

EXIDE TECHNOLOGIES  
Form 10-Q  
November 09, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

- 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)

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>23-0552730</b> (I.R.S. Employer Identification Number)
<b>13000 Deerfield Parkway,</b>  <b>Building 200</b>	
<b>Milton, Georgia</b> (Address of principal executive offices)	<b>30004</b> (Zip Code)
<b>(678) 566-9000</b>  (Registrant's telephone number, including area code)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

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

As of October 29, 2012, 79,296,006 shares of common stock were outstanding.

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
Item 1. <u>FINANCIAL STATEMENTS</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011</u>	4
<u>CONDENSED CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2012 AND MARCH 31, 2012</u>	5
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2012 AND 2011</u>	6
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	7
Item 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	19
Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	29
Item 4. <u>CONTROLS AND PROCEDURES</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>LEGAL PROCEEDINGS</u>	32
Item 1A. <u>RISK FACTORS</u>	32
Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	32
Item 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	32
Item 4. <u>MINE SAFETY DISCLOSURES</u>	32
Item 5. OTHER INFORMATION	
Item 6. <u>EXHIBITS</u>	32
<u>SIGNATURES</u>	33

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****EXIDE TECHNOLOGIES AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited, in thousands, except per-share data)**

	For the Three Months Ended		For the Six Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 711,692	\$ 772,953	\$ 1,405,130	\$ 1,518,048
Cost of sales	608,033	654,339	1,207,216	1,282,784
Gross profit	103,659	118,614	197,914	235,264
Selling and administrative expenses	95,715	96,140	189,400	198,877
Restructuring and impairments, net	1,108	1,281	624	1,577
Operating income	6,836	21,193	7,890	34,810
Other (income) expense, net	(513)	5,751	1,098	5,870
Interest expense, net	17,229	18,074	31,326	35,735
Loss before income taxes	(9,880)	(2,632)	(24,534)	(6,795)
Income tax provision	3,887	995	95,700	2,628
Net loss	(13,767)	(3,627)	(120,234)	(9,423)
Net income (loss) attributable to noncontrolling interests	111	(39)	140	(643)
Net loss attributable to Exide Technologies	\$ (13,878)	\$ (3,588)	\$ (120,374)	\$ (8,780)
Loss per share				
Basic and diluted	\$ (0.18)	\$ (0.05)	\$ (1.56)	\$ (0.11)
Weighted average shares				
Basic and diluted	77,210	77,627	77,178	77,573

The accompanying notes are an integral part of these statements.

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

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Consolidated net loss	\$ (13,767)	\$ (3,627)	\$ (120,234)	\$ (9,423)
Other comprehensive income (loss):				
Foreign currency translation adjustment	11,457	(45,942)	(13,483)	(33,681)
Gain (loss) on derivatives qualifying as hedges, net	2,643	(4,469)	1,266	(3,734)
Change in defined benefit liabilities, net	(325)	(76)	281	(70)
Total comprehensive income (loss)	8	(54,114)	(132,170)	(46,908)
Comprehensive income (loss) attributable to noncontrolling interests	119	(34)	140	(451)
Comprehensive loss attributable to Exide Technologies	\$ (111)	\$ (54,080)	\$ (132,310)	\$ (46,457)

The accompanying notes are an integral part of these statements.

**Table of Contents**

**EXIDE TECHNOLOGIES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	September 30, 2012	March 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 74,281	\$ 155,368
Accounts receivable, net	542,693	500,375
Inventories	541,315	479,467
Prepaid expenses and other current assets	27,464	21,840
Deferred income taxes	10,500	30,804
Total current assets	1,196,253	1,187,854
Property, plant and equipment, net	626,630	622,975
Other assets:		
Goodwill and intangibles, net	157,645	164,039
Deferred income taxes	91,691	174,601
Other noncurrent assets	45,561	45,517
	294,897	384,157
Total assets	\$ 2,117,780	\$ 2,194,986
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 39,587	\$ 20,014
Current maturities of long-term debt	63,489	3,787
Accounts payable	429,882	390,549
Accrued expenses	291,388	276,809
Total current liabilities	824,346	691,159
Long-term debt	690,635	752,930
Noncurrent retirement obligations	221,653	236,312
Deferred income taxes	12,511	17,158
Other noncurrent liabilities	96,075	95,075
Total liabilities	1,845,220	1,792,634
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, \$0.01 par value, 1,000 shares authorized, 0 shares issued and outstanding		
Common stock, \$0.01 par value, 200,000 shares authorized, 79,290 and 78,351 shares issued and outstanding	793	783
Additional paid-in capital	1,135,785	1,133,417
Accumulated deficit	(836,287)	(715,913)
Accumulated other comprehensive loss	(28,429)	(16,493)
Total stockholders' equity attributable to Exide Technologies	271,862	401,794
Noncontrolling interests	698	558

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Total stockholders' equity		272,560	402,352
Total liabilities and stockholders' equity		\$ 2,117,780	\$ 2,194,986

The accompanying notes are an integral part of these statements.

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

(Unaudited, in thousands)

	For the Six Months Ended	
	September 30, 2012	September 30, 2011
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (120,234)	\$ (9,423)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	39,442	43,284
Net (gain) loss on asset sales / impairments	(1,081)	423
Deferred income taxes	94,379	(5,631)
Provision for doubtful accounts	570	585
Non-cash stock compensation	2,378	2,585
Amortization of deferred financing costs	2,125	2,143
Currency remeasurement loss	252	9,383
Changes in assets and liabilities		
Receivables	(25,552)	(4,857)
Inventories	(70,615)	(63,121)
Other current assets	(6,404)	(8,315)
Payables	48,439	12,912
Accrued expenses	(3,800)	(13,549)
Other noncurrent liabilities	(8,126)	(6,121)
Other, net	(2,103)	(4,172)
Net cash used in operating activities	(50,330)	(43,874)
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(49,621)	(43,192)
Proceeds from asset sales	1,084	36
Net cash used in investing activities	(48,537)	(43,156)
<b>Cash Flows From Financing Activities:</b>		
Increase in short-term borrowings	20,321	14,035
Decrease in other debt	(1,928)	(1,316)
Acquisition of noncontrolling interests/other		340
Net cash provided by financing activities	18,393	13,059
Effect of exchange rate changes on cash and cash equivalents	(613)	(2,560)
Net decrease in cash and cash equivalents	(81,087)	(76,531)
Cash and cash equivalents, beginning of period	155,368	161,363
Cash and cash equivalents, end of period	\$ 74,281	\$ 84,832
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period		
Interest	\$ 32,942	\$ 34,357
Income taxes (net of refunds)	\$ 3,191	\$ 6,118

The accompanying notes are an integral part of these statements.





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

September 30, 2012

(Unaudited)

**(1) BASIS OF PRESENTATION**

The Condensed Consolidated Financial Statements include the accounts of Exide Technologies (referred to together with its subsidiaries, unless the context requires otherwise, as Exide or the Company) and all of its majority-owned subsidiaries. These statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by U.S. generally accepted accounting principles (GAAP), or those disclosures normally made in the Company's annual report on Form 10-K. Accordingly, the reader of this Form 10-Q should refer to the Company's annual report on Form 10-K for the fiscal year ended March 31, 2012 for further information.

The financial information has been prepared in accordance with the Company's customary accounting practices. In the Company's opinion, the accompanying Condensed Consolidated Financial Statements include all adjustments of a normal recurring nature necessary for a fair statement of the results of operations, comprehensive loss, financial position, and cash flows for the periods presented. This includes accounting and disclosures related to any subsequent events occurring from the balance sheet date through the date the financial statements were issued.

Unless otherwise indicated or unless the context otherwise requires, references to fiscal year refer to the period ended March 31 of that year (e.g., fiscal 2013 refers to the period beginning April 1, 2012 and ending March 31, 2013).

**(2) STOCKHOLDERS' EQUITY**

The stockholders' equity accounts for both the Company and noncontrolling interests consist of:

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders Equity
	(In thousands)					
Balance at April 1, 2012	\$ 783	\$ 1,133,417	\$ (715,913)	\$ (16,493)	\$ 558	\$ 402,352
Net (loss) income			(120,374)		140	(120,234)
Defined benefit plans, net of tax of \$97				279		279
Translation adjustment				(13,483)		(13,483)
Net recognition of unrealized gain on derivatives, net of tax \$505				1,266		1,266
Common stock issuance/other	10	(10)		2		2
Stock compensation		2,378				2,378
Balance at September 30, 2012	\$ 793	\$ 1,135,785	\$ (836,287)	\$ (28,429)	\$ 698	\$ 272,560

**(3) ACCOUNTING FOR DERIVATIVES**

The Company uses derivative contracts to hedge the volatility arising from changes in the fair value of certain assets and liabilities that are subject to market risk, such as interest rates on debt instruments, foreign currency exchange rates, and certain commodities. The Company does not enter into derivative contracts for trading or speculative purposes.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

The Company recognizes outstanding derivative instruments as assets or liabilities, based on measurements of their fair values. If a derivative qualifies for hedge accounting, gains or losses in its fair value that offset changes in the fair value of the asset or liability being hedged (effective gains or losses) are reported in accumulated other comprehensive income, and subsequently recorded to earnings only as the related variability on the hedged transaction is recorded in earnings. If a derivative does not qualify for hedge accounting, changes in its fair value are reported in earnings immediately upon occurrence, and the classification of cash flows from

**Table of Contents**

these instruments is consistent with that of the transactions being hedged. Derivatives qualify for hedge accounting if they are designated as hedging instruments at their inception, and if they are highly effective in achieving changes in fair value that offset the fair value changes in the assets or liabilities being hedged. Regardless of a derivative's accounting designation, changes in its fair value that are not offset by changes in the fair value of the asset or liability being hedged are considered ineffective, and are recognized in earnings immediately.

The Company enters into foreign currency forward contracts for various time periods ranging from one month to a year or more. The Company uses these contracts to mitigate the effect of its exposure to foreign currency remeasurement gains and losses on selected transactions that will be settled in a currency other than the functional currency of the transacting entity. These contracts include economic hedges on which fair value changes are recorded in earnings immediately, as well as instruments designated as hedging instruments. At September 30, 2012, the Company held foreign currency forward contracts with a total notional value of approximately \$81.0 million.

The Company also enters into commodity swap and forward contracts for various time periods usually not exceeding one year. The Company uses these contracts to mitigate the effects of its exposure to price variability on certain raw materials and other costs included in the delivered cost of its products. These contracts include economic hedges on which fair value changes are recorded in earnings immediately, as well as instruments designated as cash flow hedging instruments.

The following tables set forth information on the presentation of these derivative instruments in the Company's Condensed Consolidated Financial Statements:

	Balance Sheet Location	Fair Value As of	
		September 30, 2012	March 31, 2012
(In thousands)			
<b>Asset Derivatives:</b>			
Foreign exchange forwards	Current assets	\$ 5	\$ 104
Commodity swaps / forwards	Current assets	2,920	320
Interest rate swaps	Current assets		1,755
Interest rate swaps	Noncurrent assets		2,323
<b>Liability Derivatives:</b>			
Foreign exchange forwards	Current liabilities	\$ 4,764	\$ 5,725
Commodity swaps / forwards	Current liabilities		697

	Statement of Operations Location	For the Three Months Ended		For the Six Months Ended	
		September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(In thousands)					
<b>Foreign Exchange Forwards</b>					
Loss (gain)	Other (income) expense, net	\$ 2,110	\$ (8,121)	\$ (2,841)	\$ (6,157)
<b>Commodity Swaps / Forwards</b>					
(Gain) loss	Cost of sales	(643)	810	2,542	810
<b>Interest Rate Swaps</b>					
Gain	Interest expense, net	(142)	(518)	(1,770)	(518)

At September 30, 2012, approximately \$1.6 million is expected to be reclassified from OCI to cost of sales during the remainder of fiscal 2013.

**Table of Contents****(4) GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets consist of:

	Goodwill (not subject to amortization)	Trademarks and Tradenames (not subject to amortization)	Trademarks and Tradenames (subject to amortization)	Customer Relationships	Technology	Total
(In thousands)						
As of September 30, 2012						
Gross amount	\$ 3,849	\$ 60,429	\$ 13,732	\$ 113,562	\$ 30,591	\$ 222,163
Accumulated amortization			(9,128)	(39,648)	(15,742)	(64,518)
Net	\$ 3,849	\$ 60,429	\$ 4,604	\$ 73,914	\$ 14,849	\$ 157,645
As of March 31, 2012						
Gross amount	\$ 4,000	\$ 61,470	\$ 13,971	\$ 115,520	\$ 30,958	\$ 225,919
Accumulated amortization			(8,734)	(37,936)	(15,210)	(61,880)
Net	\$ 4,000	\$ 61,470	\$ 5,237	\$ 77,584	\$ 15,748	\$ 164,039

Amortization of intangible assets for the first six months of fiscal 2013 and 2012 was \$3.5 million and \$4.5 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates annual amortization of intangible assets for each of the next five years will be approximately \$7.0 million. Intangible assets have been recorded at the legal entity level and are subject to foreign currency fluctuation.

**(5) INVENTORIES**

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

	September 30, 2012	March 31, 2012
(In thousands)		
Raw materials	\$ 98,861	\$ 85,116
Work-in-process	154,992	123,723
Finished goods	287,462	270,628
	\$ 541,315	\$ 479,467

**(6) OTHER NONCURRENT ASSETS**

Other noncurrent assets consist of the following:

	September 30, 2012	March 31, 2012
(In thousands)		
Deposits (a)	\$ 4,613	\$ 4,566
Deferred financing costs	18,201	20,326
Investment in affiliates	1,892	1,963
Capitalized software, net	2,365	2,003
Loan to affiliate	1,043	1,005

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Retirement plans	11,127	7,474
Financial instruments		2,323
Other	6,320	5,857
	\$ 45,561	\$ 45,517

- (a) Deposits principally represent amounts held by beneficiaries as cash collateral for the Company's contingent obligations with respect to certain environmental matters, workers compensation insurance, and operating lease commitments.

**Table of Contents****(7) DEBT**

At September 30, 2012 and March 31, 2012, short-term borrowings of \$39.6 million and \$20.0 million, respectively, consisted of borrowings under various operating lines of credit, the Company's senior secured asset-backed revolving credit facility (the "ABL facility"), and working capital facilities maintained by certain of the Company's non-U.S. subsidiaries. Certain of these borrowings are collateralized by receivables, inventories and/or property. Excluding the ABL facility, these borrowing facilities are typically for one-year renewable terms and generally bear interest at current local market rates plus up to one percent per annum. The weighted average interest rate on short-term borrowings was approximately 5.1% and 5.4% at September 30, 2012 and March 31, 2012, respectively.

Total long-term debt consists of:

	September 30, 2012	March 31, 2012
	(In thousands)	
8 5/8% Senior Secured Notes due 2018	\$ 675,000	\$ 675,000
Floating Rate Convertible Senior Subordinated Notes due 2013		
(a)	60,000	60,000
Other, including capital lease obligations and other loans at interest rates generally ranging up to 6.2% due in installments through 2018	16,052	18,363
	751,052	753,363
Fair value adjustments on hedged debt	3,072	3,354
Total	754,124	756,717
Less-current maturities (a)	63,489	3,787
Total long-term debt	\$ 690,635	\$ 752,930

Total debt, including short-term borrowings, at September 30, 2012 and March 31, 2012 was \$793.7 million and \$776.7 million, respectively.

(a) Included in current maturities at September 30, 2012 are the Company's floating rate Convertible Senior Subordinated Notes, which mature on September 18, 2013.

**(8) INTEREST EXPENSE, NET**

Interest income is included in interest expense, net. Such interest income amounted to \$0.2 million for both the three months ended September 30, 2012 and 2011 and \$0.5 million and \$0.9 million for the six months ended September 30, 2012 and 2011, respectively.

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

Other (income) expense net consist of:

	For the Three Months Ended		For the Six Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands)			
Currency remeasurement (gain) loss (a)	\$ (939)	\$ 6,832	\$ 252	\$ 9,383
Reorganization items (b)	426	311	801	865
Gain on interest rate swap		(1,301)		(4,645)
Other		(91)	45	267

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

\$ (513)	\$	5,751	\$ 1,098	\$	5,870
----------	----	-------	----------	----	-------

- (a) The currency remeasurement loss (gain) relates primarily to intercompany loans to foreign subsidiaries denominated in Euros, the Australian dollar, Belarusian ruble, and various other foreign currencies.
- (b) Reorganization items primarily consist of professional fees and claim settlements related to the Company's prior bankruptcy filing from which the successor Company emerged in May 2004.



**Table of Contents****(10) EMPLOYEE BENEFITS**

The components of the Company's net periodic pension and other post-retirement benefit costs are as follows:

	<b>Pension Benefits</b>			
	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
	<b>(In thousands)</b>			
<b>Components of net periodic benefit cost:</b>				
Service cost	\$ 598	\$ 643	\$ 1,173	\$ 1,229
Interest cost	7,386	8,329	14,689	16,327
Expected return on plan assets	(7,250)	(7,805)	(14,369)	(15,412)
<b>Amortization of:</b>				
Prior service cost	15	22	30	43
Actuarial loss	505	165	1,004	335
<b>Net periodic benefit cost</b>	<b>\$ 1,254</b>	<b>\$ 1,354</b>	<b>\$ 2,527</b>	<b>\$ 2,522</b>

	<b>Other Post-Retirement Benefits</b>			
	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
	<b>(In thousands)</b>			
<b>Components of net periodic benefit cost:</b>				
Service cost	\$ 176	\$ 131	\$ 346	\$ 255
Interest cost	262	282	521	559
<b>Amortization of:</b>				
Prior service cost	(122)	(122)	(245)	(245)
Actuarial loss	161	125	320	248
<b>Net periodic benefit cost</b>	<b>\$ 477</b>	<b>\$ 416</b>	<b>\$ 942</b>	<b>\$ 817</b>

The estimated fiscal 2013 pension plan contributions are \$25.4 million and other post-retirement contributions are \$1.9 million. Payments aggregating \$16.6 million were made during the six months ended September 30, 2012.

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

On April 15, 2002, the Petition Date, Exide Technologies, together with certain of its subsidiaries (the Debtors), 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 ). 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.

Under the Plan, holders of general unsecured claims were eligible to receive collectively 2.5 million shares of common stock and warrants to purchase up to approximately 6.7 million shares of common stock at \$29.84 per share. Approximately 13.4% of such common stock and warrants were initially reserved for distribution for disputed claims. The Official Committee of Unsecured Creditors, in consultation with the Company, established such reserve to provide for a pro rata distribution of new common stock and warrants to holders of disputed claims as they become allowed. As claims are evaluated and processed, the Company will object to some claims or portions thereof, and upward adjustments (to the extent common 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 difficult to make. With respect to

environmental claims in

---

**Table of Contents**

particular, it is difficult to assess 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 proportional 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, is 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. Such claimants often either fail to specify a 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 a 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 of common stock 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, 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. Effective May 6, 2011, all outstanding warrants expired and were cancelled. No more warrants will be issued to resolve any remaining pre-petition claims. 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 may 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.

Based on information available as of October 29, 2012, approximately 72.0% of common stock and warrants reserved for this purpose has been distributed. The Company also continues to resolve certain non-objected claims.

***Private Party Lawsuits and other Legal Proceedings***

In 2003, the Company served notices in the U.S. Bankruptcy Court for the District of Delaware to reject certain executory contracts with EnerSys, which the Company contended were executory, including a 1991 Trademark and Trade Name License Agreement (the Trademark License), pursuant to which the Company had licensed to EnerSys use of the Exide trademark on certain industrial battery products in the United States and 80 foreign countries. EnerSys objected to the rejection of certain of those contracts, including the Trademark License. In 2006, the Bankruptcy Court granted the Company's request to reject certain of the contracts, including the Trademark License. EnerSys appealed those rulings. On June 1, 2010, the Third Circuit Court of Appeals reversed the Bankruptcy Court ruling, and remanded to the lower courts, holding that certain of the contracts, including the Trademark License, were not executory contracts and, therefore, were not subject to rejection. On August 27, 2010, acting on the Third Circuit's mandate, the Bankruptcy Court vacated its prior orders and denied the Company's motion to reject the contracts on the grounds that the agreements are not executory. On September 20, 2010, the Company filed a complaint in the Bankruptcy Court seeking a declaratory judgment that EnerSys does not have enforceable rights under the Trademark License under Bankruptcy Code provisions which the Company believes are relevant to non-executory contracts. EnerSys has filed a motion to dismiss that complaint, which the Company has opposed, and the motion remains pending.

***Environmental Matters***

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

The Company is exposed to liabilities under such EH&S laws arising from its past handling, release, storage and disposal of materials now designated as hazardous substances and hazardous wastes. The Company previously has received notification from the U.S. Environmental Protection Agency (EPA), equivalent state and local agencies or others alleging or indicating that the Company is or may be responsible for performing and/or investigating environmental remediation, or seeking the repayment of the costs spent by governmental entities or others performing investigations and/or remediation at certain U.S. sites under the Comprehensive Environmental Response, Compensation and Liability Act or similar state laws.

The Company monitors and responds to inquiries from the EPA, equivalent state and local agencies and others at approximately 50 federally defined Superfund or state equivalent sites. While the ultimate outcome of the environmental matters described in this paragraph is uncertain due to several factors, including the number of other parties that may also be responsible, the scope of investigation performed at such sites and the remediation alternatives pursued by such federal and equivalent state and local agencies, the Company presently believes any liability for these

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial condition, cash flows or results of operations.

---

## **Table of Contents**

The Company is also involved in the assessment and remediation of various other properties, including certain currently and formerly owned or operating facilities. Such assessment and remedial work is being conducted pursuant to applicable EH&S laws with varying degrees of involvement by appropriate regulatory authorities. In addition, certain environmental matters concerning the Company are pending in various courts or with certain environmental regulatory agencies with respect to these currently or formerly owned or operating locations. While the ultimate outcome of the environmental matters described in this paragraph is uncertain, the Company presently believes the resolution of these known environmental matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial condition, cash flows, or results of operations.

The Company has established liabilities for on-site and off-site environmental remediation costs where such costs are probable and reasonably estimable and believes that such liabilities are adequate. As of September 30, 2012 and March 31, 2012, the amount of such liabilities on the Company's Condensed Consolidated Balance Sheet was approximately \$26.7 million and \$27.7 million, respectively. Because environmental liabilities are not accrued until a liability is determined to be probable and reasonably estimable, not all potential future environmental liabilities have been included in the Company's environmental liabilities. Therefore, changes in estimates or future findings could have a material adverse effect on the Company's financial condition, cash flows, or results of operations.

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

### ***Tampa, Florida***

The Tampa site is a former secondary lead recycling plant, lead oxide production facility, and sheet lead-rolling mill that operated from 1943 to 1989. Under a RCRA Part B Closure Permit and a Consent Decree with the State of Florida, Exide is required to investigate and remediate certain historic environmental impacts to the site. Cost estimates for remediation (closure and post-closure) are expected to range from \$13.0 million to \$20.0 million depending on final State of Florida requirements. The remediation activities are expected to occur over the course of several years.

### ***Columbus, Georgia***

The Columbus site is a former secondary lead recycling plant that was taken out of service in 1999, but remains part of a larger facility that includes an operating lead-acid battery manufacturing facility. Groundwater remediation activities began in 1988. Costs for supplemental investigations, remediation and site closure are currently estimated at \$6.0 million to \$8.5 million.

### ***Guarantees***

At September 30, 2012, the Company had outstanding letters of credit with a face value of \$48.3 million and surety bonds with a face value of \$42.8 million. The majority of the letters of credit and surety bonds have been issued as collateral or financial assurance with respect to certain liabilities the Company has recorded including, but not limited to, environmental remediation obligations and self-insured workers' compensation reserves. Failure of the Company to satisfy its obligations with respect to the primary obligations secured by the letters of credit or surety bonds could entitle the beneficiary of the related letter of credit or surety bond to demand payments pursuant to such instruments. The letters of credit generally have terms up to one year. Collateral held by the sureties in the form of letters of credit at September 30, 2012, pursuant to the terms of the agreement, totaled approximately \$40.6 million.

Certain of the Company's European and Asia Pacific subsidiaries have issued bank guarantees as collateral or financial assurance in connection with environmental obligations, income tax claims and customer contract requirements. At September 30, 2012, bank guarantees with an aggregate face value of \$19.6 million were outstanding.

### ***Sales Returns and Allowances***

The Company provides for an allowance for product returns and/or allowances. Based upon product examination in the manufacturing re-work process, the Company believes that the majority of its product returns are not the result of product defects. The Company recognizes the estimated cost of product returns as a reduction of net 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.

**Table of Contents**

Changes in the Company's sales returns and allowances liability (in thousands) are as follows:

Balance at March 31, 2012	\$ 36,811
Accrual for sales returns and allowances	17,006
Settlements made (in cash or credit) and currency translation	(19,642)
Balance at September 30, 2012	\$ 34,175

**(12) INCOME TAXES**

The effective tax rate for the first six months of fiscal year 2013 and fiscal year 2012 is (390.1)% and (38.7)% respectively. The effective tax rate for the first six months of fiscal 2013 included the recognition of taxes on income and losses in almost all of the Company's jurisdictions except for the United States, Spain and the United Kingdom, on which full valuation allowances are recorded. The Company established an \$86.7 million full valuation allowance for the United States in the first six months of fiscal 2013 after determining that it was not more likely than not that the Company would realize all deductible temporary differences and carryforwards in the foreseeable future.

The effective tax rate for the first six months of fiscal 2013 was primarily affected by the discrete item of establishing a valuation allowance in the United States of \$86.7 million.

Each quarter, the Company reviews the need to report the future realization of tax benefits of deductible temporary differences or loss carryforwards on its financial statements. All available evidence is considered to determine whether a valuation allowance should be established against these future tax benefits or previously established valuation allowances should be released. This review is performed on a jurisdiction by jurisdiction basis. As global market conditions and the Company's financial results in certain jurisdictions change, the continued release and establishment of related valuation allowances may occur.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years ended before March 31, 2009.

With respect to state and local jurisdictions and countries outside of the United States, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for years ended before March 31, 2006. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that could result from these years.

The Company's unrecognized tax benefits decreased from \$41.5 million to \$40.5 million during the first six months of fiscal 2013 due primarily to the effects of foreign currency translation less unrecognized tax benefits released during the period due to expiration of statute of limitations and settlements with taxing jurisdictions. The amount, if recognized, that would affect the Company's effective tax rate at September 30, 2012 is \$35.5 million.

The Company classifies interest and penalties on uncertain tax benefits as income tax expense. At September 30, 2012 and March 31, 2012, before any tax benefits, the Company had \$2.4 million and \$3.0 million, respectively, of accrued interest and penalties on unrecognized tax benefits.

During the next twelve months, the Company does not expect the resolution of any tax audits which could potentially reduce unrecognized tax benefits by a material amount. However, expiration of the statute of limitations for a tax year in which the Company has recorded an uncertain tax benefit will occur in the next twelve months. The removal of this uncertain tax benefit would affect the Company's forecasted annual effective tax rate by \$0.3 million.

**(13) RESTRUCTURING AND IMPAIRMENTS, NET**

During the first six months of fiscal 2013, the Company has continued to implement operational changes to streamline and rationalize its structure in an effort to simplify the organization and eliminate redundant and/or unnecessary costs.



**Table of Contents**

Summarized restructuring reserve activity are as follows:

	Severance Costs	Closure Costs	Total Restructuring (In thousands)	Asset Sale and Impairments (gain) loss	Total Restructuring / Impairments, net
Balance at March 31, 2012	\$ 10,401	\$ 3,347	\$ 13,748		
Expenses	807	898	1,705	\$ (1,081)	\$ 624
Payments and Currency Translation	(6,810)	(1,856)	(8,666)		
Balance at September 30, 2012	\$ 4,398	\$ 2,389	\$ 6,787		

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

Summarized restructuring and impairments, net by segment, are as follows:

	For the Three Months Ended		For the Six Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands)			
Transportation Americas	\$ 138	\$ 542	\$ 138	\$ 623
Transportation Europe & ROW	241	(552)	155	(453)
Industrial Energy Americas	360	169	408	346
Industrial Energy Europe & ROW	369	744	(37)	683
Unallocated corporate		378	(40)	378
TOTAL	\$ 1,108	\$ 1,281	\$ 624	\$ 1,577

**(14) LOSS PER SHARE**

The Company computes basic loss per share by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss, after adding back the after-tax amount of interest recognized in the period associated with the Company's Floating Rate Convertible Senior Subordinated Notes, by diluted weighted average shares outstanding. Potentially dilutive shares include the assumed exercise of stock options and the assumed vesting of restricted stock and stock unit awards (using the treasury stock method) as well as the assumed conversion of the convertible debt, if dilutive (using the if-converted method). Shares which are contingently issuable under the Company's plan of reorganization have been included as outstanding common shares for purposes of calculating basic loss per share.

Due to a net loss for the three and six month periods ended September 30, 2012 and September 30, 2011, certain potentially dilutive shares were excluded from the diluted loss per share calculation because their effect would be antidilutive:

	September 30, 2012	September 30, 2011
	(In thousands)	
Shares associated with convertible debt (assumed conversion)	3,697	3,697
Employee stock options	2,872	3,071



Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Restricted stock awards	1,799	1,259
Total shares excluded	8,368	8,027

**(15) FAIR VALUE MEASUREMENTS**

The Company uses available market information and other methodologies believed to be appropriate to estimate the fair value

**Table of Contents**

of its financial instruments. Considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. The creditworthiness of counterparties is continually reviewed, and full performance is currently anticipated.

The Company's cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings all have carrying amounts that are a reasonable estimate of their fair values. The carrying values and estimated fair values of the Company's long-term obligations and other financial instruments are as follows:

	September 30, 2012		March 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(In thousands)				
<b>(Liability) Asset:</b>				
Senior Secured Notes due 2018	\$ (675,000)	\$ (583,875)	\$ (675,000)	\$ (562,781)
Convertible Senior Subordinated Notes due 2013	(60,000)	(55,200)	(60,000)	(51,000)
Interest Rate Swaps (a)			4,078	4,078
Foreign Currency Forwards (a)				
Asset	5	5	104	104
Liability	(4,764)	(4,764)	(5,725)	(5,725)
Commodity Swaps (a)				
Asset	2,920	2,920	320	320
Liability			(697)	(697)

- (a) These financial instruments are required to be measured at fair value, and are based on inputs as described in the three-tier hierarchy that prioritizes inputs used in measuring fair value as of the reported date:

- Level 1 Observable inputs such as quoted prices in active markets for identical assets and liabilities;
- Level 2 Inputs other than quoted prices in active markets that are observable either directly or indirectly; and
- Level 3 Inputs from valuation techniques in which one or more key value drivers are not observable, and must be based on the reporting entity's own assumptions.

**Table of Contents**

The following table represents the Company's financial instruments that are measured at fair value on a recurring basis, and the basis for that measurement:

	Total Fair Value Measurement	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
<b>September 30, 2012:</b>				
<b>Assets:</b>				
Foreign exchange forwards	\$ 5	\$	\$ 5	\$
Commodity Swaps	2,920		2,920	
<b>Liabilities:</b>				
Foreign exchange forwards	4,764		4,764	
<b>March 31, 2012:</b>				
<b>Assets:</b>				
Interest rate swaps	\$ 4,078	\$	\$ 4,078	\$
Foreign currency forwards	104		104	
Commodity Swaps	320		320	
<b>Liabilities:</b>				
Foreign exchange forwards	5,725		5,725	
Commodity Swaps	697		697	

The Company uses a market approach to determine the fair values of all of its derivative instruments subject to recurring fair value measurements. The fair value of each financial instrument was determined based upon observable forward prices for the related underlying financial index or commodity price, and each has been classified as Level 2 based on the nature of the underlying markets in which those derivatives are traded. For additional discussion of the Company's derivative instruments and hedging activities, see Note 3.

**(16) SEGMENT INFORMATION**

The Company reports its results in four business segments: Transportation Americas, Transportation Europe and Rest of World ( ROW ), Industrial Energy Americas and Industrial Energy Europe and ROW. The Company is a global producer and recycler of lead-acid batteries. The Company's four business segments provide a comprehensive range of stored electrical energy products and services for transportation and industrial applications.

Transportation markets include original-equipment and aftermarket batteries for cars, trucks, off-road vehicles, agricultural and construction vehicles, motorcycles, recreational vehicles, marine, and other applications. Industrial markets include batteries for motive power and network power applications. Motive power batteries are used in the materials handling industry for electric forklift trucks, and in other industries, including floor cleaning machinery, powered wheelchairs, railroad locomotives, mining and the electric road vehicles market. Network power batteries are used for backup power for use with telecommunications systems, computer installations, hospitals, air traffic control, security systems, utility, railway and military applications.

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

**Table of Contents**

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

	For the Three Months Ended		For the Six Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(In thousands)				
<b>Net sales</b>				
Transportation Americas	\$ 213,038	\$ 224,437	\$ 428,179	\$ 442,034
Transportation Europe & ROW	211,120	247,478	405,263	474,698
Industrial Energy Americas	98,862	90,994	185,550	179,539
Industrial Energy Europe & ROW	188,672	210,044	386,138	421,777
	\$ 711,692	\$ 772,953	\$ 1,405,130	\$ 1,518,048
<b>Operating income (loss)</b>				
Transportation Americas	\$ (5,593)	\$ 813	\$ (15,011)	\$ (3,737)
Transportation Europe & ROW	4,976	6,595	8,998	18,849
Industrial Energy Americas	7,105	11,519	13,517	20,908
Industrial Energy Europe & ROW	8,599	9,730	14,788	13,665
Unallocated corporate expenses	(7,143)	(6,183)	(13,778)	(13,298)
	7,944	22,474	8,514	36,387
Less: restructuring and impairments, net (a)	1,108	1,281	624	1,577
<b>Total operating income</b>	<b>\$ 6,836</b>	<b>\$ 21,193</b>	<b>\$ 7,890</b>	<b>\$ 34,810</b>
<b>Depreciation and Amortization</b>				
Transportation Americas	\$ 6,860	\$ 6,779	\$ 13,923	\$ 13,738
Transportation Europe & ROW	4,492	5,032	9,299	10,099
Industrial Energy Americas	2,590	3,049	5,271	6,072
Industrial Energy Europe & ROW	4,329	5,392	8,788	10,727
Unallocated corporate expenses	1,260	1,277	2,161	2,648
	\$ 19,531	\$ 21,529	\$ 39,442	\$ 43,284
<b>Capital expenditures</b>				
Transportation Americas	\$ 11,059	\$ 10,319	\$ 20,021	\$ 18,467
Transportation Europe & ROW	7,869	7,888	15,984	15,058
Industrial Energy Americas	3,014	2,709	5,988	4,109
Industrial Energy Europe & ROW	3,011	3,342	4,640	5,267
Unallocated corporate expenses	582	211	2,988	291
	\$ 25,535	\$ 24,469	\$ 49,621	\$ 43,192

(a) See Note 13 for detail by segment.

---

## **Table of Contents**

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

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

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 these statements. The forward-looking information is based on various factors and was derived from numerous assumptions. See Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995, and Item 1A. Risk Factors in Part II included in this Report on Form 10-Q, as well as the risk factors included in Item 1A. to Part I of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012 for a discussion of factors to be considered when evaluating forward-looking information detailed below. These factors could cause our actual results to differ materially from the forward looking statements. For a discussion of certain legal contingencies, see Note 11 to the Condensed Consolidated Financial Statements.

### **Executive Overview**

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

Transportation markets include Original Equipment ( OE ) and aftermarket automotive, heavy-duty truck, agricultural and marine applications, and new technologies for hybrid vehicles including Stop & Start and micro-hybrid flooded ( MHF ) and other automotive applications. Industrial markets include batteries for telecommunications systems, electric utilities, railroads, uninterruptible power supply ( UPS ), lift trucks, mining, and other commercial vehicles.

The Company's four reportable segments are determined based upon the nature of the markets served and the geographic regions in which they operate. The Company's chief operating decision-maker monitors and manages the financial performance of these four business groups.

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

*Lead and Other Raw Materials.* Lead represented approximately 48.0% of the Company's cost of sales. 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. Either 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 price of lead as quoted on the London Metals Exchange ( LME ) has decreased 21.1% from \$2,501 per metric ton for the six months ended September 30, 2011 to \$1,973 per metric ton for the six months ended September 30, 2012. During the first six months of fiscal 2012, the LME lead price has increased 13.8% from \$2,020 per metric ton at March 31, 2012 to \$2,299 per metric ton at September 30, 2012. At October 29, 2012, the quoted price on the LME was \$2,010 per metric ton.

In the Americas, the Company has historically obtained the vast majority of its lead requirements from five 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. Historically, recycling in the Americas has helped the Company more effectively control the cost of its principal raw material when compared to purchasing lead at prevailing market prices on the LME. Similar to the fluctuation in lead prices, however, the cost of spent batteries has also fluctuated. For example, the average market cost of purchased spent batteries increased approximately 9.8% for the six months ended September 30, 2012 versus the prior year period while lead prices on the LME have declined during the same period. The combination of higher spent battery costs and lower lead prices on the LME has put significant pressure on the Company's margins. In response, the Company takes pricing actions as allowed by the market and is attempting to secure higher captive spent battery return rates to help mitigate the risks associated with this price volatility.

In Europe, the Company's lead requirements are mainly fulfilled by third-party suppliers. Because of the Company's exposure to the historically volatile lead market prices in Europe, the Company has implemented several measures to offset changes in lead prices, including selective pricing actions and lead price escalators. The Company has automatic lead price escalators with virtually all OE customers. The Company currently obtains a small portion of its lead requirements from recycling in its European facilities. Similar to the situation in the Americas, spent battery costs as a percent of LME have been increasing in Europe. We expect these increasing spent battery costs to increase the premiums paid to lead suppliers over and above lead prices on the LME.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

The Company expects that continued volatility in lead and other commodity costs, to affect all business segments, and if the Company is unable to pass higher material costs resulting from this volatility to its customers, the Company's financial performance will be adversely impacted. The implementation of selective pricing actions and price escalators generally lag the rise in market prices of lead and other commodities.

*Energy Costs.* The Company relies on various sources of energy to support its manufacturing and distribution process, principally natural gas at its recycling facilities, electricity in its battery assembly facilities, and diesel fuel for distribution of its products. The Company seeks to recoup increases in energy costs through price increases or surcharges. To the extent the Company is unable to pass on higher energy costs to its customers, its financial performance will be adversely impacted.

*Competition.* The global transportation and industrial energy battery markets are highly competitive. In recent years, competition has continued to intensify and has affected 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 in certain of the Company's markets, fluctuating lead prices and low-priced Asian imports in certain of the Company's markets.

*Exchange Rates.* The Company is exposed to foreign currency risk in most European countries, principally from fluctuations in

---

**Table of Contents**

the Euro. For the first six months of fiscal 2013, the exchange rate of the Euro to the U.S. Dollar decreased 11.1% on average to \$1.27 compared to \$1.43 for first six months of fiscal 2012. At September 30, 2012, the Euro was \$1.29 or 3.0% lower as compared to \$1.33 at March 31, 2012. Fluctuations in foreign currencies impacted the Company's results for the periods presented herein. For the first six months ended September 30, 2012, approximately 56.3% of the Company's net sales were generated in Europe and ROW. Further, approximately 62.9% of the Company's aggregate accounts receivable and inventories as of September 30, 2012 were held by its European and ROW subsidiaries.

The Company is also exposed, although to a lesser extent, to foreign currency risk in Canada, Mexico, the United Kingdom, Poland, Australia, and various countries in the Pacific Rim. Fluctuations 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.

*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. In addition, capital spending by major customers in our network power channels continues to be below historic levels.

*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 a portion of its fourth fiscal quarters). Retailers and distributors buy automotive batteries during these periods so they will have sufficient inventory for cold weather periods. The impact of seasonality on sales has the effect of increasing the Company's working capital requirements, particularly during the second and third fiscal quarters, 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, the Company typically does not recover these sales in later periods. Further, if the Company's sales are adversely affected by the weather, the Company typically 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.

**Second quarter of Fiscal 2013 Highlights and Outlook**

The Company expects to cease operations at its Frisco, Texas recycling facility no later than December 31, 2012 and recently announced the idling of secondary lead recycling operations at its Reading, Pennsylvania facility, expected to be effective no later than March 31, 2013. The Company anticipates that its remaining three operating recycling facilities will continue to provide a significant portion of the lead requirements for the Americas regions. The Company has established arrangements with third party recyclers in North America to provide tolling for the region's remaining spent batteries. Limited additional purchases of finished lead from third party suppliers may also be required to satisfy the region's requirement. The idling of the secondary lead recycling operations at the Reading, Pennsylvania facility will also allow the Company to avoid near-term capital spending of as much as \$30.0 million.

The key elements of the Company's underlying business plans and continued strategies are:

- (i) Successful execution of the closure of the Company's Bristol, Tennessee transportation battery facility, including transitioning existing production to two of the Company's other facilities.
- (ii) Successful closure of the Company's Frisco, Texas facility, the idling of secondary lead recycling operations at the Reading, Pennsylvania facility, and the sale of a portion of the Frisco location for anticipated net proceeds of approximately \$37.0 million.
- (iii) Actions designed to improve the Company's liquidity and operating cash flow through working capital reduction plans, the sale 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.
- (iv) Continued factory and distribution productivity improvements through the Company's established Lean/Six Sigma program, as well as the Value Analysis Value Engineering ( VAVE ) and Take Charge! initiatives.
- (v) An enhanced focus on growth of the Industrial Americas business through increased new product offerings (Tubular Motive Power, High Frequency Chargers, etc.), increases in capacity, and a larger and more distributed sales and service team tied to the Transportation branch network.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

(vi) Continued investment in production capacity to meet evolving needs for enhanced batteries (absorbed glass mat - AGM - and MHF) required for the increasing numbers of Stop & Start and Micro-Hybrid vehicles.



**Table of Contents**

(vii) Continued research and development and engineering investments designed to develop enhanced lead-acid products as well as products utilizing alternative chemistries. In this regard, the Company continues to identify government funding opportunities to support near and long-term technological improvements in energy storage applications.

**Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations is based upon the Company's Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). 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 its 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 materially from these estimates under different assumptions or conditions.

The Company believes that the critical accounting policies and estimates disclosed in the Company's annual report on Form 10-K for the fiscal year ended March 31, 2012 affect the preparation of its Condensed Consolidated Financial Statements. The reader of this report should refer to the Company's annual report for further information.

**Results of Operations****Three months ended September 30, 2012 compared with three months ended September 30, 2011***Net Sales*

Net sales were \$711.7 million for the second quarter of fiscal 2013 versus \$773.0 million in the second quarter of fiscal 2012. Foreign currency translation (primarily the weakening of the Euro against the U.S. dollar) unfavorably impacted net sales in the second quarter of fiscal 2013 by approximately \$41.7 million. Excluding foreign currency translation impact, net sales decreased by approximately \$19.5 million, or 2.5%, primarily due to an estimated \$30.5 million unfavorable lead related pricing impact, partially offset by a slight increase in unit sales in the Company's markets.

Net sales by business segment were as follows:

	For the Three Months Ended		FAVORABLE / (UNFAVORABLE)		
	September 30, 2012	September 30, 2011	TOTAL (In thousands)	Currency Related	Non-Currency Related
Transportation Americas	\$ 213,038	\$ 224,437	\$ (11,399)	\$ (856)	\$ (10,543)
Transportation Europe & ROW	211,120	247,478	(36,358)	(22,402)	(13,956)
Industrial Energy Americas	98,862	90,994	7,868	(242)	8,110
Industrial Energy Europe & ROW	188,672	210,044	(21,372)	(18,213)	(3,159)
<b>TOTAL</b>	<b>\$ 711,692</b>	<b>\$ 772,953</b>	<b>\$ (61,261)</b>	<b>\$ (41,713)</b>	<b>\$ (19,548)</b>

Transportation Americas net sales, excluding foreign currency translation impact, decreased 4.7% primarily due to a 1.5% decrease in aftermarket unit sales and \$5.5 million of unfavorable lead related pricing actions, partially offset by \$5.0 million of favorable aftermarket pricing and higher OEM unit shipments. Third-party lead sales for the second quarter of fiscal 2013 were approximately \$13.3 million lower than such third-party sales in the second quarter of fiscal 2012 as the Company initiated its exit from this volatile business in connection with its shutdown of the Frisco, Texas recycling facility.

Transportation Europe and ROW net sales, excluding foreign currency translation, decreased 5.6% mainly due to \$15.4 million of unfavorable lead related pricing actions, partially offset by 4.1% higher unit sales in the aftermarket channel and 5.6% higher unit sales to OEMs.

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Industrial Energy Americas net sales, excluding the foreign currency translation impact, increased 8.9% primarily due to 7.4% higher unit sales in the Network Power market, partially offset by \$3.0 million unfavorable lead related pricing actions. Anticipated base price increases did not materialize as competitive actions were required to protect business.

Industrial Energy Europe and ROW net sales, excluding foreign currency translation impact, decreased 1.5% primarily due to \$6.5 million of unfavorable lead-related pricing actions, partially offset by 19.4% increase in Network Power unit sales.

**Table of Contents**

*Gross Profit*

Gross profit was \$103.7 million in the second quarter of fiscal 2013 versus \$118.6 million in the second quarter of fiscal 2012. Gross margin decreased to 14.6% from 15.3% in the second quarter of fiscal 2012. Foreign currency translation unfavorably impacted gross profit in the second quarter of fiscal 2013 by \$5.0 million. Higher core costs combined with lower third-party lead margins in the Americas impacted results by approximately \$18.6 million. See further discussion below under the caption Operating Income .

*Operating Expenses*

- i. Selling and administrative expenses decreased \$0.4 million, to \$95.7 million in the second quarter of fiscal 2013 from \$96.1 million in fiscal 2012. Included in selling and administrative expenses were general and administrative expenses of \$39.0 million in the second quarter of fiscal 2013 and \$40.2 million in the second quarter of fiscal 2012.
- ii. Restructuring and impairment expenses decreased by \$0.2 million, to \$1.1 million in the second quarter of fiscal 2013 from \$1.3 million in the second quarter of fiscal 2012, and included non-cash asset impairment gain of \$0.1 million and charge of \$0.2 million in the second quarter of fiscal 2013 and 2012, respectively.

*Operating Income*

Operating income was \$6.8 million in the second quarter of fiscal 2013 versus \$21.2 million in the second quarter of fiscal 2012. See segments discussion below.

Operating income (loss) by segment was as follows:

	For the Three Months Ended				FAVORABLE / (UNFAVORABLE)		
	September 30, 2012	Percent of Net Sales	September 30, 2011	Percent of Net Sales	TOTAL	Currency Related	Non-Currency Related
	TOTAL		TOTAL				
	(In thousands)						
Transportation Americas	\$ (5,593)	-2.6%	\$ 813	0.4%	\$ (6,406)	\$ 323	\$ (6,729)
Transportation Europe & ROW	4,976	2.4%	6,595	2.7%	(1,619)	(458)	(1,161)
Industrial Energy Americas	7,105	7.2%	11,519	12.7%	(4,414)	4	(4,418)
Industrial Energy Europe & ROW	8,599	4.6%	9,730	4.6%	(1,131)	(452)	(679)
Unallocated corporate	(7,143)	n/a	(6,183)	n/a	(960)	376	(1,336)
	7,944	1.1%	22,474	2.9%	(14,530)	(207)	(14,323)
Less: Restructuring and impairments, net	1,108	n/a	1,281	n/a	173	56	117
Total operating income	\$ 6,836	1.0%	\$ 21,193	2.7%	\$ (14,357)	\$ (151)	\$ (14,206)

Gross margins by segment are shown below:

	For the Three Months Ended	
	September 30, 2012	September 30, 2011
Transportation Americas	12.1%	14.2%
Transportation Europe & ROW	13.8%	12.5%
Industrial Energy Americas	18.9%	24.0%
Industrial Energy Europe & ROW	15.9%	16.1%

Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Total	14.6%	15.3%
-------	-------	-------

**Table of Contents**

Transportation Americas operating loss compared to the prior period is driven by compressed margins resulting from higher recycled lead input costs and decreased revenue from lower LME lead prices. The result was further impacted by unfavorable mix resulting from increased OE business. In addition, lower third-party lead sales impacted results unfavorably. The impact of higher core costs combined with lower third-party lead margins was approximately \$12.8 million.

Transportation Europe and ROW operating income, excluding foreign currency translation, declined due to the continued impact of competitive pricing in the aftermarket business combined with unfavorable mix resulting from increased OE business and higher commodity and energy costs; partially offset by an approximate \$5.0 million inventory adjustment related to the Company's Portuguese recycling facility recorded in the prior year quarter.

The Industrial Energy Americas segment also experienced compressed margins as a result of the increased costs of spent batteries and lower LME lead pricing. The negative aggregate lead related impact was approximately \$5.8 million.

Industrial Energy Europe and ROW operating income, excluding foreign currency translation impact, decreased primarily due to higher commodity costs. While the Company realized modest positive pricing in the Motive Power channel, such pricing was not sufficient to offset cost increases.

Unallocated corporate operating expenses, excluding the foreign currency translation impact, increased mainly due to the realignment of corporate expenses resulting in certain current period costs not being allocated to segments.

*Other (Income) Expenses*

Other (income) expense was (\$0.5) million in the second quarter of fiscal 2013 versus \$5.8 million in the second quarter of fiscal 2012. The favorable change primarily relates to currency remeasurement gains of \$0.9 million compared to prior year quarter losses of \$6.8 million.

*Interest Expenses*

Interest expense decreased \$0.8 million, to \$17.2 million in the second quarter of fiscal 2013 from \$18.1 million in the second quarter of fiscal 2012.

*Income Taxes*

	<b>For the Three Months Ended</b>	
	<b>September 30, 2012</b>	<b>September 30, 2011</b>
	<b>(In thousands)</b>	
Pre-tax loss	\$ (9,880)	\$ (2,632)
Income tax provision	3,887	995
Effective tax rate	-39.3%	-37.8%

The effective tax rate for the second quarter of fiscal 2013 included the recognition of taxes on income and losses in almost all of the Company's jurisdictions with the exception of the United States, Spain and the United Kingdom, on which full valuation allowances are recorded. In addition, the effective tax rate for the second quarter was affected by the recognition of \$10.8 million in valuation allowances on current period tax benefits.

The effective tax rate for the second quarter of fiscal 2012 included the recognition of taxes on income and losses in almost all of the Company's jurisdictions with the exception of Spain, France and the United Kingdom, on which full valuation allowances were recorded. The effective tax rate for the quarter was affected by the utilization of \$7.5 million in valuation allowances on current period tax expense. The quarter was also impacted by miscellaneous discrete items of \$0.8 million.

*Six months ended September 30, 2012 compared with six months ended September 30, 2011**Net Sales*

Net sales were \$1.41 billion in the first half of fiscal 2013 versus \$1.52 billion in the first half of fiscal 2012. Foreign currency



**Table of Contents**

translation (primarily the weakening of the Euro against the U.S. Dollar) unfavorably impacted net sales in the first half of fiscal 2013 by approximately \$87.5 million. Excluding the foreign currency translation impact, net sales decreased by approximately \$25.4 million, or 1.7%, primarily as a result of an estimated \$57.3 million in lead related price decreases partially offset by a slight increase in unit sales in some of the Company's markets.

Net sales by business segment were as follows:

	For the Six Months Ended		FAVORABLE / (UNFAVORABLE)		
	September 30, 2012	September 30, 2011	TOTAL	Currency Related	Non-Currency Related
	(In thousands)				
Transportation Americas	\$ 428,179	\$ 442,034	\$ (13,855)	\$ (2,849)	\$ (11,006)
Transportation Europe & ROW	405,263	474,698	(69,435)	(45,943)	(23,492)
Industrial Energy Americas	185,550	179,539	6,011	(552)	6,563
Industrial Energy Europe & ROW	386,138	421,777	(35,639)	(38,172)	2,533
<b>TOTAL</b>	<b>\$ 1,405,130</b>	<b>\$ 1,518,048</b>	<b>\$ (112,918)</b>	<b>\$ (87,516)</b>	<b>\$ (25,402)</b>

Transportation Americas net sales, excluding foreign currency translation impact, decreased 2.5% due to a 2.4% decrease in aftermarket unit sales and \$7.5 million of unfavorable lead related pricing actions, partially offset by a 54.1% increase in OEM unit sales. Third-party lead sales in the first half of fiscal 2013 were approximately \$23.0 million lower, as compared to the first half of fiscal 2012.

Transportation Europe and ROW net sales, excluding foreign currency translation impact, decreased 4.9% mainly due to \$31.7 million unfavorable impact of lead related pricing, partially offset by 5.0% higher unit sales in the OEM channel and 5.6% higher unit sales in the aftermarket channel.

Industrial Energy Americas net sales, excluding foreign currency translation impact, increased 3.7% primarily due to 3.2% higher unit sales in the Network Power market, partially offset by \$3.6 million unfavorable lead related pricing actions.

Industrial Energy Europe and ROW net sales, excluding foreign currency translation impact, increased 0.6% primarily due to 14.0% higher unit sales in the Network Power market, partially offset by \$14.4 million unfavorable lead related pricing actions.

*Gross Profit*

Gross profit was \$197.9 million in the first half of fiscal 2012 versus \$235.3 million in the first half of fiscal 2012. Gross margin decreased to 14.1% from 15.5% in the first half of 2012. Higher core costs combined with lower third-party lead margins in the Americas impacted results by approximately \$33.5 million. Foreign currency translation unfavorably impacted gross profit in the first six months of fiscal 2013 by \$10.7 million.

*Operating Expenses*

- i. Selling and administrative expenses decreased \$9.5 million, to \$189.4 million in the first half of fiscal 2013 from \$198.9 million in fiscal 2012. Expenses decreased primarily due to lower salaries and benefits resulting from prior headcount reductions and \$1.7 million lower depreciation expense.
- ii. Restructuring and impairment expenses decreased by \$1.0 million, to \$0.6 million in the first half of fiscal 2013 from \$1.6 million in the first half of fiscal 2012.

*Operating Income*

Operating income was \$7.9 million in the first half of fiscal 2013 versus \$34.8 million in the first half of fiscal 2012.





**Table of Contents**

Operating (income) loss by segment was as follows:

	For the Six Months Ended		For the Six Months Ended		FAVORABLE / (UNFAVORABLE)		
	September 30, 2012	Percent of	September 30, 2011	Percent of	TOTAL	Currency Related	Non-Currency Related
TOTAL	Net Sales	TOTAL	Net Sales				
	(In thousands)						
Transportation Americas	\$ (15,011)	-3.5%	\$ (3,737)	-0.8%	\$ (11,274)	\$ 430	\$ (11,704)
Transportation Europe & ROW	8,998	2.2%	18,849	4.0%	(9,851)	(950)	(8,901)
Industrial Energy Americas	13,517	7.3%	20,908	11.6%	(7,391)	(17)	(7,374)
Industrial Energy Europe & ROW	14,788	3.8%	13,665	3.2%	1,123	(681)	1,804
Unallocated corporate	(13,778)	n/a	(13,298)	n/a	(480)	992	(1,472)
	8,514	0.6%	36,387	2.3%	(27,873)	(226)	(27,647)
Less: Restructuring and Impairment Costs	624	n/a	1,577	n/a	953	(21)	974
Total Operating Income	\$ 7,890	0.6%	\$ 34,810	2.3%	\$ (26,920)	\$ (247)	\$ (26,673)

Gross margins by segment are shown below:

	For the Six Months Ended	
	September 30, 2012	September 30, 2011
Transportation Americas	10.7%	13.1%
Transportation Europe & ROW	14.0%	14.7%
Industrial Energy Americas	19.3%	23.4%
Industrial Energy Europe & ROW	15.3%	15.5%
TOTAL	14.1%	15.5%

Transportation Americas operating loss compared to prior period reflects compressed margins resulting from higher recycled lead input cost and decreased revenue from lower LME lead prices. The result was further impacted by unfavorable mix resulting from increased OE business. In addition, lower third-party lead sales impacted results unfavorably. The impact of higher core costs combined with lower third-party lead margins was approximately \$25.8 million.

Transportation Europe and ROW operating income, excluding foreign currency translation impact, declined due to the approximate \$5.2 million impact of competitive pricing in the aftermarket business, which began during the second half of fiscal 2012, combined with unfavorable mix resulting from increased OE business, higher commodity and energy costs along with an approximate \$2.3 million unfavorable mark-to-market adjustment on certain lead forward contracts. Also, the closure of the Company's New Zealand recycling plant had an approximate \$1.0 million unfavorable impact for the six months ended September 30, 2012. The prior year period included an approximate \$5.0 million inventory adjustment related to the Company's Portuguese recycling facility which partially offset these decreases.

The Industrial Energy Americas segment also experienced compressed margins as a result of lead input costs and lower LME lead pricing, as well as first-quarter start-up related costs in the Company's Columbus, Georgia facility associated with a new AGM production line. The impact of higher core costs was approximately \$7.7 million.

Industrial Energy Europe and ROW operating income, excluding foreign currency translation impact, increased primarily due to lower selling expenses resulting from cost cutting initiatives and lower headcount; partially offset by higher commodity costs.

Unallocated corporate operating expenses, excluding the foreign currency translation impact, increased slightly due to the realignment of corporate expenses across all segments and certain current period costs not being allocated to segments.

*Other Expenses*

Other expense was \$1.1 million in the first half of fiscal 2013 versus \$5.9 million in the first half of fiscal 2012. The increase primarily relates to currency remeasurement losses of \$9.4 million in the prior period compared to a \$0.3 million loss in the current period, partially offset by a prior year gain on the settlement of certain interest rate swaps of \$4.6 million.

**Table of Contents***Interest Expenses*

Interest expense decreased \$4.4 million, to \$31.3 million in the first half of fiscal 2013 from \$35.7 million in the first half of fiscal 2012 primarily due to a gain on interest rate swap of \$1.6 million which settled in the first quarter of fiscal 2013 as well as \$2.0 million favorable adjustment to non-cash accretion expense.

*Income Taxes*

	For the Six Months Ended	
	September 30, 2012	September 30, 2011
	(In thousands)	
Pre-tax loss	\$ (24,534)	\$ (6,795)
Income tax provision	95,700	2,628
Effective tax rate	-390.1%	-38.7%

The effective tax rate for the first six months of fiscal 2013 included the recognition of taxes on income and losses in almost all of the Company's jurisdictions with the exception of the United States, Spain and the United Kingdom, on which full valuation allowances are recorded. The Company established an \$86.7 million full valuation allowance for the United States in the first six months after determining that it was not more likely than not that the Company would realize all deductible temporary differences and carryforwards in the foreseeable future. In addition, the effective tax rate for the first six months was affected by the recognition of \$21.6 million in valuation allowances on current period tax benefits.

The effective tax rate for the first six months of fiscal 2012 included the recognition of taxes on income and losses in almost all of the Company's jurisdictions with the primary exception of Spain, France and the United Kingdom, on which full valuation allowances are recorded. The effective tax rate for the first six months was primarily affected by the utilization of \$5.9 million in valuation allowances on current period tax expense generated. The first six months was also impacted by miscellaneous discrete items of \$1.0 million.

**Liquidity and Capital Resources**

As of September 30, 2012, the Company had cash and cash equivalents of \$74.3 million and availability under the Company's senior secured asset-backed revolving credit facility (the ABL facility) of \$134.7 million. This compared to cash and cash equivalents of \$84.8 million and availability under the ABL facility of \$141.1 million as of September 30, 2011. At March 31, 2012, the Company had cash and cash equivalents of \$155.4 million and availability under the ABL facility of \$152.8 million.

In January 2011, the Company issued \$675.0 million in aggregate principal amount of 8 5/8% senior secured notes (Senior Secured Notes or Notes) due 2018. The proceeds of the Senior Secured Notes were used to (1) repay outstanding borrowings under the Company's credit facilities existing prior to that offering; (2) fund the tender offer and consent solicitation and subsequent redemption by the Company of all of the then-outstanding 10 1/2% Senior Secured Notes due 2013 after the completion of the tender offer; and (3) fund ongoing working capital and other general corporate purposes. Concurrently with the issuance of the Senior Secured Notes, the Company entered into the senior secured ABL facility with commitments of an aggregate borrowing capacity of \$200.0 million.

*The Senior Secured Notes*

Borrowings under the Senior Secured Notes bear interest at a rate of 8 5/8% per annum, payable semi-annually in arrears in February and August, and mature on February 1, 2018.

The Notes are secured by (i) a first-priority lien on the notes priority collateral, which includes the Company's existing and after-acquired equipment, stock of the Company's direct subsidiaries, certain intercompany loans, certain real property, and substantially all of the Company's other assets that do not secure the ABL facility on a first-priority basis, and (ii) a second-priority lien on the ABL priority collateral, which includes the Company's assets that secure the ABL facility on a first-priority basis, including the Company's receivables, inventory, intellectual property rights, deposit accounts, tax refunds, certain intercompany loans and certain other related assets and proceeds thereof. The ABL facility will be secured by a first-priority lien on the ABL priority collateral and a second-priority lien on the notes priority collateral. The value of the collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers for the collateral.



**Table of Contents**

The Notes contain provisions by which the Company may elect to repay some or all of the principal balance prior to its 2018 maturity date:

Prior to February 1, 2014, the Company may on one or more occasions redeem up to 35% of the aggregate principal amount of the Notes at a redemption price equal to 108.625 % of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, with the net cash proceeds of certain equity offerings. The Company may make such a redemption only if, after such redemption, at least 65% of the aggregate principal amount of the notes issued under the indenture remains outstanding and the Company issues a redemption notice in respect thereof not more than 60 days from the date of the equity offering closing.

Prior to February 1, 2015, the Company may:

- i. redeem in whole or in part the Notes at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, and a make-whole premium.
- ii. redeem, no more than once in any twelve-month period, up to 10% of the original aggregate principal amount of the Notes at a redemption price equal to 103% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest.

On or after February 1 of the years indicated below, the Company may redeem, in whole or in part, the Notes at the redemption prices set forth in the following table (expressed as a percentage of the principal amount thereof):

Year	Percentage
2015	104.313%
2016	102.16%
2017 and thereafter	100.00%

Upon a change of control the Company will be required to make an offer to repurchase the Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase.

The indenture for the Notes contains certain covenants which limit the ability of the Company and its subsidiaries ability to, among other things, incur debt, pay dividends, make investments, create liens or use assets as security, and sell assets including the capital stock of subsidiaries.

*Asset-Backed Revolving Credit Facility*

The ABL facility has a borrowing capacity of \$200.0 million, and includes a letter of credit sub-facility of \$75.0 million, a swingline sub-facility of \$25.0 million and an accordion feature that permits the Company to increase the revolving credit commitments by an amount up to \$50.0 million (for an aggregate revolving credit commitment of up to \$250.0 million) if the Company obtains commitments from existing or new lenders for such increase. Revolving loans and letters of credit under the ABL facility will be available in U.S. Dollars and Euros. The ABL facility will mature January 25, 2016. The ABL facility (not including the swingline sub-facility) bears interest at a rate equal to (1) the base rate plus an interest margin or (2) LIBOR (for U.S. Dollar or Euro denominated revolving loans, as applicable) plus an interest margin. The base rate will be a rate per annum equal to the greatest of (a) the U.S. Federal Funds Rate plus 0.50%, (b) the prime commercial lending rate of the administrative agent, and (c) a rate equal to LIBOR for a one-month interest period plus 1.00%. The swingline sub-facility will bear interest at a rate per annum equal to the applicable floating rate (base rate or LIBOR for a one-month interest period) plus an interest margin. The interest margin will be adjusted quarterly based on the average amount available for drawing under the ABL facility and will range between 2.75% and 3.25% per annum for LIBOR borrowings and 1.75% and 2.25% per annum for base rate borrowings.

The Company's ability to obtain revolving loans and letters of credit under the ABL facility will be subject to a borrowing base comprising the following: (1) a domestic borrowing base comprising 85% of the Company's eligible accounts receivable and those of the Company's domestic subsidiaries, plus 85% of the net orderly liquidation value of the Company's eligible inventory and such domestic subsidiaries less, in each case, certain reserves and subject to certain limitations, and (2) a foreign borrowing base comprising 85% of the combined eligible accounts

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

receivable of the Company's foreign subsidiaries, plus 85% of the net orderly liquidation value of eligible inventory of the Company's Canadian subsidiaries less, in each case, certain reserves and subject to certain limitations. The maximum amount of credit that will be available to the Company under the foreign borrowing base will be limited to the U.S. Dollar equivalent of \$40.0 million plus the availability generated by the eligible accounts receivable and inventory of our Canadian subsidiaries.

---

## **Table of Contents**

The obligations under the ABL facility are guaranteed by certain of the Company's domestic subsidiaries. The obligations of Exide C.V. under the ABL facility are guaranteed by the Company's domestic subsidiary and certain foreign subsidiaries.

The obligations under the ABL facility are secured by a lien on substantially all of the assets of Exide Technologies and domestic subsidiaries, and the obligations of Exide C.V. and the foreign subsidiaries under the ABL facility will be secured by a lien on substantially all of the assets of Exide Technologies and domestic subsidiaries, and on substantially all of the personal property of Exide C.V. and the foreign subsidiaries. Subject to certain permitted liens, the liens securing the obligations under the ABL facility are first priority liens on all assets other than notes priority collateral and are second priority liens on all notes priority collateral.

The ABL facility contains customary conditions including restrictions on, among other things, the incurrence of indebtedness and liens, dividends and other distributions, consolidations and mergers, the purchase and sale of assets, the issuance or redemption of equity interests, loans and investments, acquisitions, intercompany transactions, a change of control, voluntary payments and modifications of indebtedness, modification of organizational documents and material contracts, affiliate transactions, and changes in lines of business. The ABL facility also contains a financial covenant requiring the Company to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00, tested monthly on a trailing twelve-month basis, if at any time the Company's excess availability under the ABL facility is less than the greater of \$30.0 million and 15% of the aggregate commitments of the lenders.

### *The Convertible Notes*

In March 2005, the Company issued floating rate convertible senior subordinated notes due September 18, 2013, with an aggregate principal amount of \$60.0 million. The convertible notes bear interest at a per annum rate equal to the 3-month LIBOR, adjusted quarterly, minus a spread of 1.5%. The interest rate at September 30, 2012 and March 31, 2012 was 0.0%. Interest is payable quarterly. The notes are convertible into the Company's common stock at a conversion rate of 61.6143 shares per one thousand dollars principal amount at maturity, subject to adjustments for any common stock splits, dividends on the common stock, tender and exchange offers by the Company for the common stock and third-party tender offers, and in the case of a change in control in which 10% or more of the consideration for the common stock is cash or non-traded securities, the conversion rate increases, depending on the value offered and timing of the transaction, to as much as 70.2247 shares per one thousand dollars principal amount.

At September 30, 2012, the Company was in compliance with covenants contained in the ABL facility and indenture governing the Senior Secured Notes and the floating rate convertible subordinated notes.

At September 30, 2012, the Company had outstanding letters of credit with a face value of \$48.3 million and surety bonds with a face value of \$42.8 million. The majority of the letters of credit and surety bonds have been issued as collateral or financial assurance with respect to certain liabilities that the Company has recorded, including but not limited to environmental remediation obligations and self-insured workers compensation reserves. Failure of the Company to satisfy its obligations with respect to the primary obligations secured by the letters of credit or surety bonds could entitle the beneficiary of the related letter of credit or surety bond to demand payments pursuant to such instruments. The letters of credit generally have terms up to one year. Collateral held by the surety in the form of letters of credit at September 30, 2012, pursuant to the terms of the agreement, was \$40.6 million.

Risks and uncertainties could cause the Company's performance to differ from management's estimates. As discussed above under "Factors Which Affect the Company's Financial Performance - Seasonality and Weather," the Company's business is seasonal. During the Company's first and second fiscal quarters, the Company builds inventory in anticipation of increased sales in the winter months. This inventory build increases the Company's working capital needs. During these quarters, because working capital needs are already high, unexpected decreases in cash flows or, unexpected increases in costs beyond predicted levels could adversely affect the Company's near term liquidity.

### *Sources and Uses of Cash*

The Company's liquidity requirements have been met historically through cash provided by operations, borrowed funds and the proceeds of sales of accounts receivable. Additional cash has been generated in the past several years through rights offerings, common stock issuances, and the sale of non-core businesses and assets.

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

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

Going forward, the Company's principal sources of liquidity are expected to be cash on hand, cash from operations, borrowings under the ABL facility, and the sale of idled assets, principally closed facilities, in certain foreign countries.



---

## **Table of Contents**

Cash used in operating activities was \$50.3 million and \$43.9 million in the first six months of fiscal 2013 and fiscal 2012, respectively. This increase primarily relates to lower earnings combined with higher accounts receivable activity and increases in inventory resulting from higher spent battery costs as well as higher amount of payments into pension funds, partially offset by decreased restructuring payments and increases in accounts payable.

Cash used in investing activities primarily consisted of capital expenditures of \$49.6 million and \$43.2 million in the first six months of fiscal 2013 and 2012, respectively.

Cash provided by financing activities was \$18.4 million and \$13.1 million in the first six months of fiscal 2013 and fiscal 2012, respectively. The increase was primarily due to increase in short-term borrowings under the ABL facility.

The Company believes that it will have adequate liquidity to support its operations for the foreseeable future including payment of remaining accrued restructuring costs of approximately \$6.8 million as of September 30, 2012 and repayment of the floating rate convertible senior subordinated notes due September 18, 2013. For further discussion see Notes 7 and 13 to the Condensed Consolidated Financial Statements.

The estimated fiscal 2013 pension plan contributions are \$25.4 million and other post-retirement contributions are \$1.9 million. Payments aggregating \$16.6 million were made during the six months ended September 30, 2012. The second half reduction results from the adoption of the Moving Ahead for Progress in the 21<sup>st</sup> Century Act ( The MAP-21 ) which essentially defers funding and eliminates additional funding requirements for the Company's U.S. plans through calendar year 2013. This legislation was signed into U.S. law on July 6, 2012.

In June 2012, the Company announced an agreement to sell approximately 180 acres of undeveloped land surrounding the Company's Frisco, Texas recycling facility. The Company believes the sale, which is subject to certain pre-closing actions, will net cash proceeds after deducting closure related costs, of approximately \$37.0 million. The buyer has fully funded an escrow account with the purchase price, a portion of which is available to the Company for certain demolition and remediation activities. The Company believes that the cash proceeds will be received during the first half of fiscal 2014, upon completion of certain pre-closing actions. The Company believes the transaction will have a net favorable impact on pre-tax income of approximately \$25.0 to \$27.0 million, which the Company currently expects to record during the first half of fiscal 2014.

## **Financial Instruments and Market Risk**

From time to time, the Company has used forward contracts to hedge certain commodity price exposures, including lead. The forward contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company expects that it may increase the use of financial instruments, including fixed and variable rate debt as well as swaps, forward and option contracts to finance its operations and to hedge interest rate, currency and certain commodity purchasing requirements in the future. The swap, forward, and option contracts would be entered into for periods consistent with related underlying exposures and would not constitute positions independent of those exposures. The Company has not entered into, and does not intend to enter into, contracts for speculative purposes nor be a party to any leveraged instruments. See Note 3 to the Condensed Consolidated Financial Statements.

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

## **Accounts Receivable Factoring Arrangements**

In the ordinary course of business, the Company utilizes accounts receivable factoring arrangements in countries where programs of this type are typical. Under these arrangements, the Company may sell certain of its trade accounts receivable to financial institutions. The arrangements do not contain recourse provisions against the Company for its customers' failure to pay. The Company sold approximately \$72.5 million and \$69.6 million of foreign currency trade accounts receivable as of September 30, 2012 and March 31, 2012, respectively. Changes in the level of receivables sold from year to year are included in the change in accounts receivable within cash flow from operations in the Condensed Consolidated Statements of Cash Flows.

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

Changes to the quantitative and qualitative market risks as of September 30, 2012 are described in Item 2 above, Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Instruments and Market Risk. Also, see the Company's annual report on Form 10-K for the fiscal year ended March 31, 2012 for further information.



**Table of Contents**

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of senior management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based upon, and as of the date of this evaluation, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012.

**Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2012 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**Table of Contents**

**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR**

**PROVISION OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

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

Examples of forward-looking statements include, but are not limited to (a) projections of revenues, cost of raw materials, income or loss, earnings or loss per share, capital expenditures, growth prospects, dividends, the effect of currency translations, capital structure, and other financial items, (b) statements of plans 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 regarding liquidity and (e) statements of assumptions, such as the prevailing weather conditions in the Company's market areas, underlying other statements and statements about the Company or its business.

Factors that could cause actual results to differ materially from these forward looking statements include, but are not limited to, the following general factors such as: (i) the 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, (ii) the Company's ability to implement and fund business strategies based on current liquidity, (iii) the Company's ability to realize anticipated efficiencies and avoid additional unanticipated costs related to its restructuring activities, (iv) the cyclical nature of the industries in which the Company operates and the impact of current adverse economic conditions on those industries, (v) unseasonable weather (warm winters and cool summers) which adversely affects demand for automotive and some industrial batteries, (vi) 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, (vii) 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, (viii) the realization of the tax benefits of the Company's net operating loss carry forwards, which is dependent upon future taxable income, (ix) competitiveness of the battery markets in the Americas and Europe, (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 ability to acquire goods and services and/or fulfill later needs at budgeted costs, (xii) general economic conditions, (xiii) the Company's ability to successfully pass along increased material costs to its customers, (xiv) recently adopted U.S. lead emissions standards and the implementation of such standards by applicable states, and (xv) those risk factors described in the Company's fiscal 2012 Form 10-K filed on June 7, 2012.

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

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

See Note 11 to the Condensed Consolidated Financial Statements in this document.

**Item 1A. Risk Factors**

The risk factors which were disclosed in the Company's fiscal 2012 Form 10-K have not materially changed since we filed our fiscal 2012 Form 10-K. See Item 1A. to Part I of the Company's fiscal 2012 Form 10-K for a complete discussion of these risk factors.

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

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31, 2012	952	\$ 3.17		
August 1 through August 31, 2012				
September 1 through September 30, 2012				

(1) Acquired by the Company in exchange for payment of U.S. tax obligations for certain participants in the Company's 2004 Stock Incentive Plan that elected to surrender a portion of their shares in connection with vesting of restricted stock awards.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

None

**Item 6. Exhibits**

3.1	Amended Restated Bylaws the Company, effective June 1, 2012, incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K (file no. 001-11263) dated June 7, 2012.
10.1	Supply Agreement between the Company and Daramic, LLC dated September 4, 2012. #
31.1	Certification of James R. Bolch, President and Chief Executive Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Phillip A. Damaska, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document

## Edgar Filing: EXIDE TECHNOLOGIES - Form 10-Q

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

# Pursuant to a request for confidential treatment, portions of this exhibit have been redacted from the publicly filed document and have been furnished separately to the Securities and Exchange Commission as required by Rule 12b-2 under the Securities Act of 1934.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXIDE TECHNOLOGIES

By: /s/ Phillip A. Damaska  
Phillip A. Damaska  
Executive Vice President and  
Chief Financial Officer

Date: November 9, 2012