EXIDE TECHNOLOGIES
Form 10-K
June 29, 2006

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

(Mark One)

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

For the fiscal year ended March 31, 2006

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

Commission File Number 1-11263
EXIDE TECHNOLOGIES
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**23-0552730**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
13000 Deerfield Parkway, Building 200 Alpharetta, Georgia	**30004**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

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

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

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

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

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

by a court. Yes þ No o

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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

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

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

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EXIDE TECHNOLOGIES
PART I

Item 1. ***Business***

Overview and General Discussion of the Business

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

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

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

Narrative Description of Business

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

Transportation

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

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

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

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

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

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

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

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

Transportation North America

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

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

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

Transportation Europe and ROW

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

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

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

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

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Industrial Energy

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

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

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

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

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

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

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

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

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

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

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

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

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

Industrial Energy North America

Motive Power

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

Network Power

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

Industrial Energy Europe and ROW

Motive Power

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

Network Power

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

world.

Quality

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

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EXCELL

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

Quality Management System (QMS)

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

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

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

Research and Development

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

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

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

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

Patents, Trademarks and Licenses

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

December 31, 2011.

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

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

Manufacturing, Raw Materials and Suppliers

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

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

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

Competition

Transportation Segments

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

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

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

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

Industrial Energy Segments

Motive Power

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

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

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

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

Network Power

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

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

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

Environmental, Health and Safety Matters

As a result of its manufacturing, distribution and recycling operations, the Company is subject to numerous federal, state and local environmental, occupational safety and health laws and regulations, as well as similar laws and regulations in other countries in which the Company operates (collectively, EH&S laws). For a discussion of the legal proceedings relating to environmental, health and safety matters see Note 15 to the Consolidated Financial Statements.

Employees

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

North America

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

Europe and ROW

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

Backlog

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

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Emergence from Chapter 11 Bankruptcy Protection

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

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

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

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

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

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

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

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

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

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

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

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

Available Information

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

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

(in thousands, except per share data)

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

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

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

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

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

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The Company is subject to a preliminary SEC inquiry.

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

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

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

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

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

changes in local economic conditions, including disruption of markets;

changes in laws and regulations, including changes in import, export, labor and environmental laws;

exposure to possible expropriation or other government actions; and

unsettled political conditions and possible terrorist attacks against American interests.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- limit the Company s ability to borrow money or sell stock to fund its working capital, capital expenditures, acquisitions and debt service requirements;
- substantially increase the Company s vulnerability to changes in interest rates, because a substantial portion of its indebtedness will bear interest at floating rates;
- limit the Company s flexibility in planning for, or reacting to, changes in its business and future business opportunities;
- make the Company more vulnerable to a downturn in its business or in the economy;
- place the Company at a disadvantage to some of its competitors, who may be less highly leveraged; and
- require a substantial portion of the Company s cash flow from operations to be used for debt payments, thereby reducing the availability of its cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes.

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

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

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

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

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