur over a five year period. See Note 15 to the Consolidated Financial Statements for further discussion of the U.S. Attorney matter.

	For the fiscal year ended March 31, 2006	For the fiscal year ended March 31, 2005	INCREASE / (DECREASE)		
			TOTAL	Currency Related	Non-Currency Related
Transportation					
North America	$ 103,172	$ 216,863	($113,691)		($ 113,691)
Europe & ROW	78,284	219,987	(141,703)	(2,001)	(139,702)
	181,456	436,850	(255,394)	(2,001)	(253,393)
Industrial Energy					
North America	44,307	68,494	(24,187)		(24,187)
Europe & ROW	114,210	233,127	(118,917)	(3,423)	(115,494)
	158,517	301,621	(143,104)	(3,423)	(139,681)
Unallocated corporate expenses	216,941	138,364	78,577	(2,616)	81,193
TOTAL	$ 556,914	$ 876,835	($319,921)	($8,040)	($ 311,881)

Transportation North America expenses were $103,172 in fiscal 2006 versus $216,863 in fiscal 2005. Expenses in fiscal 2005 were $94,802 before a goodwill impairment charge of $122,061. The increase in expenses before goodwill impairment was due mainly to higher branch operating costs, including diesel fuel.

Transportation Europe and ROW expenses were $78,284 in fiscal 2006 versus $219,987 in fiscal 2005. Currency favorably impacted expenses in fiscal 2006 by approximately $2,001. Expenses in fiscal 2005 were $107,739 before a goodwill impairment charge of $112,248. The decrease in expenses before goodwill impairment was primarily due to lower selling and marketing costs, lower headcount, and a general reduction in other administrative expenses.

Industrial Energy North America expenses were $44,307 in fiscal 2006 versus $68,494 in fiscal 2005. Expenses in fiscal 2005 were $31,110 before a goodwill impairment charge of $37,384. The increase in expenses before goodwill impairment was primarily due to restructuring costs of $10,100 associated with the closure of the Kankakee facility and increased variable selling costs resulting from a significant increase in net sales.

Industrial Energy Europe and ROW expenses were $114,210 in fiscal 2006 versus $233,127 in fiscal 2005. Currency favorably impacted expenses in fiscal 2006 by approximately $3,423. Expenses in fiscal 2005 were $116,296 before a goodwill impairment charge of $116,831. The decrease in expenses before goodwill impairment was primarily due to lower selling, marketing, advertising, general and administrative expenses achieved through targeted cost reduction programs, partially offset by higher restructuring costs.

Unallocated expenses, net, which include shared service and corporate expenses, interest expense, currency remeasurement losses (gains), and gain on revaluation of Warrants, were $216,941 in fiscal 2006 versus $138,364 in fiscal 2005. Expenses for fiscal 2006 and 2005 included a gain (loss) on revaluation of foreign currency forward contract of $1,081 and ($13,165) respectively. Expenses for fiscal 2006 and 2005 expenses included gains on revaluation of Warrants of $9,125 and $63,112, respectively. Expenses for fiscal 2006 and 2005 included currency remeasurement losses of $11,280 and $3,703, respectively. Currency favorably impacted unallocated expenses in fiscal 2006 by approximately $2,616. Corporate expenses in fiscal 2006 and 2005 were $146,403 and $133,102, respectively. The increase was primarily due to $23,837 for the U.S. Attorney matter recorded in fiscal 2006 discussed above, partially offset by lower general and administrative cost resulting from the Company s continued restructuring efforts. Interest expense, net was $69,464 in fiscal 2006 versus $51,506 in fiscal 2005. The increase is principally due

to higher outstanding debt and higher interest rates on the Company s credit facility.

Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle

Income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was ($150,083) or (5.3 %) of net sales in fiscal 2006 versus ($463,863) or (17.2%) of net sales in fiscal 2005 due to the items discussed above. Fiscal 2005 included a goodwill impairment charge of $388,524.

Table of Contents

	For the fiscal year ended March 31, 2006		For the fiscal year ended March 31, 2005		
	TOTAL	Percent of Net Sales	TOTAL	Percent of Net Sales	INCREASE / (DECREASE)
Transportation					
North America	($ 6,080)	(0.7%)	($ 104,772)	(12.4%)	$ 98,692
Europe & ROW	24,396	3.0%	(105,492)	(12.8%)	129,888
	18,316	1.1%	(210,264)	(12.6%)	228,580
Industrial Energy					
North America	8,846	3.2%	(19,455)	(8.7%)	28,301
Europe & ROW	39,696	4.8%	(95,780)	(12.0%)	135,476
	48,542	4.4%	(115,235)	(11.3%)	163,777
Other	(216,941)	n/a	(138,364)	n/a	(78,577)
TOTAL	($ 150,083)	(5.3%)	($ 463,863)	(17.2%)	$ 313,780

Transportation North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was ($6,080) or (0.7%) of net sales in fiscal 2006 versus ($104,772), or (12.4%) of net sales in fiscal 2005, due to the items discussed above. Fiscal 2005 included a goodwill impairment charge of $122,061.

Transportation Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was $24,396, or 3.0% of net sales in fiscal 2006 versus ($105,492), or (12.8%) of net sales in fiscal 2005, due to the items discussed above. Fiscal 2005 included a goodwill impairment charge of $112,248.

Industrial Energy North America income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was $8,846 or 3.2% of net sales in fiscal 2006 versus ($19,455), or (8.7%) of net sales in fiscal 2005, due to the items discussed above. Fiscal 2005 included a goodwill impairment charge of $37,384.

Industrial Energy Europe and ROW income (loss) before reorganization items, income taxes, minority interest and cumulative effect of change in accounting principle was $39,696, or 4.8% of net sales in fiscal 2006 versus ($95,780), or (12.0%) of net sales in fiscal 2005, due to the items discussed above. Fiscal 2005 included a goodwill impairment charge of $116,831.

Reorganization Items

Reorganization items represent amounts the Company incurred as a result of the Chapter 11 filing and are presented separately in the Consolidated Statements of Operations. Reorganization items for fiscal 2006 and 2005 were $6,158 and $29,961, respectively. These items include professional fees including financial and legal services, success fees payable to the Company s advisors related to Chapter 11 bankruptcy emergence, employee retention costs for key members of management, income from refund of preference payments made to suppliers prior to the bankruptcy filing, income associated with rejection of certain executory contracts, costs associated with directors and officers liability insurance coverage for the Predecessor Company, and interest income earned as a result of having

assumed excess cash balances due to the Chapter 11 filing. See Note 6 to the Consolidated Financial Statements.

Gain on Discharge of Liabilities Subject to Compromise

For fiscal 2005, the Company recognized a $1,558,839 gain on discharge of liabilities subject to compromise and recapitalization as a result of transactions contemplated by the Plan.

Fresh Start reporting Adjustments

For fiscal 2005 as a result of the Company s adoption of Fresh Start reporting, upon consummation of the Plan on the Effective Date, the Company recorded certain adjustments to assets and liabilities to reflect their fair values. The Fresh Start adjustments resulted in a gain of $228,371.

Income Taxes

In fiscal 2006, an income tax provision of $15,962 was recorded on pre-tax income (loss) of ($156,241). In fiscal 2005, an income tax provision of $11,737 was recorded on pre-tax income (loss) of $1,293,386. The effective tax rate was 10.2%

and 0.9% in fiscal 2006 and 2005, respectively. The effective tax rate for fiscal 2006 and 2005 was impacted by the generation of income in tax-paying jurisdictions, principally certain countries in Europe, Australia and Canada, with limited or no offset on a consolidated basis as a result of recognition of valuation allowances on tax benefits generated from current period losses in the U.S., the United Kingdom and France. The effective tax rate for fiscal 2006 was impacted by the recognition of $78,334 of valuation allowances on current year tax benefits generated primarily in the U.S., United Kingdom, France, and Italy. The effective tax rate for fiscal 2006 was also impacted by the recognition of $5,897 in valuation allowances on tax benefits generated from prior year losses and certain deductible temporary differences in Spain based on the Company s assessment that it is more likely than not that the related tax benefits will now not be realized. The effective tax rate for fiscal 2005 was impacted by the gain on discharge of liabilities subject to compromise of $1,558,839, which is exempt from tax in the U.S., the non-taxable gain on Fresh Start reporting adjustments of $228,371 and the non-deductibility of the $388,524 goodwill impairment charge. The effective tax rate in fiscal 2005 was also impacted by the recognition of $41,400 primarily in valuation allowances on tax benefits generated from prior year losses and certain deductible temporary differences in France and Italy based on the Company s assessment that it is more likely than not that the related tax benefits will now not be realized.

Fiscal Year Ended March 31, 2005 compared with Fiscal Year Ended March 31, 2004

Overview

Net income for fiscal 2005 was $1,281,641 versus fiscal 2004 net loss of $114,083. Included in fiscal 2005 consolidated net income were reorganization items of $29,961, restructuring costs of $43,081, a non-cash charge of $388,524 for goodwill impairment, an income tax charge of $11,737 primarily resulting from a change in valuation allowances, gain on discharge of liabilities subject to compromise of $1,558,839, gain on Warrants of $63,112 and gain on Fresh Start reporting adjustments of $228,371. Included in fiscal 2004 consolidated net loss were reorganization items in connection with the bankruptcy of $67,042, restructuring costs of $52,708 and a charge of $15,593 for the cumulative effect of a change in accounting principle. In addition, net currency remeasurement (losses) gains of ($3,703) and $43,846, primarily on U.S. dollar denominated debt in Europe, have been recognized in Other (income) expense, net in fiscal 2005 and fiscal 2004, respectively and a loss on revaluation of a foreign currency forward contract of $13,165 was recognized in Other (income) expense, net in fiscal 2005.

Net Sales

Net sales were $2,690,866 for fiscal 2005 versus $2,500,493 in fiscal 2004. Currency positively impacted net sales in fiscal 2005 by approximately $104,000. Net sales were also higher as a result of lead related and other pricing actions.

	For the fiscal year ended March 31, 2005	For the fiscal year ended March 31, 2004	INCREASE / (DECREASE)		
			TOTAL	Currency Related	Non-Currency Related
Transportation					
North America	$ 847,571	$ 817,710	$ 29,861		$ 29,861
Europe & ROW	823,165	760,512	62,653	54,000	8,653
	1,670,736	1,578,222	92,514	54,000	38,514
Industrial Energy					
North America	223,008	210,572	12,436		12,436
Europe & ROW	797,122	711,699	85,423	50,000	35,423
	1,020,130	922,271	97,859	50,000	47,859

TOTAL	$ 2,690,866	$ 2,500,493	$ 190,373	$ 104,000	$ 86,373

Transportation North America net sales were $847,571 for fiscal 2005 versus $817,710 for fiscal 2004. Third party lead sales revenues for fiscal 2005 were $19,415 higher than fiscal 2004 due to rising lead prices. Transportation North America net sales also increased due to slightly higher unit volumes, principally in the original equipment channel and higher average selling prices from lead related pricing actions.

Transportation Europe and ROW net sales were $823,165 for fiscal 2005 versus $760,512 for fiscal 2004. Currency positively impacted Transportation net sales in fiscal 2005 by approximately $54,000. European selling prices for fiscal 2005 were higher than fiscal 2004, primarily from the effect of lead-related pricing adjustments, partially offset by the impact of lower sales volumes in both the original equipment and aftermarket channels.

Table of Contents

Industrial Energy North America net sales were $223,008 for fiscal 2005 versus $210,572 for fiscal 2004. The increase was primarily due to higher material handling application volumes, lead related pricing actions and the recognition of $2,950 previously deferred income on a customer agreement under which the Company fulfilled its obligations in fiscal 2005.

Industrial Energy Europe and ROW net sales were $797,122 for fiscal 2005 versus $711,699 for fiscal 2004. Currency positively impacted Industrial Energy Europe and ROW net sales in fiscal 2005 by approximately $50,000. Higher material handling application volumes and higher average selling prices due to lead related pricing actions were partially offset by lower telecommunication market volumes and competitive pricing pressures within both the original equipment and aftermarket channels.

Gross Profit

Gross profit was $412,972 in fiscal 2005 versus $509,325 in fiscal 2004. Gross margin decreased to 15.3% in fiscal 2005 from 20.4% in fiscal 2004. Currency positively impacted gross profit in fiscal 2005 by approximately $22,000. Gross profit in each of the Company s business segments was negatively impacted by higher lead costs (average LME prices were $920 dollars per metric tonne in fiscal 2005 versus $611 dollars per metric tonne in fiscal 2004), only partially being recovered by higher average selling prices.

	For the fiscal year ended March 31, 2005		For the fiscal year ended March 31, 2004		INCREASE / (DECREASE)		
	TOTAL	Percent of Net Sales	TOTAL	Percent of Net Sales	TOTAL	Currency Related	Non-Currency Related
Transportation							